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Mission impossible? Genuine economic development in the Gulf Cooperation Council countries

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Mission Impossible? Genuine Economic Development in the Gulf Cooperation Council Countries

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Abstract

The Gulf Cooperation Council (GCC) is considered one of the most important regional entities in the world. It provides a framework for stability regarding world oil and gas supplies and facilitates great wealth from oil and gas exports. After more than thirty years of promises from GCC countries, however, how does oil and gas wealth impact actual economic development, particularly in the non-oil economy and private sector? This study highlights the existence of economic development in the GCC states in three aspects: the current demographic structure, economic growth and diversification, and the role of private sector development. The analysis shows that an unbalanced population structure causes a great drain on national income and turns the national population into a minority in some of the GCC states. Furthermore, the GCC countries' economy still depends heavily on oil revenue, resulting in public sector domination. As a result, the private sector is underdeveloped and still does not exert significant influence on economic development. The study concludes that, in spite of the declaration of the GCC articles of association regarding the link between development and integration, the GCC is still far from demonstrating real long-term development.

1. INTRODUCTION

When the Gulf Cooperation Council (GCC) was established between six Arab oil-exporting countries located in the Arab Peninsula in 1981, its primary aim was to achieve socio-economic development and cooperation, which would eventually lead to economic integration, as declared in its articles of association. Among the stated objectives are the following (GCC Secretariat General 2013):

- to formulate similar regulations in various fields, such as religion, finance, trade, customs, tourism, legislation and administration;
- to foster scientific and technical progress in industry, mining, agriculture, water and animal resources;
- to establish scientific research centres;
- to set up joint ventures;

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- to establish a unified military presence (Peninsula Shield Force);
- to encourage the cooperation of the private sector;
- to strengthen ties among the peoples of the gulf region; and
- to establish a common currency.

An additional driver for the establishment of the GCC was the Iranian Revolution in 1979 and the widespread concern about Iran's ambition to dominate the region and spread the Islamic revolution into the Arabian Gulf. Another important motive behind the creation of the GCC was to enhance the collective security of member states in the face of the Iran–Iraq War, which had begun a year earlier.

The rulers of the Gulf States proposed the GCC, and the people of the region welcomed it, seeking a framework of political reform, economic development and integration, bearing in mind that the oil-producing states of the Arab Peninsula are part of the Arab world and have similar history, social roots, circumstances and demographic features. After more than three decades, however, the people's hopes have not been realized. Although several suggestions have been made to the GCC government regarding the goal of attaining economic development and integration, there are still no indications that political reform and real economic development have been achieved in most of the GCC states.

This paper discusses a number of critical economic weaknesses within the GCC states that, although highlighted over the decades of the GCC's existence, have worsened in the most recent past. It is important to highlight these weaknesses now in the light of a number of possible risk factors. These include consequences of events in the Arab spring; Iran's nuclear threat and its ambition to dominate the Arabian Gulf and the whole region, which have increased greatly since the American invasion of Iraq in 2003 and will not be ended by sending their troops against the Syrian uprising; combined with the American plan to establish the New Middle East – all of which signal an urgent demand not only for economic reform but also for security.

This paper highlights economic weaknesses in terms of three aspects: demography (Section 2), economic statutes (Section 3) and the private sector (Section 4). The study concludes that population structure has presented a dilemma that has resulted in a large drain on the national income and has turned the national population into a minority in some GCC states. Furthermore, the economies of the Gulf States still depend heavily on oil revenues, resulting in public sector domination. As a result, the private sector is underdeveloped and has yet to establish an influential impact on economic development. The study concludes that, in spite of the intent declared in the GCC articles of association regarding development and integration, the GCC is still far from initiating real long-term development.

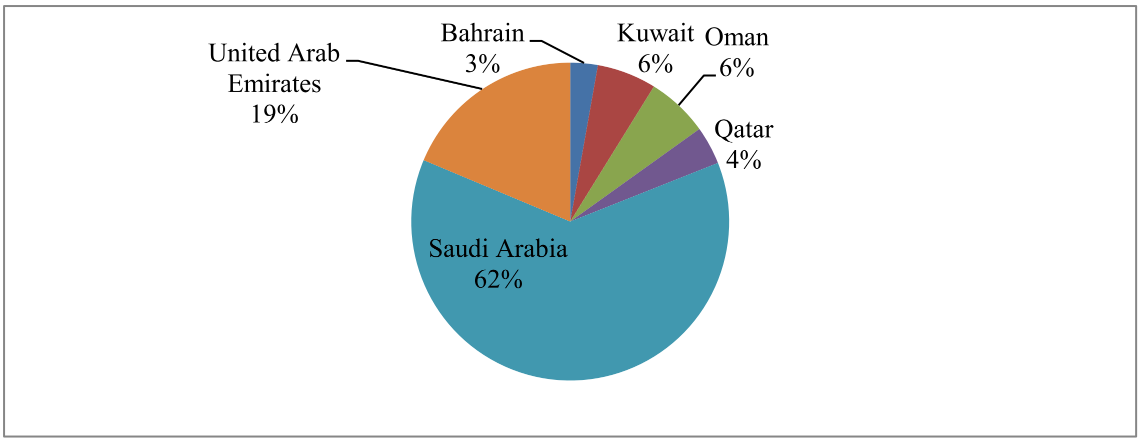
2. DEMOGRAPHY

The combined population of the six GCC countries grew from nearly 10 million in 1975 to around 44 million by the end of 2010 (Cooperation Council for the Arab States of the Gulf 2013). Saudi Arabia, by far the largest GCC country, accounted for around 62 per cent of the population in 2010, with an estimated 28 million people (Figure 1). The United Arab Emirates (UAE) was the second most populated GCC state, accounting for around 19 per cent or above 8 million people. The distribution of the total GCC population was estimated at 6 per cent in each of Oman and Kuwait, 4 per cent in Qatar and 3 per cent in Bahrain (Cooperation Council for the Arab States of the Gulf 2013).

The fast and sudden population growth witnessed by the GCC represents an increase of more than 300 per cent in less than forty years (Table 1). This growth coincides with the oil boom and is associated with the phenomenon of labour migration, which accounted for 46 per cent of the total GCC population in 2010 and almost 62 per cent of the total labour force (Forstenlechner and Rutledge 2011).

The phenomenon of labour migration in the Arabian Gulf commenced during the 1940s with the discovery of oil in the region, but it highlighted a problem during the first oil boom in 1973. Subsequent to the first (1973) and second (1982) oil booms, the dilemma of an unbalanced population structure began and clearly worsened due to high emigration. For example, in 1975, the total population for the six countries was 10 million, of which

Figure 1. *Population composition among the GCC states, 2010*



Source: Cooperation Council for the Arab States of the Gulf (2013).

expatriates accounted for 26 per cent. The total labour force in this year was 2.9 million, of which migrant labour constituted 45 per cent. During the second oil boom, the total population in this area increased to 12 million, and the total labour force was around 4 million, of which migrant labour exceeded 54 per cent (GCC Secretariat General 2006–12; Al-Ibrahim 2004).

After the mid-1980s, a prevailing expectation was that an imbalance in the population structure would result in a sharp decrease in oil price, with a consequent reduction in oil revenues that would lead to a deficit in the government budget. Accordingly, a number of government policies were established to nationalize the labour force in order to reduce the imbalance in the population structure; however, despite these factors, the expatriate labour force has continued to grow rapidly, thus increasing the problem of imbalance. By 2001, the Secretariat General of the GCC countries reported that the GCC population had increased to 32 million, and the ratio of expatriates to the total population had increased to 34 per cent, compared with 26 per cent in 1975. Moreover, the ratio of non-citizens to the total labour force reached 65 per cent, having been 45 per cent in 1975 (Table 1).

The total population during the third oil boom of 2008 increased to over 40 million, and expatriates accounted for approximately 49 per cent, while the total labour force was around 15 million, of which non-citizens totalled 70 per cent.

In the GCC states overall, the foreign labour force is concentrated mostly in the private sector (Table 2). In Qatar, however, the foreign labour force is significant in both the public sector (56 per cent) and the private sector (99 per cent). The Qatari labour force, in the private sector, recorded no more than 9,800 labourers, while non-citizens reached 1.01 million in 2010 (Cooperation Council for the Arab States of the Gulf 2013).

The low rate of wages and salaries of the national labour force in the private sector relative to the public sector is the most often repeated explanation; however, the reasons for the low rate of the Qatari labour force in the private sector might be more complex. The most critical reason is the failure of the whole private sector system to play a significant role in overall development; this notion will be discussed in Section 4.

It is important to note here that, due to the success resulting (to some extent) from adopting the employment policy of a national labour force, the non-citizen labour force decreased from 86 per cent in Bahrain and 79 per cent in Oman in 2001 to 76 per cent in both countries in 2010 (GCC Secretariat General 2006–12).

The Bahrain government adopted a number of policies to minimize the imbalance in the population structure but faced a number of difficulties. The Bahrain *Economic Vision 2030* plan, which was launched in 2008, indicated that it aimed to nationalize the labour force,

Table 1. *GCC population and labour force, 1975–2010 (thousands)*

State	1975				2001				2008				2010			
	Population		Labour force		Population		Labour force		Population		Labour force		Population		Labour force	
	Total	Non-citizen (%)	Total	Non-citizen (%)	Total	Non-citizen (%)	Total	Non-citizen (%)	Total	Non-citizen (%)	Total	Non-citizen (%)	Total	Non-citizen (%)	Total	Non-citizen (%)
Bahrain	267	22	79	50	651	38	308	86	1,103	51	468	75	1,235	54	497	76
Kuwait	1,027	54	298	71	2,243	62	1,214	80	2,496	60	1,449	84	2,673	60	NA	83*
Oman	846	16	192	54	2,478	26	705	79	2,867	31	110	75	2,773	29	1,297	75
Qatar	180	71	74	83	597	70	323	85	1,448	90	1,168	94	1,715	85	1,271*	94
Saudi Arabia	7,334	19	1,968	34	22,690	26	6,090	50	24,807	27	7,956	54	27,563	31	8,835	55
United Arab Emirates	551	61	292	58	3,488	78	2,079	91	8,074	89	2,930	93	8,264	89	NA	96*
Total	10,205	26	2,903	45	32,147	34	10,719	65	40,796	49	15,067	70	44,223	46	NA	62*

Sources: GCC Secretariat General (2006–12); Cooperation Council for the Arab States of the Gulf (2013); Al-Ibrahim (2004) for 1975 data; *Forstenlechner and Rutledge (2011), since these values are not available in the Gulf Cooperation Council statistics.

