

## **Economic Diversification in the Gulf Countries: Challenges and Future Prospects**

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### **Abstract:**

The economic situation in the Gulf region highlights the urgent need for an economic diversification strategy to address the risks associated with international market fluctuations. The oil markets have experienced multiple price crises since the 1980s, the most recent beginning in the middle of 2014. As a result, some Gulf nations have experienced their first budget deficits, necessitating both internal and external borrowing, a withdrawal from international reserves, and the implementation of austerity measures. As a direct consequence of this, there has been a decrease in subsidies for essential goods and fuel, necessitating citizens to navigate significant economic changes. While not all industries must contribute equally to GDP, it is essential to make efficient use of both domestic and international resources. By encouraging the growth of new sectors that take in capital and labor, encouraging trade, and activating the banking sector, this strategy has the potential to reduce reliance on any one sector or commodity.

**Keywords:** Economic development, economic diversification, public and private sectors, rentier model, resource diversification

## 1. Introduction:

Countries that rely on oil now have to look for ways to diversify their economies. There is no longer any way to avoid actively participating in the Third Industrial Revolution, especially given that the Gulf states will suffer significant economic losses if they do not catch up to the global pace immediately. The concept of a post-oil economy, from the perspective of some, involves confronting several fundamental truths. It highlights that oil accounts for 80% of government revenues in Gulf countries, approximately 70% of exports, and 30-50% of GDP. Therefore, it has become crucial to replace these oil revenues with new activities and sources of income.

The governments of oil-producing nations have invested substantial sums in the growth of heavy energy industries in an effort to diversify income sources since the late 1970s. For instance, Bahrain's Alba company and Saudi Arabia's SABIC are in line with the growth of the gas industry in other nations. In addition, Dubai began establishing free zones in the middle of the 1980s, while Bahrain established itself as a banking hub in 1975. Gulf governments launched a second round of diversification initiatives in response to the fall in oil prices in 2014, with the goal of making the business environment, labor market laws, and financial restrictions more favorable for the private sector. In addition, these efforts included encouraging service and industrial sector diversification and attracting foreign direct investment. New economic policies were implemented to address the economic challenges posed by fluctuations in oil prices. Consequently, the economies of these countries have shifted from being monocentric—relying on a single commodity—toward a more diversified and balanced approach, with diversification being considered a strategic choice through the creation of new investment opportunities that drive sustainable development.

Moreover, several Gulf countries have announced new economic visions for the post-oil era, which focus on improving productivity levels, enhancing human, financial, and technological capacities, and fostering knowledge and innovation. Increasing returns on investments in human resource development, ensuring sustainability, and raising citizens' living standards and quality of life are all dependent on these factors. Additionally, these initiatives aim

to accommodate the expanding population and provide youth with employment opportunities.

The central question posed in this paper is: **How can Gulf countries intensify their efforts to face economic changes in order to achieve diversification and drive economic development?**

To address this issue, the following hypothesis is proposed: **There is an integration and synergy between economic diversification and economic development, which can help these countries move beyond their classification as oil-dependent nations.**

## **2. Factors Hindering Economic Diversification.**

The factors hindering economic diversification in the Gulf region can be identified in a number of key elements: (“Primary Commodity Price System: U.K. Brent, US Dollars, Monthly,” 2019)

**2.1 Reliance on the Rentier Model:** The rentier model has had a significant impact on everyone involved in the Gulf business community, including decision-makers. Instead of moving toward a model that maximizes the contribution of production—both in quantity and quality—the Gulf experience has been largely focused on real estate and tourism sectors. Even these industries have not utilized the region's natural resources or capabilities, nor have they reflected the environment there. According to local experts, investment in the tourism and real estate sectors of the Gulf countries would have been more appealing and widespread throughout the region if it had been more sensitive to the environmental context of the region. However, the Gulf's investment diversification has remained confined to real estate, stock markets, and quick-return tourism projects, whether by governments or individuals, resulting in a significant inflationary circle within Gulf societies. This is only a type of commercial diversification and cannot be considered true economic diversification.

**2.2 Human Resource Deficiencies:** The shortage of human resources is one of the most significant barriers to economic

diversification in the Gulf. This shortage manifests both in terms of a small population base and in the lack of an adequately prepared workforce in terms of developmental awareness of economic diversification. A rentier culture is perpetuated by the outputs of Gulf educational institutions and the economic and social roles of Gulf states. Even when countries like Bahrain considered the economic benefits of employing foreign workers, rentier activities were the primary focus. Instead of planning for a productive, diversified economy that would offer similar benefits in cases where expatriates invested funds in needed, quality production or sectors suffering from shortages in these countries, for instance, foreign workers were granted long-term or lifetime residency in exchange for purchasing real estate or residential units within a certain financial threshold. 2.3 New Approaches to Balancing Supply and Demand: The "new oil reality" is expected to lead to new methods of balancing supply and demand within the oil and gas sector globally. It is anticipated that oil prices will recover during the third quarter of 2016.

