



UNITED NATIONS
UNIVERSITY
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Institute on Comparative Regional Integration Studies



Future Trends Series - GR:REEN Project

Title of the report

The GCC In 2020: Broadening the Economy

Area

Economy

Reporter

Economist Intelligence Unit

Type of the Reporter

News Magazine

Periodically updated?

No

First issued year

2010

Latest update

2010

Official website

<http://www.economist.com/>

Language available

English

Short summary

The GCC¹ states' main economic sector is oil and gas but they are finite resources. The GCC states are therefore looking to develop non-oil sectors with the aim to diversify their economies. The main reasons for this are the following:

"Previous oil price slumps have made the risks of oil dependence clear, oil and gas provide few jobs, and the region's rapidly growing young population can no longer be absorbed by the public sector, over the longer term, the GCC needs to prepare for the post-oil age. Technological changes could significantly affect demand for oil even before reserves run out."

"Policymakers will face five key trade-offs when pursuing diversification: Focusing on areas of greatest comparative advantage—generally energy-intensive industries—versus reducing dependence on hydrocarbons, targeting most competitive industries versus a broad range of industries, increasing the tax base versus maintaining low levels of tax to attract investors, maximising growth versus targeting growth to create jobs for nationals, pursuing nationalisation policies versus flexible labour markets."

"The report identifies four clear areas of comparative advantage for the GCC, and outlines key trends in each sector over the next ten years: energy-intensive manufacturing, for example petrochemicals,

1 The Cooperation Council for the Arab States of the Gulf

plastics, and aluminium; mining and mineral-based industries; trade and logistics; and tourism, hospitality and aviation. The key success factor here is the progress of education reforms. The best-case scenario, as hoped for by policymakers, is that the GCC states will manage to convert their current tangible oil wealth into intangible human capital, by investing in the education and skills that are needed for a transition from economies based on the primary sector to more diversified economies with more value-added, skilled sectors. Such a transition will be difficult and faces significant risks. It is not likely to be achieved within the ten-year timeframe covered by this report. But this overarching ambition will continue to shape policy over the next decade. It means that education will probably be the single most important economic policy issue for the GCC governments in the years to 2020.”

Key trends

Over the next decade key trends can be identified for the GCC countries:

- “Focusing on areas of greatest comparative advantage—generally energy-intensive industries—versus reducing dependence on hydrocarbons.
- Targeting most competitive industries versus a broad range of industries.
- Increasing the tax base versus maintaining low levels of tax to attract investors.
- Maximising growth versus targeting growth to create jobs for nationals.
- Pursuing nationalisation policies versus flexible labour markets.”

“Key trends in the GCC tourism sector over the next decade:

- Tourist arrivals and tourism infrastructure grow.
- Capacity rates decline.
- Niche tourism develops (healthcare, sports, heritage).
- Budget tourism continues to develop.
- New source markets emerge, particularly India.”

“Key trends in the GCC financial-services sector over the next decade:

- Further development of the non-banking financial sector.
- Further differentiation between rival financial hubs.
- Further development of exchanges.
- The introduction or strengthening of mortgage laws across the GCC; banks, however, remain wary until the legal framework for default compensation is strengthened.”

Suggestions

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Methodology

Research from primary sources and modelling

Reference to other trends reports? If yes, which reports?

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