Table 2. *Foreign labour force in the public and private sectors in GCC states, 2010 (%)*

State	Public	Private
Bahrain	13	82
Kuwait	27	NA
Oman	14	84
Qatar	56	99
Saudi Arabia	5	78
United Arab Emirates	NA	NA

Source: Cooperation Council for the Arab States of the Gulf (2013).
Note. Saudi Arabia information is for 2009.

especially in the private sector; however, it also mentioned that nationalizing the labour force in the private sector is difficult (Hvidt 2013). Before the economic vision was created, the Bahrain government in cooperation with international organizations and advisors achieved an adopted package of solutions aiming to reform the labour market, reducing dependence on foreign workers and encouraging employers to hire local labourers. The government also developed the Labour Market Regularity Authority, and furthermore established the 'Tamkeen'[1] (Empowerment) Fund by August 2006, as part of Bahrain's national reform initiatives, supporting the country's private sector and positioning it as the key driver of economic development. Tamkeen's two primary objectives are (1) to foster the creation and development of enterprises and (2) to provide support to enhance the productivity and growth of enterprises and individuals. The solution is based on a number of scheduled policies leading to a gradual adjustment of foreign workers and Bahraini citizens. For instance, it imposed a new fee on each foreign labourer; however, when the government imposed some of these adjustment regulations, many small business owners, fishermen and small constructors initiated strikes and protests. In one case, some protestors stormed the building of the Labour Market Regulatory Authority, verbally attacking the staff and executives in August 2010. All of this opposition led the government to freeze its initiatives and reconsider its decision to nationalize the labour force.

Similarly, the Ministry of Saudi Labour, approved in November 2012, imposed fees on private sector companies whose expatriate workers exceeded Saudi employees in number. This decision aimed to raise the level of Saudization in the private sector, which is currently based on expatriate labour (*Middle East* 2012). The decision was widely criticized and

[1] For further information, see www.lf.bh.

rejected by small- to medium-sized business owners as well as the 'Majles Al-Shoura' (Consultative Council), though it is supported by large business owners[2] and academics.

The case of the UAE and Qatar is the direst, as the national population has become the minority. For example, in the UAE, the citizen population constitutes no more than 11 per cent of the total population and only 4 per cent of the labour force. The UAE national labour force comprises only 2 per cent of the workforce of Dubai, while over 50 per cent are from India (Randeree 2012: 8). The case is similar to that in Qatar, where citizens make up only 15 per cent of the population, and the national labour force is approximately 5 per cent (Table 1). The total population of Qatar nearly tripled in just five years − from 700,000 in 2007 to 1.9 million in 2011 (IMF 2013) − and with almost another decade of development before the 2022 World Cup, it is expected to surge again.

The UAE and Qatar recorded the world's highest ratio of immigrant employment, which has risen to an average of 90 per cent since the late 1980s (Baldwin-Edwards 2011). This enormous domination of the foreign labour force includes not only low-skilled labour (workers) but also skilled foreign labour, due to the lack of the full range of required skill sets (e.g. engineers, scientists, university professors) in the national population (Forstenlechner and Rutledge 2011). However, the UAE and Qatar, the richest countries in the GCC and the world, have not yet adopted an adequate, clear and successful strategy[3] for investing their huge wealth to develop a national labour force that will reduce the numbers of those in the skilled foreign labour force.

The imbalance in the population structure and the huge expatriate labour force have caused a drain on the national income and the repatriation of large wages and salaries to labour-exporting countries (Table 3). The International Monetary Fund (IMF) has shown that outward remittances from the GCC region stood at US$75 billion in 2011, rising from US$66 billion in 2010 (*Khaleej Times* 2011). Outward remittances from Saudi Arabia reached US$23 billion in 2013: 15 per cent higher than 2012.[4] The ratio of sent remittances to GDP in the GCC states appears to be the highest in the world (Naufal and Termos 2010).

Given such expatriate remittances, the demand for foreign currencies increases, reducing the value of the local currency. Consequently, if the central bank is willing to maintain the value of the local currency, then it must hold extraordinary foreign reserves to preserve the pegged exchange rate. Then again, such transactions would lead to a high supply

[2] Such as Al-Waled Ben Talal and Saleh Kamel.
[3] Labour nationalization policies have been declared in all GCC states but have all failed.
[4] For further information, see http://www.alarabiya.net/ar/aswaq/economy/2013/09/02/86.

Table 3. *Migration and remittances in GCC states, 2012*

State	Remittances sent	
	US$ billion	Percentage of GDP
Bahrain	NA	7
Kuwait	10.0	8
Oman	5.3	10
Qatar	NA	NA
Saudi Arabia	26.0	6
United Arab Emirates	NA	NA

Source: World Bank (2011).
Note. For further information, see Naufal and Termos (2010).

of the local currency. This problem could be minimized by converting these funds to the economy if the central bank is willing to offset the remittance effect by using treasury bonds. Since there are extremely inadequate government securities in the GCC that the central banks can utilize, the effect of remittances will remain contractionary, thus reducing the money multiplier in the economy (Taghavi 2012).

Although these are old issues that have been discussed and highlighted since the early 1970s, the continuity and permanence of the unbalanced population structure and the ignorance about this problem in some GCC states − particularly Qatar and the UAE − might provide sufficient evidence that the imbalance is not a consequence of poor government planning but rather a result of government adoption of such a policy to reduce citizen influence. For example, if the UAE national labour force goes on strike, this will not place pressure on the UAE government; and the Qatari government has retired a significant number of national labourers (at less than 60 years of age) over the past few years and replaced them with an expatriate labour force. For instance, the number of Qatari faculty members at Qatar University decreased from 46 per cent to less than 30 per cent, while non-Qatari faculty members jumped from 54 per cent to 70 per cent.[5]

3. THE ECONOMY

No one can ignore the fact that the GCC states represent an important region in the world and provide a framework for the stability of oil and gas supplies globally. These countries own approximately 45 per cent of the world's crude oil reserves and around 15 per cent of natural

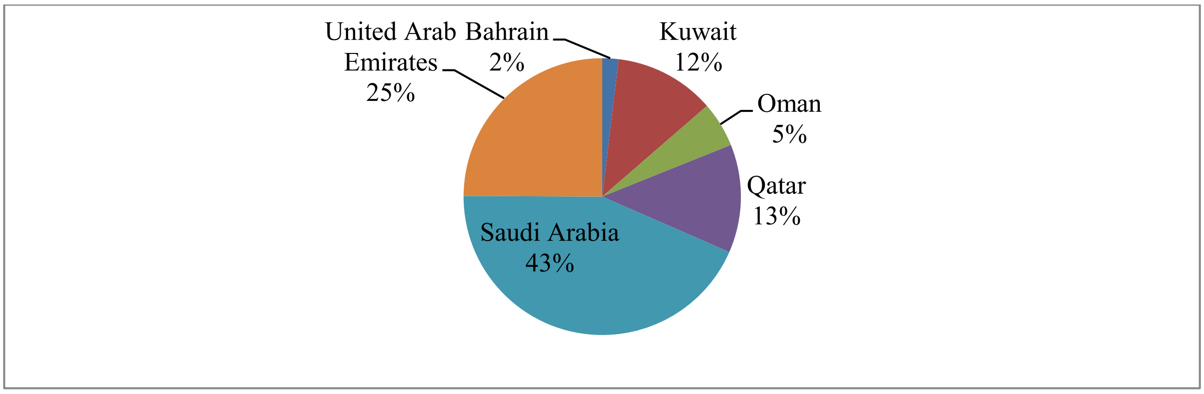
[5] These percentages came from the website of Qatar University (2011), but they have not been available recently.

gas reserves. Furthermore, they account for nearly 15 per cent of the international production of crude oil, and their crude oil exports represent around 20 per cent of total international exports (IMF 2013; Al-Ibrahim 2004). Their sum total GDP is among the largest in the world in relation to population. The total GDP for 2011 reached US$1.4 trillion; the largest national GDP was that of Saudi Arabia (US$597 billion), approximately 43 per cent of the total GCC states' GDP, and the smallest national GDP was that of Bahrain at US$26 billion, or about 1.9 per cent (IMF 2013) (Figure 2).

However, it is the crude oil revenues (as opposed to production) that dominate the GCC economy and economic growth. These revenues are the key controller of GDP, national income and state budget of each of the GCC states. Therefore, the GCC economy has become subject to the international market, and any economic growth and budget surplus or deficit are no more than outcomes of oil prices in the international market.