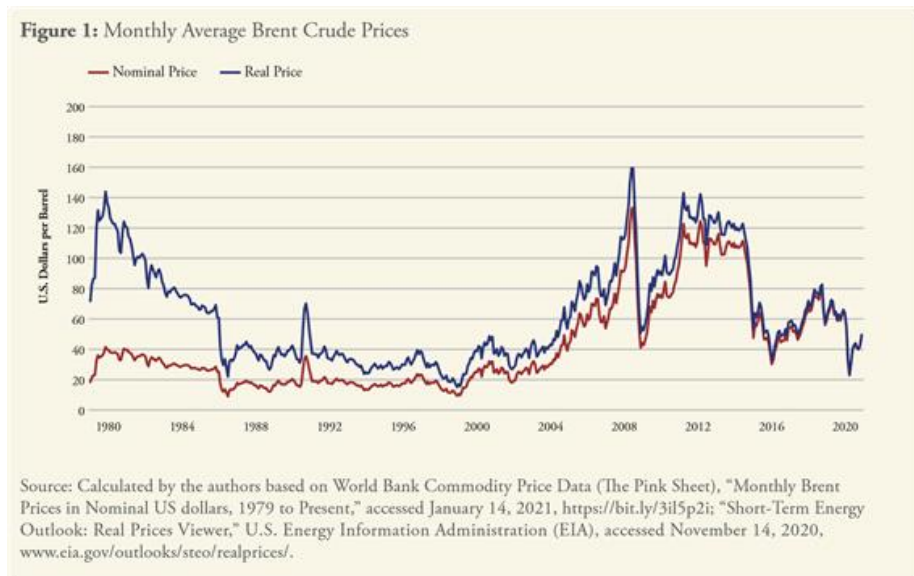
Countries that export oil have the chance to end their subsidy systems and implement economic reforms, such as cutting back on subsidies for oil products, thanks to the fall in oil prices. Customers would be more receptive to higher energy costs as a result of this change, allowing them to pay the actual cost of energy products. The national budgets would be less dependent on oil revenues as a result of these measures. After cutting subsidies for electricity, for instance, Bahrain, which only exports a small amount of oil, raised fuel prices by more than 50%. Beginning in 2015, Kuwait began offering diesel and kerosene at market prices. The Emir of Kuwait, Sheikh Sabah Al-Ahmad Al-Sabah, confirmed his country's move toward halting subsidies for essential goods such as fuel, water, and electricity, raising their prices to cope with declining oil prices. Saudi Arabia, the world's largest oil exporter, took unprecedented measures to reduce subsidies on oil derivatives. Qatar raised gasoline prices by 30%, and Oman extended subsidy cuts to food products.

According to the International Monetary Fund (IMF) report in November 2015, the economic situation in the Gulf is expected to lead to a deficit of 12.7% of GDP for the Gulf countries. The

growth rate will decrease from 3.4% in 2014 to 3.2% in 2015, and further decline to 2.7% by the end of 2016. In 2017, Gulf economies' growth continued to slow to 2.7%.

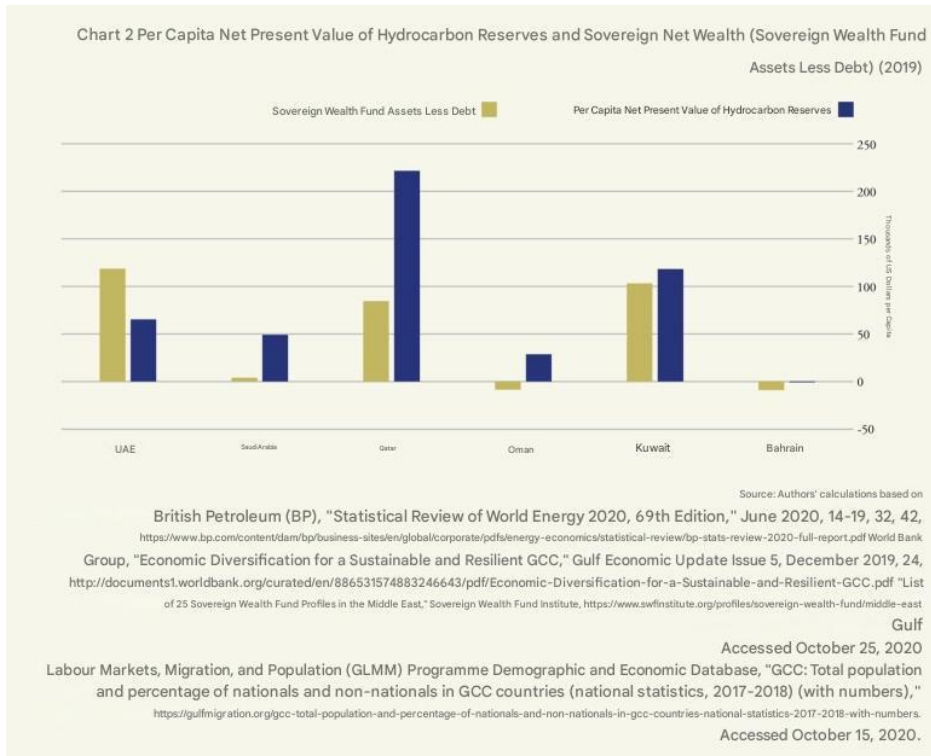
### 3 . Reassessing the Adopted Economic Reforms.