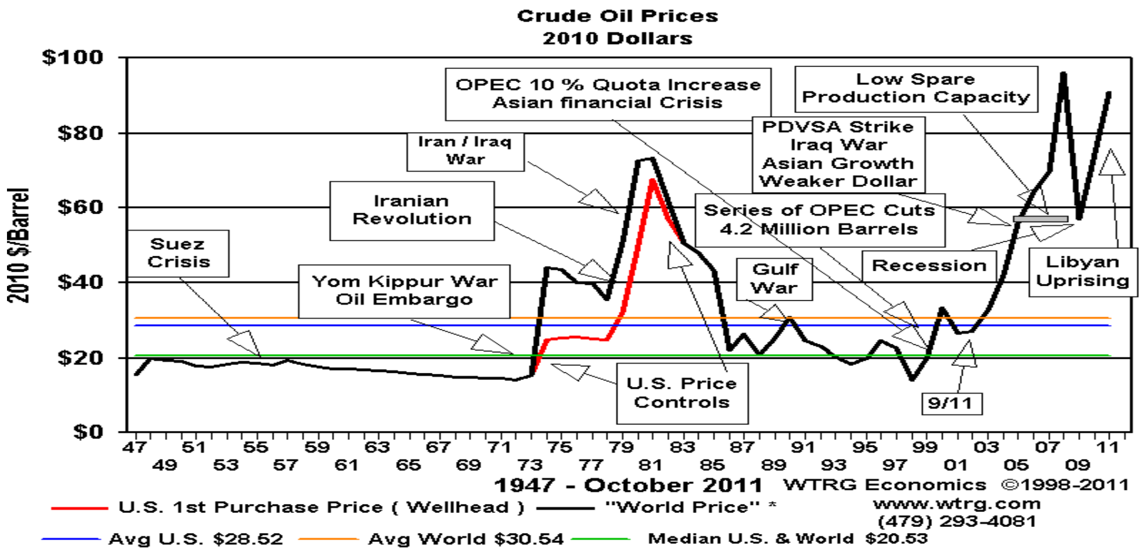
Historically, most oil booms (e.g. 1973–4, 1979–82, 1990–1, 2003) have been related to regional and international political and military crises (Al-Faris 2009) (Figure 3). For instance, during the October 1973 war, six Arab Gulf states decided to reduce oil production by 5 per cent per month and raise oil prices from US$2.90 to US$5.11 per barrel (Al-Yousef 2011). The states made this decision unilaterally without consulting the oil companies. This was considered a historical precedent for the independence of the Gulf States in decisions related to pricing and production. Subsequently, oil prices increased, reaching US$13 in 1978. The Iranian Revolution in 1979, the Iran–Iraq War and the Soviet Union's involvement in Afghanistan also led to oil booms, and, in 1980, oil prices jumped to US$42 per barrel. They then began to decrease. Non-OPEC members, such as Mexico, Russia and Alaska, which had been unable to produce oil in the past due to low prices, were motivated by the high prices to

Figure 2. *Distribution of GCC GDP, 2011*



Source: IMF (2013).

Figure 3. *History of oil prices, 1947–2011*



Source: WTRG Economics (2013).
Note. For further information, see Al-Sadoon (2009).

start producing oil, which increased the supply. On the other hand, high oil prices succeeded in reducing international demand for oil by six million barrels per day (Al-Yousef 2011).

For the first time in its history, OPEC imposed on its members specific production quotas to deal with the new market conditions. The scheduled production ceiling in March 1982 was 17.5 million barrels per day, which represented half of the OPEC members' previous productivity. However, Iran under the Khomeini regime decided not to abide by OPEC's quotas. Iran's oil production increased, and Nigeria followed suit. Saudi Arabia reduced its production from 10.5 million barrels per day in 1980 to 2.2 million barrels per day in 1985 (Al-Yousef 2011). Oil prices collapsed to less than US$10 per barrel by May 1986. They remained around US$18 per barrel from 1987 to 1999, except for 1990, when the price of crude oil spiked from US$17 per barrel in July to US$36 per barrel in August as a result of Iraq's 1990 invasion of Kuwait. As a result of the American invasion of Iraq in 2003, oil prices doubled, and they have continued to increase since then due to a weak dollar and the fast growth of the Asian economies as well as the accompanying increase in their petroleum consumption (WTRG Economics 2013).

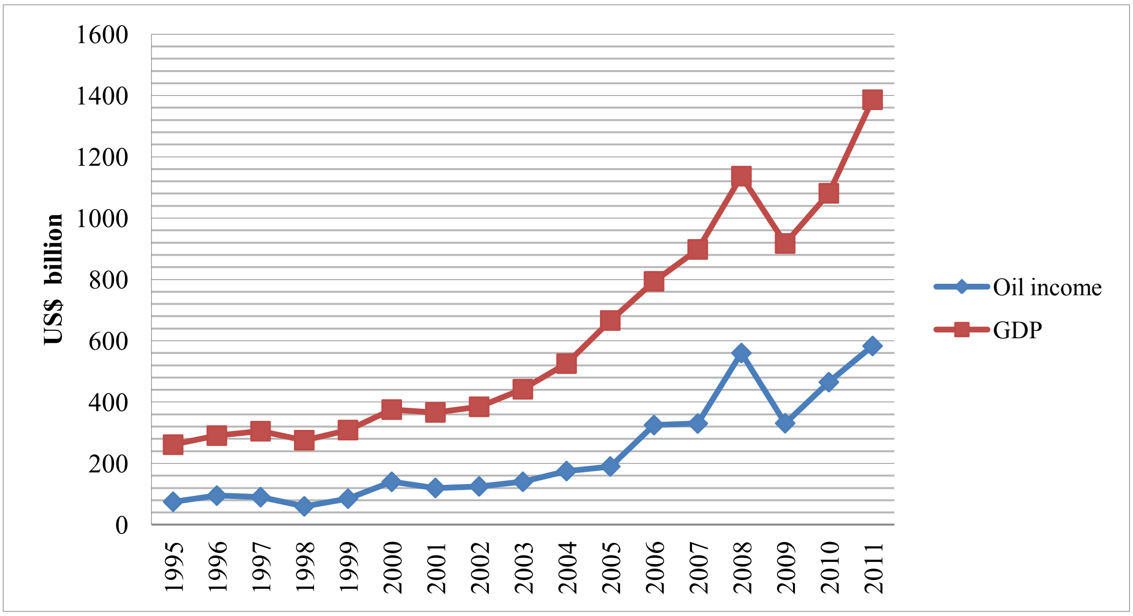
On 11 July 2008, oil prices peaked at US$147.27, as global concern mounted over missile tests in Iran. The price subsequently collapsed during the global financial turmoil sparked by the subprime crisis. During the economic recession in 2009, oil prices traded at between US$35 and US$82 a barrel, recording an average of US$61 a barrel. In late February 2011, prices jumped as a result of the loss of Libyan exports in the face of the Libyan uprising and heightened uncertainty in the Middle East (OPEC 2013; WTRG Economics 2013). The price in August 2013 was around US$103.

Oil price collapses usually have deep, long-term negative consequences for the GCC economy. For instance, the 1986 collapse transitioned most of the GCC states from creditor states into debtor states (Al-Sadoon 2009). The GCC states' economy faced recession, deflation and a long period of deficit in state budgets, leading many of them to liquidate most of their overseas assets. The Qatari budget, for example, went into deficit from 1985 to 2000, with only one recorded surplus (1990–1) (Wright 2011). Saudi Arabia suffered seventeen consecutive years of deficit (Champion 2002). In spite of previous oil price collapses, the negative effects on economic stability were quickly forgotten as soon as the oil price began to increase again (2003–7). The worst consequence of this is that, rather than benefiting from the lessons of the past, governments have increased their dependency on oil and decreased their willingness to initiate economic integration.

3.1. Gross domestic product (GDP)

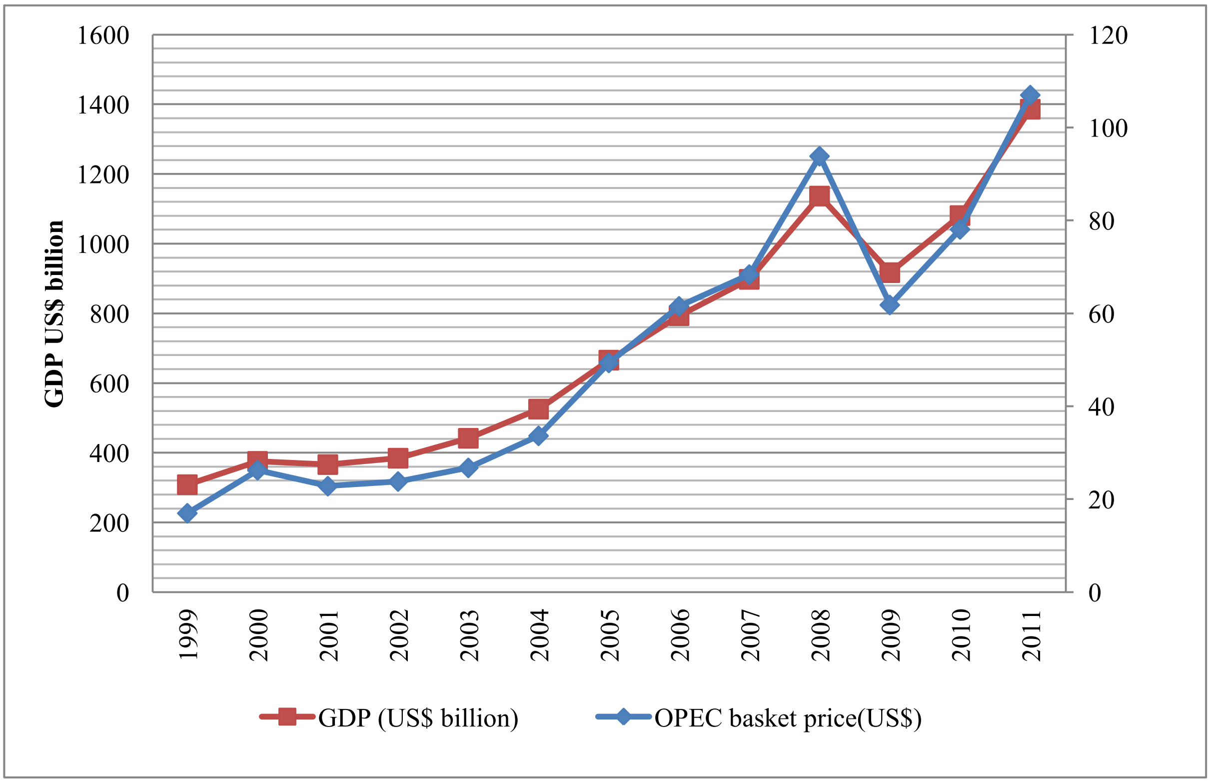
Oil and gas represent the most important sources of income and comprise the largest sector of the GCC's GDP (49 per cent of total GDP in 2011). The highest percentage was accrued in Qatar, with 55 per cent of GDP, while the lowest was in Bahrain, with 25 per cent on average for the period of 2000–10 (IMF 2013; World Bank 2013). It is important to note that, with the overall oil booms and crises, oil income remains the critical and predominant source of GDP in the GCC. Figures 4 and 5 show identical movement for GDP and oil prices. For instance, in 1998, all of the GCC countries reported a decrease in GDP. This may be attributed to a dramatic decrease in international oil prices following an excess of supply, which in turn resulted from a reduction in oil demand by countries affected by the financial crisis in Asia. During this time, the average oil price reached US$12.60 per barrel for Brent, compared with US$19.12 of the previous year. The subsequent recovery in terms of oil demand, together with the success of OPEC in limiting oil supplies, led to an increase in economic growth after 1998. A similar event took place when OPEC oil prices jumped to US$100 per barrel in 2008, followed by a sharp increase in the average GDP from US$900 billion in 2007 to US$1.13 trillion in 2008 (an increase of 25 per cent). However, in 2009, due to the international financial crises, oil prices dropped to US$60 per barrel, followed by a sharp reduction in GDP, which fell by 24 per cent from the previous year (World Bank 2013). This represented the largest reduction in the previous fifteen years. In 2011, GDP was US$1.4 trillion as a result of high oil prices, which exceeded US$107 per barrel (OPEC 2013; World Bank 2013). This