Economic diversification has once again become an urgent issue for the Gulf countries. The global economic slowdown caused by the COVID-19 pandemic led to a sharp drop in the price of Brent crude oil, from \$64 per barrel at the beginning of 2020 to \$23 per barrel in April 2020 (see Chart 1). Oil prices are expected to remain low until the end of 2022, possibly falling as low as \$50 per barrel. This has put a lot of stress on the financial positions of the countries in the Gulf Cooperation Council (GCC), which are expected to have budget deficits of 9.2% on average in 2020 and 5.7% in 2021.



The long-term viability of their hydrocarbon revenues has long been a source of concern for Gulf nations. Over the long term, oil and gas reserves will eventually be depleted. Bahrain and Oman face the toughest situation, with their reserves expected to run out in the next decade for Bahrain and within 25 years for Oman. Oil revenues are expected to fall in the medium term as a result of a decrease in global demand beginning around 2040, or sooner, as a result of an increase in

the demand for renewable energy, advancements in energy efficiency, and developments in energy storage. In the short term, countries in the GCC have already begun investing \$1 trillion in their decades-old financial assets in sovereign wealth funds for future generations (see Chart 2). The International Monetary Fund (IMF) had estimated before the pandemic that, without significant fiscal and economic reforms, GCC wealth would be exhausted by 2034. This time frame has probably been shortened by the pandemic.



GCC nations have long been urged to diversify their economies by developing productive industries other than oil and gas due to the anticipated decline in hydrocarbon reserves and revenues from them. However, private sector activity in the GCC continues to rely heavily on government-funded projects and consumption, which are ultimately supported by oil and gas revenues. Policymakers in the GCC must overcome the challenges that have hindered past diversification efforts and create incentives for real economic growth that does not rely on the oil and gas sector, whether directly or indirectly. By strengthening sovereign wealth funds and avoiding

projects that require ongoing government support, GCC nations must also diversify their revenue streams. It is interesting to note that many large-scale projects funded by the government fall into this category because they are typically motivated by prestige rather than genuine economic necessity. Finally, GCC countries should engage their citizens more closely in efforts to diversify their wealth and economies. This should include encouraging savings and individual investment. ( The Gulf Cooperation Council (GCC) is officially known as the Gulf Cooperation Council for the Arab States of the Gulf. It is a political and economic regional governmental union comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Ara)