Figure 4. *GDP and oil income of GCC states, 1995–2011*



Sources: IMF (2013); World Bank (2013); OPEC (2013).

Figure 5. *GDP of GCC states and oil market prices, 1999–2011*



Sources: World Bank (2013); OPEC (2013).

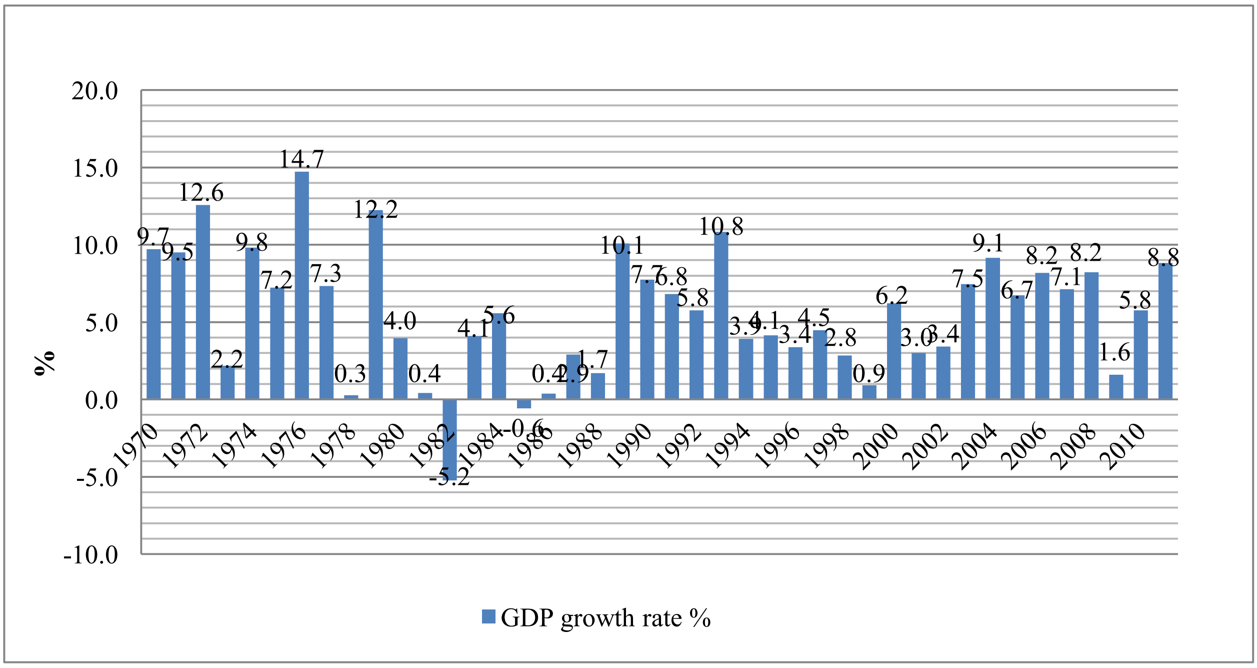
strong association between international market demand and national GDP shows the international market's influence on the national GDP.

Furthermore, dependence on oil as a main export product renders the GDP of GCC countries vulnerable to fluctuations in the international market. The data from the period of 1970–2010 demonstrate this (Figure 6). Figure 7 shows that world oil demand controls GDP and also demonstrates the influence on real GDP, the consumer price index (CPI), the budget balance and the current account.

Behind the oil and gas sector, the services sector is the second largest in terms of GDP for all GCC states (see also Al-Ibrahim 2004). From 2000 to 2009, services averaged 20 per cent of GDP in the GCC states, ranging between 15 per cent in Qatar and 24 per cent in Bahrain (Arab Monetary Fund 2013), as illustrated in Table 4. The government played a significant role in this sector's activities (e.g. public administration, defence, health, education, welfare) in terms of the services it provided in most of the GCC states, as shown in Figure 8 (QNB 2012).

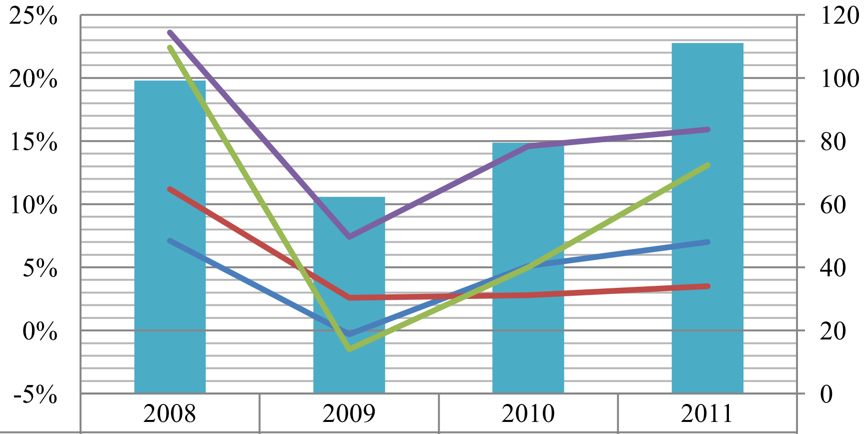
The manufacturing industries sector accounted for an average of 10 per cent of GDP from 2000 to 2009 (Arab Monetary Fund 2013). This contribution ranged from 6 per cent in Kuwait to 13 per cent in Bahrain and Saudi Arabia (Table 4). The manufacturing industries of the GCC states are based largely on oil and gas, a fact that reflects the limited development of other manufacturing industries. The agriculture sector is the smallest, accounting for an

Figure 6. *GDP growth rate in GCC states, 1970–2010*



Source: World Bank (2013).

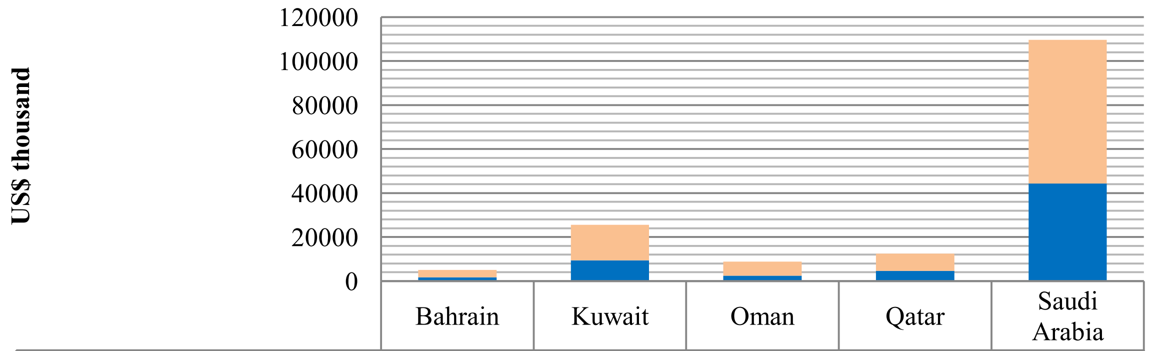
Figure 7. *Influence of market oil prices on consumer price index (CPI), budget balance and current account in GCC states, 2008–11*



	2008	2009	2010	2011
Oil price (US$/b)	99.2	62.3	79.5	111
Real GDP (%) changed	7%	0%	5%	7%
CPI (average % change)	11%	3%	3%	4%
Budget balance (% of GDP)	22%	-2%	5%	13%
Current account (% of GDP)	24%	7%	15%	16%

Source: SAMBA (2012).

Figure 8. *Role of government services in total services in GCC states, 2009*



	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia
Total services (US$ thousand)	3380.6	16200	6500	7776.7	65300
Government services (US$ thousand)	1749.5	9400	2400	4700	44400

Source: QNB (2012).

average of no more than 1.3 per cent of GDP from 2000 to 2009. In some countries, agriculture contributed less than 1 per cent to GDP (Arab Monetary Fund 2013). Table 4 presents the average percentage contribution of services, manufacturing industries and the agriculture sector to GDP for 2000–9 (see also Al-Ibrahim 2004).