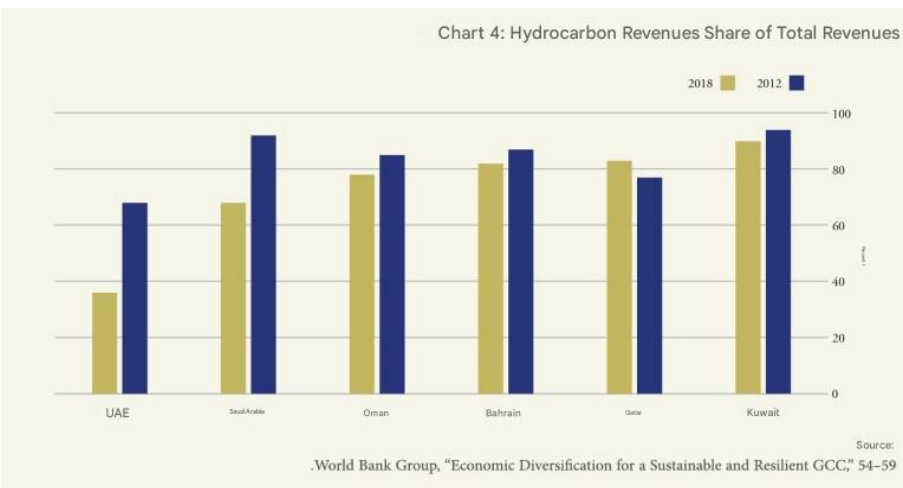
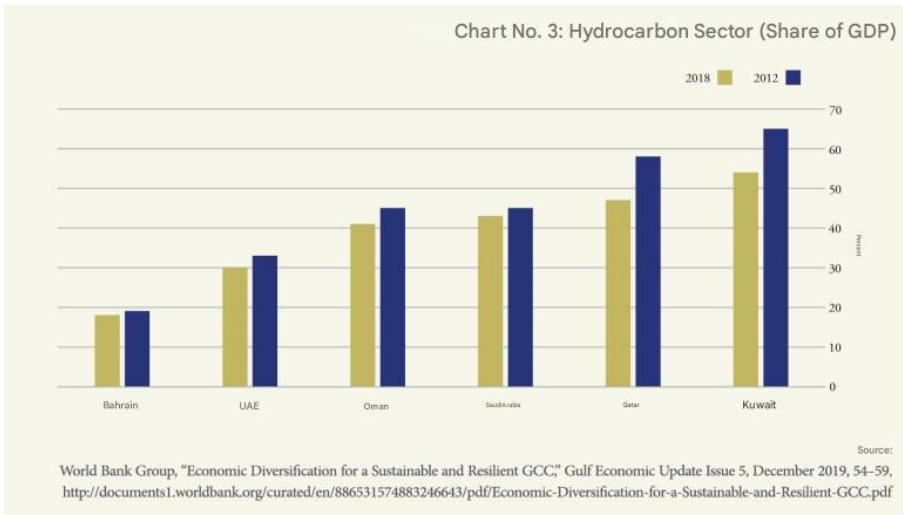
Policies that GCC nations could implement to diversify their economies and prepare for a post-hydrocarbon future have been suggested by numerous research centers, international organizations, and consulting firms. However, the political and economic realities of the current social contract, in which the governments of GCC nations rely on particular economic channels to distribute hydrocarbon wealth to their citizens, are frequently ignored by these recommendations. The necessary changes are frequently stymied by these channels. As a result, the purpose of this section is to present the economic reforms that GCC nations must implement to promote sustainable growth and diversify their economies while taking into account the constraints imposed by the governing social contract. (IMF, "Regional Economic Outlook: Middle East and Central Asia,, October 2020, 71,, 2020)

#### **4. Resource Revenues and Diversification**

The countries that make up the Gulf Cooperation Council (GCC) have a lot of natural resources. They've put these resources to use to make people's lives better, build infrastructure, and prepare for a world without oil. Significant progress has been made by GCC countries in achieving the first two goals. They have established a solid foundation for future economic growth by constructing modern cities and the infrastructure necessary to support them. The fact that each of these nations has a score on the Human Development Index (HDI) that is higher than 0.8 places them at the top of the Middle East and North Africa (MENA) region, on par with some countries in the European Union. However, GCC countries have faced difficulties in

progressing toward the third goal: diversifying their economies. GCC economies continue to be heavily dependent on hydrocarbons, despite the fact that such intentions are reflected in their national visions and plans for economic development. (IMF, “Economic Diversification in Oil-Exporting Arab Countries,” 2016)

There are a number of factors to take into consideration to lessen this dependence. First, goods and services that do not directly or indirectly rely on the oil and gas industry must be produced in place of oil and gas production. Additionally, it requires replacing government revenues from oil and gas with revenues from non-oil sectors and consumption taxes. However, this should not cause emerging industries to become constrained or uncompetitive. Therefore, diversification cannot be successful without a number of other essential components, such as boosting FDI, decreasing government spending, and increasing non-oil exports. The GCC nations have made some progress over the past ten years (see Chart 3). Except for the United Arab Emirates (30%) and Bahrain (18%), however, oil and gas still account for more than 40 percent of GDP in the majority of these nations. However, oil and gas revenues directly support the majority of other economic activities in the region, such as construction and infrastructure development. Since Bahrain has largely exhausted its oil reserves, oil only makes up a small portion of the country's GDP. However, oil still indirectly supports its economic activity through transfers and spending from neighboring countries. Similarly, despite improvements in government revenue diversification (see Chart 4), hydrocarbons continue to account for 70% or more of total revenues, with the exception of Saudi Arabia (68%) and the United Arab Emirates (UAE). However, the activities still supported by oil and gas account for a significant portion of the diversified revenue in these two nations. (Tokhir N. , 2020)