Table 4. *Average rate of services, manufacturing industries and agriculture sectors in GCC states, 2000–9 (%)*

State	Service sector	Manufacturing industries sector	Agriculture sector
Bahrain	24	13	0.5
Kuwait	21	6	0.3
Oman	20	10	1.5
Qatar	15	9	0.1
Saudi Arabia	22	10	3.5
United Arab Emirates	17	13	1.8
Total average	20.1	10.2	1.3

Source: Arab Monetary Fund (2013).

According to the IMF's estimate, the fluctuation in oil prices is also reflected in the per capita income of the GCC countries. For example, due to the steady increase in oil prices, GDP per capita income jumped from US$32,100 in 2006 to US$42,800 in 2008. When oil prices retreated in 2009, per capita income also fell back, to US$32,000 once again; then, when oil prices advanced to US$107 per barrel in 2011, per capita income rose to US$46,700 (IMF 2013) (Table 5).

Table 5. *GDP per capita in GCC states, 2006–11(US$)*

State	2006	2007	2008	2009	2010	2011
Bahrain	21,155.91	24,171.20	28,416.17	18,562.76	20,258.95	23,132.32
Kuwait	31,907.18	33,732.55	42,823.70	30,391.22	34,712.99	47,982.43
Oman	13,784.25	15,369.36	21,745.19	16,255.18	19,404.77	23,315.46
Qatar	58,382.72	64,872.26	79,409.17	59,544.59	74,901.42	98,329.49
Saudi Arabia	14,784.45	15,444.42	18,495.40	14,148.34	16,376.80	20,504.36
United Arab Emirates	52,519.71	57,520.09	66,074.44	53,362.62	57,042.85	67,007.98
GCC average	32,089.03	35,184.98	42,827.34	32,044.12	37,116.30	46,712.01

Source: IMF (2013).

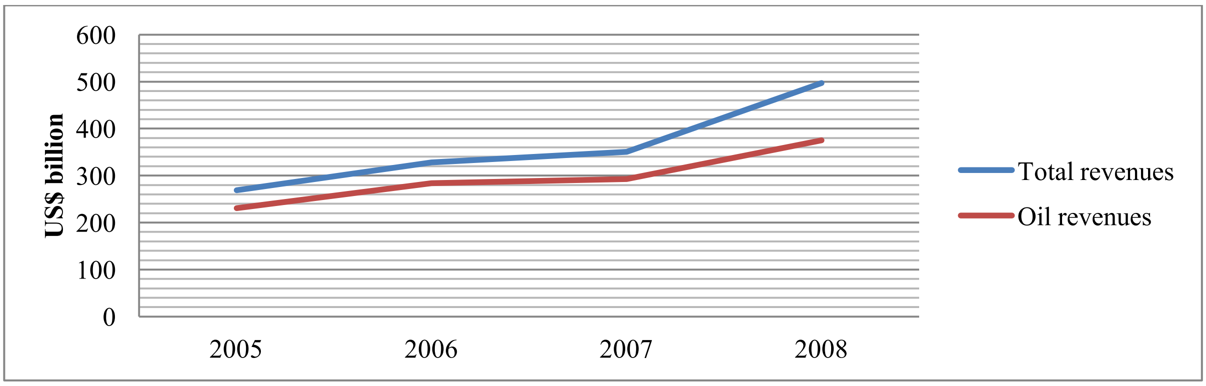
3.2. Public finance

As indicated in their GDP, all of the GCC states' public revenues depend largely on oil revenues, which account for at least two-thirds of total revenues (Figure 9). Between 2000 and 2008, oil revenues ranged from 67 per cent in Qatar to 84 per cent in Kuwait (Cooperation Council for the Arab States of the Gulf 2013). Accordingly, revenue from other sources is limited, especially non-oil tax revenue, which provides no more than 8 per cent of public revenue in the GCC countries. These averages validate the assertion that oil revenue remains the backbone of the government budget in GCC countries; in other words, budget revenue is dominated by the international market and its economies (Al-Yousef 2011; Al-Ibrahim 2004).

Public expenditure is divided into two main categories: capital expenditure and current expenditure. However, the determinant of revenue allocation for each category of expenditure depends on whether total public revenues have a surplus or a deficit. In other words, allocation depends on the oil price in the international market.

Thus, in developing countries such as the GCC states, capital expenditure assumes special importance, since it is linked to civilian infrastructure projects and public utilities expenditure as well as maintenance expenditure for these projects; hence, a long-term plan is required for the capital budget. However, this requirement is not always met in the GCC states, where capital investment expenditure was 49 per cent of total revenues between the late 1970s and the mid-1980s, when oil revenues were high. On the other hand, capital investment expenditure was around 16 per cent between 1996 and 2001 in most GCC countries because of low oil prices, while this amount increased slightly to 23 per cent for the period of 2002–8, when oil prices increased (Cooperation Council for the Arab States of the Gulf 2013; Al-Ibrahim 2004). This indicates that capital expenditure is directly associated with oil revenues.

Figure 9. *Oil revenues and total revenues in GCC states, 2005–8*



Source: Cooperation Council for the Arab States of the Gulf (2013).

In contrast, current expenditure can be described as continuous incremental expenditure when oil revenue is high, but it is resistant to control and not subject to reduction when the oil price declines. This type of expenditure, which includes salaries and wages for all government ministries, has increased continually. For the period of 2005–8, this expenditure reached between 77 per cent and 83 per cent as an average of public expenditure in most GCC countries (Cooperation Council for the Arab States of the Gulf 2013) (Figure 10).

The reason for this problem is related mainly to the current policies concerning wages and salary expenditures. Salary expenditures increase from year to year because of the weakness of the private sector in attracting the nations' labour as well as the GCC governments' role as the main employers of their economy's labour forces. As a result of the growth of salaries and the social and political need to employ nationals, a substantial gap exists between the public and private sectors in terms of salaries and conditions of employment.

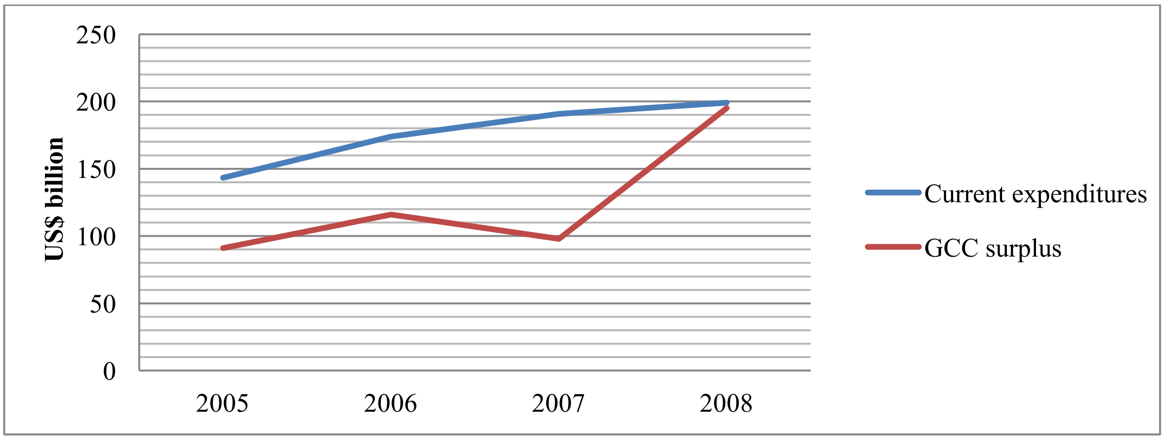
3.3. Impact of oil dependency

The sole dependency on crude oil exports creates several problems, among which are the dependence of the national economy on the international market and the domination of the public sector.

3.3.1. Pressure from the international market on the national economy

The reliance on unstable and exogenous economic sources, such as the revenue from crude oil exports, enlarges the influence of the international market on GDP and manipulates the national income, total expenditure and revenues of the balance of payments. In other words,

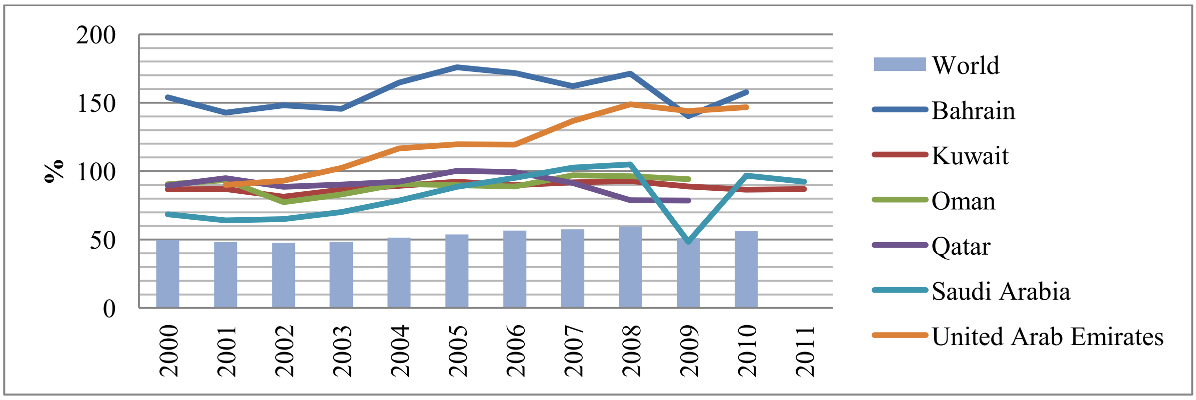
Figure 10. *Current expenditure and budget surplus in GCC states, 2005–8*



Source: Cooperation Council for the Arab States of the Gulf (2013).

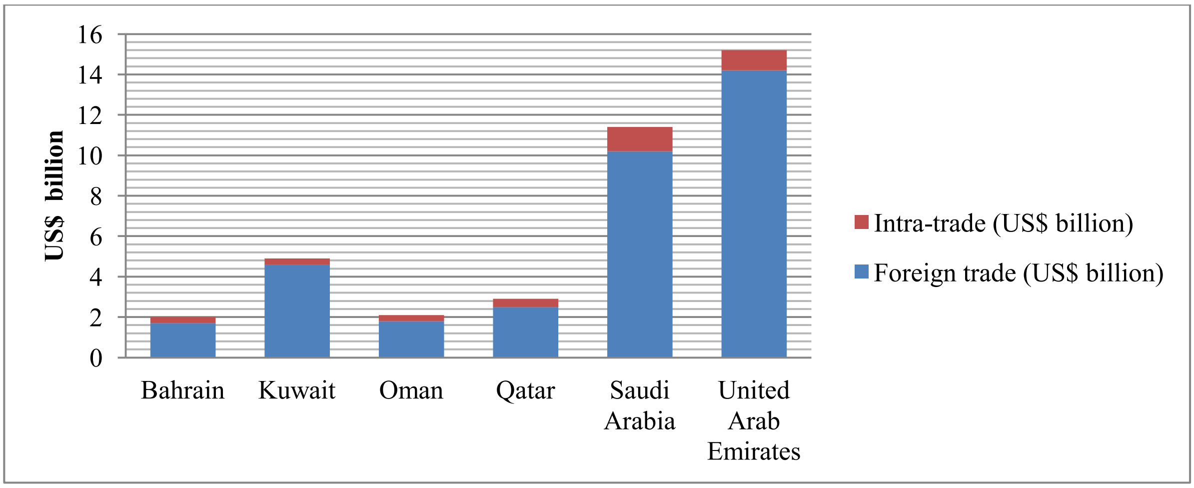
such dependency leaves the GCC states as open countries in the international economy, and consequently, the GCC is strongly susceptible to economic forces caused by fluctuations in the international market, in both oil and imported goods. The GCC states have a high level of market openness compared to the world average (Figure 11). Foreign trade accounted for 90 per cent of total trade for the GCC states, while internal trade between the GCC states was around 10 per cent from 2000 to 2010. Internal trade was almost 4 per cent in 2008 (Figure 12) (World Bank 2013; Al-Yousef 2011; Al-Shibiby and Kari 2012). In spite of the GCC's heavy reliance on external trade and the foreign labour market, over thirty years after its formation, the GCC has still not adopted a policy that minimizes the factors leading to these

Figure 11. *Level of market openness in GCC states, 2000–11*



Source: World Bank (2013).
Note. The level of market openness is determined by merchandise traded as a share of GDP, which is computed as the sum of merchandise exports and imports, divided by the value of GDP.

Figure 12. *Level of market openness in GCC states, 2008*



Source: Al-Shibiby and Kari (2012).

circumstances which render the GCC so vulnerable to fluctuations in the international market. This is in spite of the fact that it can minimize such problems practically by applying revenue surpluses to create integral non-oil industries (Al-Shibiby and Kari 2012).

Furthermore, in the light of the heavy reliance on oil revenues, along with the lack of taxes, the state's budget formulates a public finance policy that is vastly responsive to international factors. Exemption from high income taxes prevents social justice among individuals (Al-Ibrahim 2004).

3.3.2. Domination of the public sector

The government controls the most vital national asset – oil – and this control is manifested through extensive governmental intervention in economic activities. Thus, oil revenue gives the government permission to make economic decisions, regardless of the private sector's needs. These circumstances weaken the role of the private sector and create a subordinated relationship between the private and public sectors. Due to the private sector's dependency on policies and plans for public expenditure and government spending, the government's control and intervention in economic activities hinder the role of the private sector and restrict its development (Al-Kuwari 2012). Also, due to the limited size and extent of the private sector, it is inadequate to employ the national labour force.

The next section will discuss the private sector in the GCC states in greater detail.

4. PRIVATE SECTOR

The success of the private sector in capitalist countries, combined with the collapse of the communist regime of the Soviet Union and Eastern Europe, highlights the importance of the role that an efficient private sector can play in a country's economic development. A large number of empirical studies support the assertion that private sector investment is more efficient than public investment and has a stronger impact on economic growth. Private investment also counts as a resource of wealth, dynamism, competitiveness and knowledge (e.g. Frimpong and Marbuah 2010; Klein and Hadjimichael 2003; Khan and Kumar 1997).

The private sector plays a fundamental role not only in meeting the existing goals of economic development but also in overall development efforts. As the private sector increases its productivity, jobs and income are created. This can lead to a fair and balanced diffusion of the benefits of growth between people; it can also reduce poverty and increase opportunities for integrating women into economic production. Moreover, the private sector is able to create greater competition, market forces and profit drive, factors that intensify tax-based and market-based policy instruments for tackling social and environmental challenges. A tax-based economy creates social justice and reduces the gap between different levels of society (ADB 2000; OECD 1995).

Theoretical points of view and the success of practical cases around the world (e.g. Asian Tigers) clearly show that the transition to greater economic efficiency and the advantages accrued from such efficiency can be achieved by tackling the relevant challenges; however, these advantages cannot be achieved in an environment that lacks transparency and a developed strategy based on an effective public sector. More recently, these theories have asserted that success in private sector development requires the government to play an effective role in creating a protected and stable business environment by formulating and implementing a strategy that identifies targeted outcomes and instruments. Furthermore, such success requires an operation-based public and private sector. Thus, the public sector is responsible mainly for creating effective conditions and business opportunities, while the private sector is required to catalyze private investment, as suggested by the Asian Development Bank. Such a form and the role of private sector development are essential for the GCC states, particularly in terms of capital formation, economic diversification and employment generation (Hertog 2012). These factors will reduce the dependence on a sole and exhaustible resource – crude oil – thereby lessening the public sector's domination. The development of the private sector will also shrink the dependency of the national economy on international oil demand and establish a good economic level, even when oil prices are low.

However, evidence shows that each of the GCC states is reluctant to establish an efficient private sector. The World Bank (2009) presented a valuable study appraising the private sector's development in the Middle East and North Africa (MENA). This study indicates that private sector investment is obviously poor in oil-rich countries, GCC states in particular. Surprisingly, private sectors with rich economic resources, such as those in the GCC states, exhibit characteristics similar to those in countries with poor economic resources around the world. This study shows that, in 2006, private sector investment was 50 per cent of total investment in oil-rich countries, which was even less than that of non-oil-rich MENA economies (62 per cent). It was also less than that of East Asia and Pacific Europe (70 per cent), Europe and Central Asia (80 per cent) and Latin American and the Caribbean (95 per cent) for 2006. Ironically, the resource-rich GCC states are parallel to countries with poor economic resources. Furthermore, and in consequence of a poor legal environment along with high business risk and lack of investment opportunities, the GCC states are less attractive for foreign direct investment (FDI). In fact, FDI accounted for no more than 1 per cent of private sector investment from 1970 until very recently.[6]

Further evidence of the weakness of the private sector can be seen in the case of the stock exchange, which will be discussed in the following section.

4.1. Stock exchanges in the GCC states

In order to develop and activate the private sectors of the GCC countries and to encourage them gradually to generate funds to invest internationally, there is a crucial need to restructure private sector incentives. It is worth mentioning here that the Arab Monetary Fund (AMF) estimates that GCC private sector investment abroad was US$2,400 billion in 2005 (*Al-Raya Al-Eqtisadya* 2005). Therefore, one of the first steps towards developing the private sector was the decision to establish a stock market to mobilize private sector investment.

All of the GCC member states have established formally regulated stock exchanges that provide a mechanism for ordinary investors to participate in the region's economic growth and an alternative to bank borrowing for the financing of private and state projects. Although these stock exchanges have functioned formally and informally in the GCC since the 1970s, until fairly recently it was quite difficult to find reliable and consistent data on the size and growth of these markets (Al-Kuwari 2012). The existing information illustrates a vast increase in stock market activity since the early 1990s. At the end of 1991, 184 companies were listed on the stock markets of the GCC states; by the end of 2011, the total number of listed companies in the GCC stock markets reached 632. The Kuwait Stock Exchange has the largest number of listed companies (216), while the Qatar Stock Exchange has the smallest (42 companies) (Arab Monetary Fund 2013).

The combined market capitalization of the GCC states' stock exchanges increased almost tenfold, from US$102 billion in 2000 to US$1.05 trillion in 2007, before contracting significantly in the wake of the global financial crisis (World Bank 2013) (Figure 13). The turnover ratio, which is computed as value traded to market capitalization and which can be employed as a functional ratio evaluating the activity level in the market (Kumar and Tsetsekos 1999), is increasing. The aggregate ratio was around 70 per cent between the late 1990s and the early 2000s. This ratio was duplicated in 2004 and leapt to 500 per cent in 2007 before decreasing gradually in the following years (World Bank 2013; Qatar Central Bank 2006).

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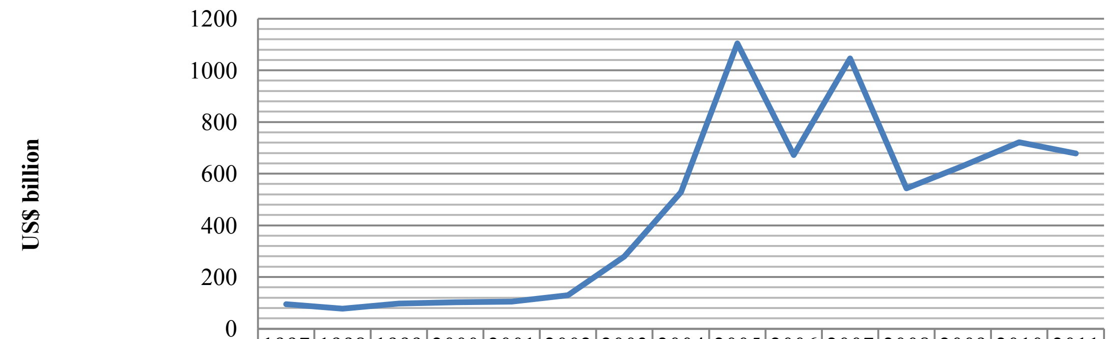
[6] See also Al-Yousef (2011) for further information.