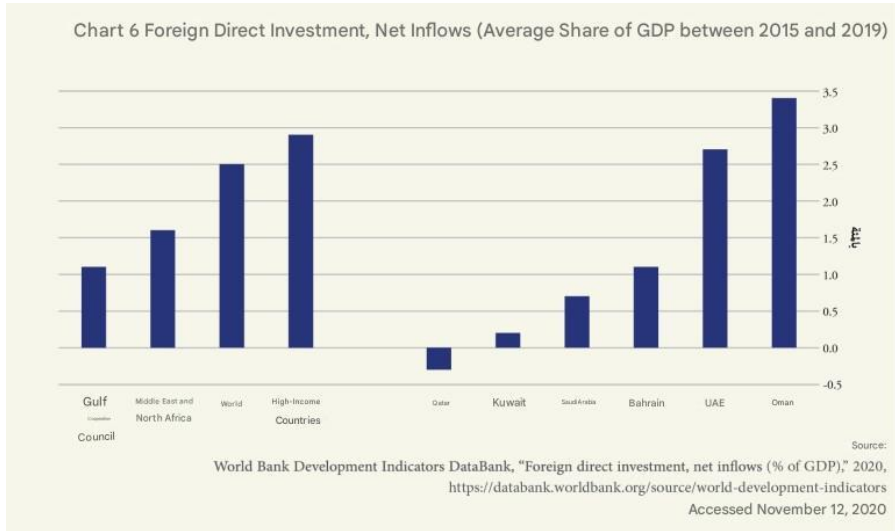


Agricultural products, manufactured goods, and business services are just a few examples of the goods and services that the GCC nations produce primarily for local consumption. However, it is unlikely that the large quantity of imported goods and services required to support the region's 27 million citizens and 29 million foreign workers will soon be replaced by locally produced goods and services. Furthermore, real economic diversification requires producing non-hydrocarbon goods and services that can be traded with the rest of the world. The nations of the Gulf still have a long

way to go in this area. Kuwait and Qatar exported more than 90% of their total goods in 2018, Saudi Arabia and Oman exported more than 80% of their goods, and the United Arab Emirates and Bahrain exported more than 50% of their goods in 2018 (see Chart 5)..



Another sign of an economy's potential for competitiveness is foreign direct investment, or FDI. FDI shows how willing foreign companies are to invest in a country. FDI in the GCC has also been sluggish. Between 2015 and 2019, the UAE and Oman alone attracted FDI flows (as a share of GDP) higher than the global average of 2.5%. However, net FDI flows to the GCC region as a whole only amounted to 1.1% of GDP, which is less than half the global average and nearly three times less than FDI flows to high-income economies (see Chart 6).



The majority of GCC nations have a poor business climate, which contributes to the low levels of FDI. It is difficult for businesses without insider connections to enter the market and compete. Additionally, policy modifications are frequently made haphazardly and without prior notice or review. Limiting work permits for certain nationalities, limiting money transfers abroad, or cutting economic ties with neighboring nations are examples of these adjustments. Companies looking to make investments in the region, both local and international, face increased risks as a result of this policy uncertainty. Countries in the GCC had the luxury of making arbitrary policy choices and even costly policy errors when they had surplus revenues from oil and gas. However, the current state of the financial system requires them to improve their ability to address the concerns and requirements of investors. (IMF, "Regional Economic Outlook: Middle East and Central Asia,, October 2020, 71., 2020)

The core element of economic diversification remains the development of non-oil sectors in which GCC economies can compete. While it is unclear what these sectors may be, answering this question requires trial, error, and experimentation. Although the GCC nations are unlikely to become agriculturally competitive, this could be an alternative to imports. Manufacturing is a promising sector, but GCC countries need to build infrastructure and establish free zones to compete with low-cost manufacturers in Asia. It would

have been hard to imagine fifty years ago that Dubai would become a hub for financial services, logistics, and business in the region. The majority of GCC nations want to establish advanced, knowledge-based economies, but they lack the necessary skills and research facilities. By importing talent from other Arab and Asian nations, the GCC nations may be able to establish a technological ecosystem that is competitive. Oman, Saudi Arabia, and the United Arab Emirates all have tourism as a promising industry, and Qatar is working to become a center for cultural and sports tourism. GCC nations may have an advantage in the area of Islamic banking. (Tokhir N. , 2020)

Successful economic diversification and sustainable economic growth require building sectors that are truly independent of oil and gas. Over time, as oil and gas revenues decline, these independent sectors could expand, moving economic activity away from hydrocarbon-supported sectors. The ability to build independent sectors is based on three key foundations: (Ashraf, 2018)

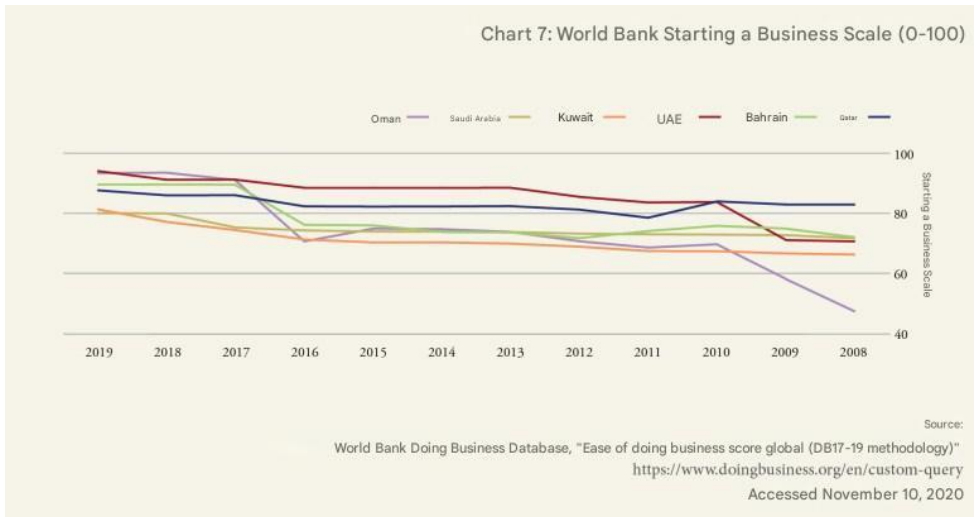
1. Adopting a financial framework that allocates oil and gas revenues either to short-term revenues or long-term investments with minimal economic distortions.
2. Enabling an export-oriented private sector that does not rely on oil and gas to grow and thrive.
3. Building a capable and motivated workforce outside the public sector, including entrepreneurs.

GCC countries have made some progress in all three areas, but they have tended to adopt partial reforms that give the impression of economic diversification, while still relying heavily on oil and gas revenues.

## **5. Activating the Economic Diversification Strategy**

The governments of the Gulf Cooperation Council (GCC) have supported sectors that frequently reflect the preferences of policymakers rather than the competitive strengths of their economies in an effort to diversify their economies. However, most GCC countries have realized that these diversification models are, in themselves, unsustainable and have begun to open the door to real private sector development. Bahrain was initially at the forefront of

these efforts, as it has the lowest oil reserves within the GCC. Dubai, on the other hand, beat Bahrain and opened the door for the other Emirates despite having similarly limited reserves. In creating a business-friendly environment for entrepreneurship, the UAE now leads the GCC. According to the World Bank's Doing Business Index (see Chart 7), all GCC nations have made progress in terms of business ease over the past decade.



In recent years, Gulf nations have developed more comprehensive diversification strategies. Their national visions include economic diversification, and committees have been established to include the private sector in ongoing economic activities. They have also created agencies to support the development and financing of small and medium-sized enterprises (SMEs), such as the Saudi Small and Medium Enterprises General Authority, Qatar Development Bank, and Oman's Small and Medium Enterprises Development Authority (Riada). Due to the fact that their expansion results in employment opportunities and real economic value, SMEs are regarded as the foundation of diversification efforts. Free trade zones and special economic areas, which operate to varying degrees outside of private sector regulatory distortions, have complemented these policy steps. These areas serve as centers for innovation and attract foreign direct investment (FDI), which can eventually be incorporated into the national economy. The United Arab Emirates

has 45 free zones with 100% foreign ownership. Bahrain has gone a step further, allowing 100% foreign ownership in several sectors, including real estate, telecommunications, and administrative services.

GCC countries have also established innovation hubs within their systems, such as the Bahrain International Investment Park, Qatar Science and Technology Park, and Prince Abdullah bin Abdulaziz Science Park (PASP) in Saudi Arabia.

In addition, educational reforms have been implemented in the GCC countries to better match graduates' skills to market requirements. Entrepreneurship and employment in the private sector have received increased attention in nations where the vast majority of young people have a preference for public sector positions. The Gulf region has seen the spread of initiatives that provide training and mentorship to young entrepreneurs. The International Labor Organization's "Know About Business (KAB)" program has been implemented in Oman by vocational training centers and technical colleges to increase knowledge of the private sector. The regional non-profit organization "Injaz Al-Arab" provides necessary training and support to young entrepreneurs in all six GCC nations. ("Human Development Index (HDI) Ranking," United Nations Development Programme Human Development Reports,, 2021)

However, the GCC countries still lag behind in securing a truly enabling business environment and continue to suffer from weak capabilities among their citizens, despite improvements in business regulations and the development of the startup ecosystem over the past two decades. Like much of the Middle East and North Africa (MENA) region, the private sector in the GCC is heavily regulated and dominated by a deeply ingrained system of connections and patronage. The majority of private sector activity is managed by public or semi-public companies, relies on government contracts, is financed by public financial institutions, and receives support from government subsidies, all of which exacerbate this issue. It is hard for the private sector to grow naturally in such a setting, and it is hard for someone without political ties to start and grow a successful business.