Figure 13. *Market capitalization in GCC states, 1997–2011*

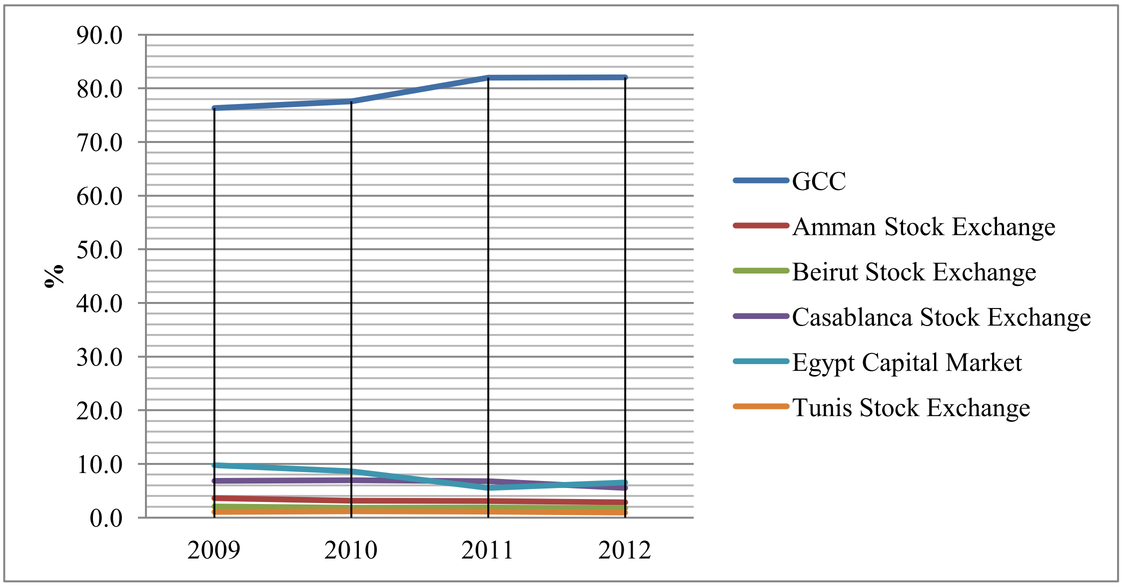


	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Market capitalization (US$ billion)	95	78	97	102	105	130	279	529	1104	672	1046	543	629	722	679

Source: World Bank (2013).

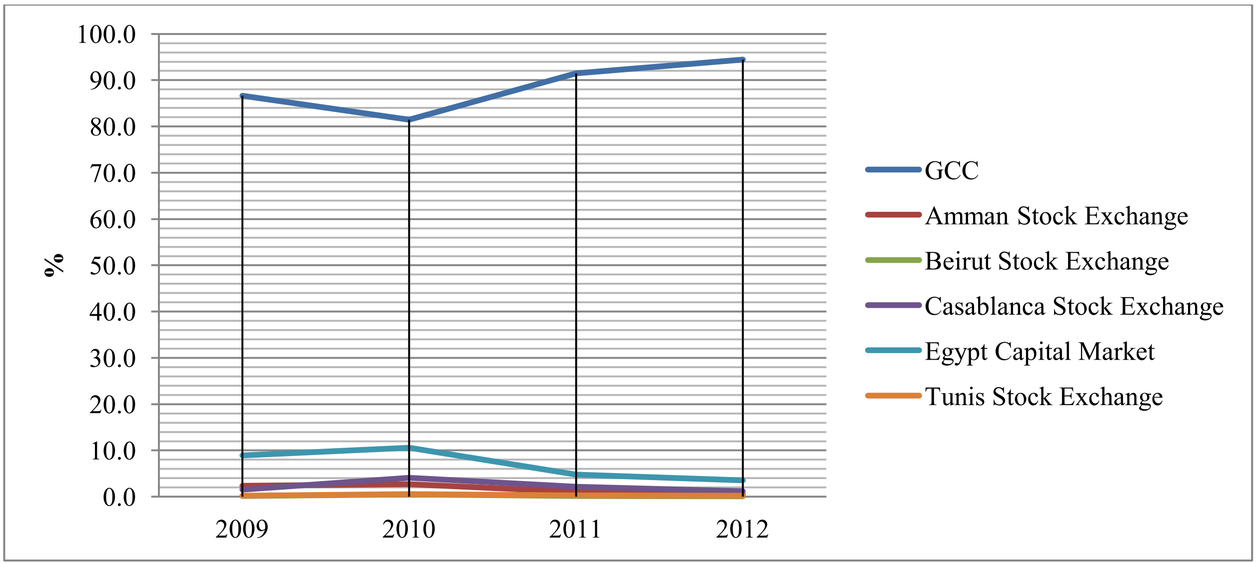
Compared to the rest of the Arab stock exchanges, the GCC states captured an average of almost 80 per cent of total market capitalization of these exchanges from 2009 to 2012 (Figure 14), while the value-traded ratio exceeded 88 per cent of the total value traded on the Arab stock exchanges (Figure 15). These ratios indicate that the stock exchanges of the GCC states are the largest and most active among the Arab stock exchanges (Arab Monetary Fund 2013).

Figure 14. *Comparison of market capitalization between the stock exchanges of GCC states and other Arab stock exchanges, 2009–12*



Source: World Bank (2013).

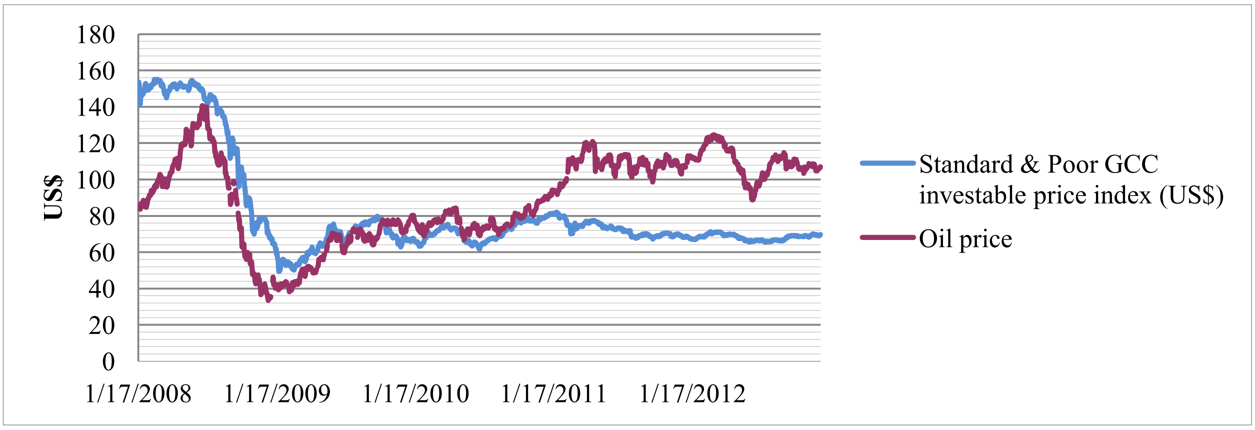
Figure 15. *Comparison of value traded between the stock exchanges of GCC states and other Arab stock exchanges, 2009–12*



Source: World Bank (2013).

However, a comparison between the GCC stock exchanges' investable price indices[7] and the Brent oil price for 2008–12 shows that investors' behaviour and decisions regarding risk and value follow fluctuations in oil prices (Figure 16). Furthermore, Figures 17 and 18 show that the bulk of the increases in market capitalization and stock turnover positively follow international oil prices. This is also supported by a simple regression model over the

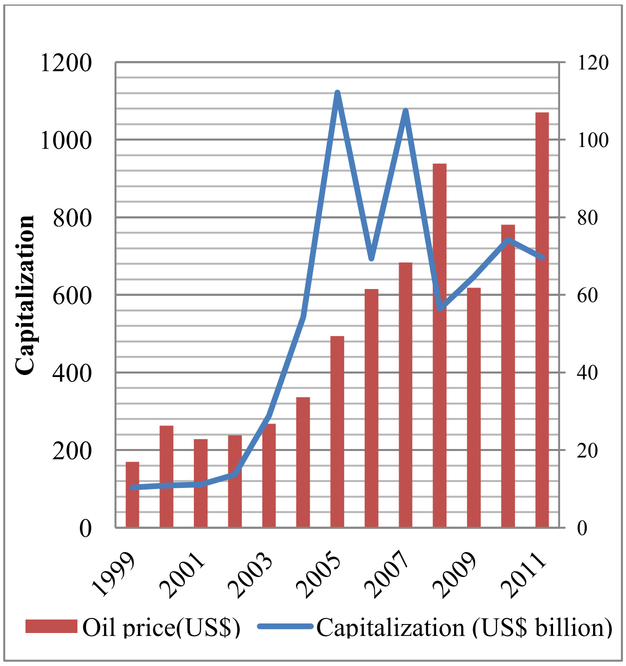
Figure 16. *Oil prices and market index, 2008–12*



Sources: OPEC (2013); Standard & Poor (2013).