The roots of these factors can be traced to: (14. "The GCC in 2020: The Gulf and its People," 2009, 10,, 2019)

## **5.1 Addressing the Sustainability of Public Services and Encouraging Citizen Participation**

The initial focus of the GCC nations' wealth accumulation was on enhancing public services and benefits. This began with infrastructure, healthcare, and education, but soon expanded to include transportation, banking, finance, and telecommunications. Access to essential public services has been significantly improved for all GCC citizens. For instance, the region's academic performance has significantly improved. However, the quality remains a concern, as students from GCC countries perform poorly on international standardized tests. Although efforts to reform education have resulted in improved outcomes, no significant changes have been made. In the long term, GCC governments should consider granting greater financial independence to hospitals, schools, universities, and other public service providers, and establish endowments to ensure their long-term sustainability. Individual non-profit initiatives could also be used to encourage wealthy citizens in these nations to contribute to the funding of social services. These endowments, also known as waqfs, have been around for a long time in the Gulf, but they have mostly been replaced by government initiatives since oil was discovered. Citizens would be able to contribute to their nations' future and support a deeper transformation of the social contract if these initiatives were reintroduced.

## **5.2. Improving the Organization of Public Sector Companies**

Many sectors in the Gulf are dominated by large state-owned or state-controlled companies, including those that are usually part of the private sector, such as banking, construction, fuel distribution, and insurance. The modernization, innovation, and expansion of the economy have all been significantly aided by these state-owned businesses. However, as they have grown to dominate their respective industries over time, they have imposed bureaucratic entry barriers that prevent smaller businesses from expanding and competing. In point of fact, numerous state-owned businesses serve as their industries' primary regulators. In addition, some state-owned businesses have expanded internationally as a result of public support, such as tax exemptions or paying below-market prices for inputs like capital, land, and energy. These state-owned businesses would not be

able to compete in the global economy without continued support, according to the available evidence. They frequently extract resources from potentially more promising economic sectors rather than contributing to new revenue.

Nonetheless, state-owned companies remain a valuable source of public services, innovation, and employment opportunities. Governments in the GCC are unlikely to consider privatization unless absolutely necessary, but changes could be made to make these businesses more competitive. As a result, GCC nations must implement a clear strategy to identify the industries in which state-owned businesses will operate, leaving other industries unaffected. They should also keep their records open and make sure that support and subsidies are clear and limited. Last but not least, governments in the GCC ought to construct safeguards that separate state-owned businesses from regulatory agencies that oversee the industries in which they operate. In addition to being a form of good governance, this would boost economic growth over the long term, increase competition, and encourage innovation.

### **5.3. Encouraging Real Private Sector Development**

In the GCC nations, government spending and contracts funded by oil and gas revenues are linked to a significant amount of private sector activity. Small and medium-sized businesses (SMEs) and start-ups that are more competitive and should serve as the foundation for future growth and prosperity suffer as a result of this. Public companies and private businesses that are connected to the ruling elite tend to benefit from this. In addition, members of the ruling elite frequently hold positions in the government in addition to running their own private businesses, which gives them the ability to sway the balance in their favor. These restrictions on private sector activity and competition limit the incentives for entrepreneurs to introduce revolutionary innovations that could create globally competitive industries, leading to true economic diversification. As a result, the private sector's contribution to GDP remains low. Although official estimates are difficult to obtain, this contribution was less than 40% in Saudi Arabia in 2018, for instance. This pursuit of rents is a part of the current social contract and is likely to continue; however, it can be mitigated and restricted to particular economic

activities and sectors. For instance, holding a government job while owning a company that benefits from government contracts at the same time constitutes a dual benefit, but this can be limited. GCC countries should also keep export-oriented and growth-oriented sectors that are not reliant on oil and gas revenues free from internal interventions. They should continue to expand their free zones and economic zones, especially those developed around sectors free from such influence.

They should also continue efforts to reduce burdensome regulations, including introducing bankruptcy laws, eliminating the requirement for virtual companies to have physical addresses, reducing the time and number of steps required to register businesses, allocating a minimum share of government contracts to SMEs, ensuring timely government payments, and improving SMEs' access to financing. (IMF, "Regional Economic Outlook: Middle East and Central Asia,, October 2020, 71,, 2020)

#### **5.4. Addressing Employment Challenges**

In order to ensure that their citizens receive their fair share of economic rents, governments in the GCC offer positions in the public sector with high pay and benefits. Citizens' educational choices and career paths are influenced by this system because they typically pursue the minimum qualifications required for public sector employment with little regard for developing the skills necessary for productive roles in the private sector. The end result is a segmented labor market in which foreign workers fill positions in the private sector while citizens fill positions in the public sector. Additionally, the civil service salary structure for citizens has been both enhanced and compressed as a result of public sector salaries including a portion of economic rents. When compared to those with higher skills, those on the lower end of the pay scale and those with the least marketable skills receive higher bonuses in the private sector. As a result, incentives for choosing one over the other are distorted, with lower-skilled workers being more reluctant to accept work in the private sector. In addition, whenever GCC nations attempt to increase the proportion of oil rents distributed through the salary chain in response to changes in political conditions or increases in oil prices, this results

in an increase in the wage bill that is difficult to reverse in the event that the circumstances subsequently alter. (Nader , 2019)

Jobs in the public sector have become scarce as a result of falling oil revenues, and GCC governments have turned to the private sector to hire citizens. However, citizens' sense of entitlement persists, reflected in expectations for higher salaries and benefits, coupled with weak work incentives. However, unless forced to do so by the government, private sector employers typically avoid hiring citizens. In such instances, they frequently view this as a cost of doing business and do not develop citizen workers' productive capacity. This undermines the link between performance and reward and generates a sense of entitlement that may persist even after oil rents have been exhausted. Despite the large number of positions in the private sector that are filled by foreign workers, this has also resulted in high unemployment rates among young citizens. In the majority of GCC nations where data are available, youth unemployment rates are high, reaching 40% in Saudi Arabia, for instance. Countries in the GCC are reluctant to address this system of ingrained employment interests. (Ashraf, 2018)

## **6. Discussion and analysis of results .1 Overview of Findings**

According to the findings, achieving economic diversification poses significant obstacles for the Gulf nations. The reliance on oil remains a major obstacle to sustainable development despite efforts. Oil is responsible for 70% of exports and 80% of government revenues, according to data, highlighting the urgent need for diversification. The findings lend credence to the hypothesis that economic growth and diversification are intertwined. Gulf nations are hampered in their ability to compete globally because of their reliance on the rentier model. The findings emphasize the significance of fostering innovation and human capacity development for sustainable development. Gulf nations may continue to be dependent on oil if they do not make effective investments in education and training. This paper's findings are consistent with previous research indicating that Gulf countries have been slow to diversify. According to studies, previous economic models failed to effectively leverage natural resources because they focused on quick-return industries like real estate and tourism. Diversification is limited by a lack of skilled

workers and a decline in foreign direct investments, both of which are signs of a bad business climate. Additionally, progress toward a diversified economy is impeded by political and social systems. The results indicate that additional research is required to enhance the business climate and encourage youth entrepreneurship. Effective strategies for attracting investments and fostering innovation are urgently required.

## **7. Conclusion**

Policy efforts aimed at economic diversification must take into account the following considerations:

- **The Proper Way to Strive for Rents:** The governments of the Gulf Cooperation Council (GCC) must openly discuss with their citizens the financial constraints they face and the options they have for the future. A fair and equitable redefinition of the governing social contract should also be part of this conversation. Due to decreasing hydrocarbon reserves and the anticipated long-term decline in oil prices, this kind of renegotiation ought to make the assumption that both ordinary citizens and political elites will have to give up some of their benefits and privileges. Asking ordinary citizens to relinquish their access to public sector jobs or accept cuts in their salaries and benefits, without requiring business owners to give up the surplus profits they earn from exclusive contracts, could lead to public resentment and social unrest.
- **Establishing Free Zones and Innovation Hubs:** GCC nations have established free zones, innovation hubs, and entrepreneurship centers outside of their rent-driven industries over the past two decades. However, these policies are still in their infancy. As they prepare for a post-oil future, GCC countries must implement more reductions in public services, benefits, and public sector jobs, while curbing opportunities for rent-seeking in the private sector.

- The COVID-19 pandemic and the drop in global oil prices: GCC nations have been forced to advance their efforts to diversify their economies as a result of the economic pressure brought on by the COVID-19 pandemic and the drop in global oil prices. In the post-hydrocarbon era, policymakers should focus on laying the groundwork for building a sustainable and dynamic economy rather than the immediate rush to cut budgets.
- Opportunities for Greater Regional Economic Integration: Countries like Saudi Arabia, the United Arab Emirates, and Bahrain's economic and political pressure to end their three-and-a-half-year blockade of Qatar has created opportunities for greater regional economic integration. Similarly, these economic pressures have led to more open and frank discussions between citizens and their governments regarding financial constraints, economic rents, and their distribution channels. Clarity about which parts of the economy are allowed to grow without obstacles is essential to generating incentives for young citizens to engage in these sectors.

Without rent-seeking behavior, this would make it possible for market-driven mechanisms to function more effectively in these sectors. GCC economies' global competitiveness can be enhanced and their efforts to diversify supported by more competitive economic sectors and greater regional economic integration.

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