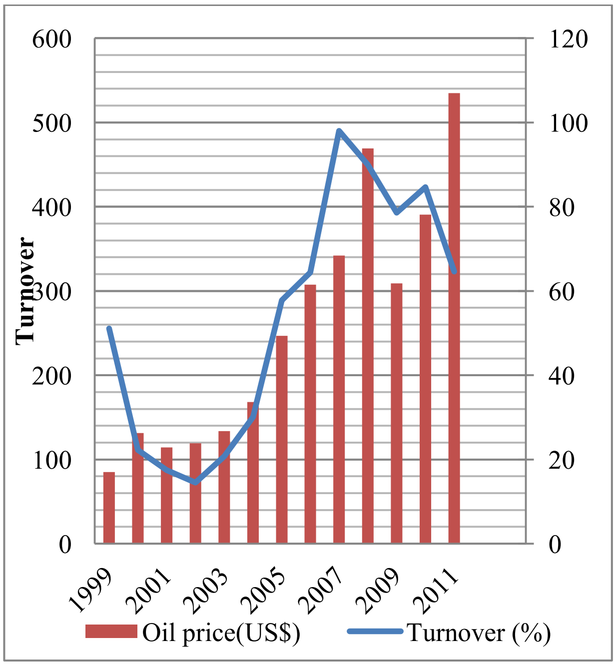
[7] The Standard & Poor (S&P) GCC indices include stocks from listed companies in the GCC. The indices are offered in international (investable), regional (composite) and local (domestic) versions and are calculated seven days a week in order to capture the actual trading days of the local markets.

Figure 17. *Oil prices and capitalization, 1999–2011*



Source: World Bank (2013).

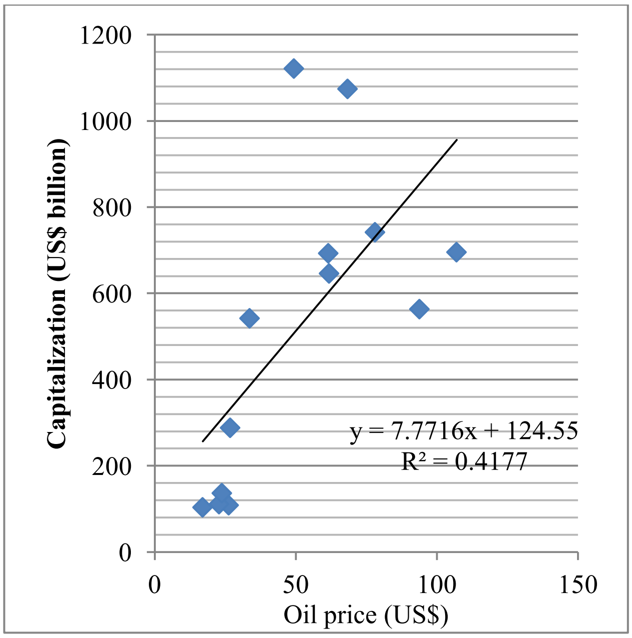
Figure 18. *Oil prices and turnover ratio, 1999–2011*



Source: World Bank (2013).

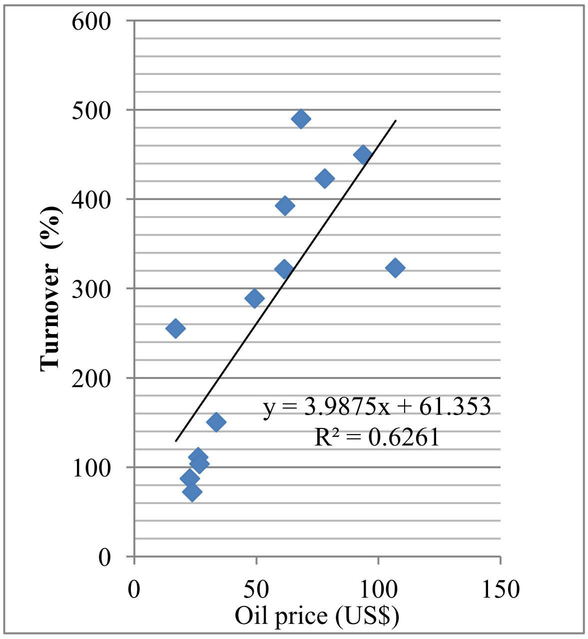
period 1999–2011 (Figures 19 and 20). The results highlight a positive and significant relationship, implying that the oil price can explain around 42 per cent of market capitalization and 63 per cent of stock turnover trends. These values are high for a long period of time

Figure 19. *Relationship between oil prices and capitalization, 1999–2011*



Source: World Bank (2013).

Figure 20. *Relationship between oil prices and turnover ratio, 1999–2011*



Source: World Bank (2013).

(1999–2011). This finding is consistent with several numbers from econometric studies, which investigate a positive relationship over the short and long term between oil prices and stock markets and support the positive effect of oil prices on the stock exchanges of the GCC states (e.g. Arouri and Fouquau 2009; Arouri et al. 2011; Lescaroux and Mignon 2008; Maghyereh and Al-Kandari 2007; Zarour 2006; Hammoudeh and Aleisa 2004).

This argument is also in line with claims made by corporate executives and economists at the Reuters Middle East Investment Summit (2012), who stated that private business activity in most of the region was thriving again after four years of facing plummeting oil prices ravaging the economies of the GCC states; however, they also argued that the private sector's gains were vulnerable, warning that growth could quickly become sluggish if oil prices retreated or if governments exercised slow spending in order to conserve their financial reserves. This is consistent with the views of Liz Martins, senior regional economist at HSBC in 2012, who stated that the 2012 healthy growth in the private sector had roots in government spending and argued that there are structural impediments to longer-term private sector growth (*Arabian Business* 2012).

Furthermore, the capital markets within the GCC have been criticized for being unsophisticated and inefficient relative to similar emerging markets. Capital markets are known as long-term sources of capital, including debt and equity-backed securities. These markets serve as channels between the wealth of savers and those who can apply it to long-term productive utilization, such as companies' or governments' long-term investments. According to this definition, capital markets within the GCC states are very limited in scope and instruments. Particular shortcomings include the following: (1) a lack of resources for lending and borrowing securities – for example, bonds are not accessible as a substitute for shares in most GCC markets; (2) the absence of any pressure on corporations to pay regular dividends; and (3) the volatility of the stock exchanges, which are also characterized by a high degree of information asymmetry.

Debt and equity capital markets are small and limited in a way that creates an obstacle to raising funds for small- and medium-sized enterprises. At the same time, it is hard to obtain bank loans, given that most banks in GCC states are traditionally unwilling to lend to small, little-known firms, preferring instead the security and predictability of lending to large firms, such as those with state connections, as explained by the senior regional economist at HSBC (*Arabian Business* 2012).

In addition, owing to the undeveloped capital market and lack of a bonds (debt) market in most of the GCC states, GCC corporations finance their activities with an increase in primary issuance (Woertz 2008). Furthermore, retained earnings become the key basis of financing capital requirements. Almost all corporations use their profits to form public reserves, which are distributed largely as free shares to increase equity capital. Such a policy shifts the attention of shareholders from cash dividends to the appreciation of the market value of shares (Arab Monetary Fund 1995). The high dependency on equity capital on account of debt capital might increase agency problems, as managers take advantage of their authority to benefit themselves at the expense of shareholders' interests; however, a sophisticated bond (debt) market, together with an obligation to devise a regular dividend payout ratio, might reduce such a problem.

Thus, bonds issuance enables corporations to establish high cash dividend payouts and fund their investment projects through the capital market. Paying of cash dividends reduces the free cash flow available to managers and compels them to disclose significant information. It also enhances information transparency and improves managers' performance in accordance with shareholders' interests. In short, bonds can play a significant role in long-term project financing and reduce the agency problem. This argument is consistent with capital structure theory, which emphasizes that capital structure should include debt capital (e.g. bonds) in order to reduce debt and agency conflict (Hart and Moore 1995, 1998; Stulz 1990).

Moreover, a GCC bond market could play an essential part in long-term project financing and portfolio diversification of the emerging GCC institutional investors' class. It could furthermore work as a channel for small- and medium-sized enterprises to gain access to the capital market as an alternative to the bank system, which is not always available to this market segment (Woertz 2008).

While governments appreciate the suggestion of developing a debt market and expanding credit, these activities still require both efficient monitoring of the soundness of the relevant financial system and supervision of the activities of individual institutions. Regular issuance of government debt to establish a yield curve would diversify the means of financing and assist bank liquidity management. Progress in building regulatory and transactional infrastructure would lead to the development of local debt markets for corporate issuers (IMF 2012).

Another critical problem is the high information asymmetry that exists in the GCC state markets. In a symmetrically informed market, all interested participants obtain similar information regarding a current situation and future prospects, such as their current and expected firm value and performance, including that of managers, bankers, shareholders and others; however, if one group has greater information, the problem of informational asymmetry arises. In the GCC market, managers and controlling shareholders usually have inside information regarding their firms' value, performance, strategies and investment opportunities. This results in an informational gap between insiders and outsiders, which in turn results in misinterpretation of the intrinsic value of the firm.

This claim is in line with those of Hassan et al. (2003), Naser and Nuseibeh (2003) and Joshi and Al-Mudhahki (2001), who argue that information disclosure conditions are lax and suffer an information gap between inside and outside shareholders as a result of high information asymmetry and low corporate transparency, which in turn weaken market efficiency. The claim is also consistent with the work of Bley (2011), who argues that the GCC markets have weaker accounting standards and publication rules as well as low transparency, which hinders efficient information transmission. Furthermore, Al-Aqeel and Spear (2006) explore the prevalence of trading on private information in the GCC markets. Al-Aqeel and Spear (2006) and Bhattacharya and Daouk (2002) find that levels of illegal trading are high in the GCC market, where enforcement of insider trading regulations is ineffectual and indeed negligible.

In one analytical study, the Kuwait Financial Center (2007) evaluates the stock exchanges of the GCC states in depth and compares them to a number of emerging markets, particularly Egypt from the MENA region and the BRIC countries (Brazil, Russia, India and China), in order to present a fair evaluation. The results show that all of the GCC states are located at the tail end of the rank. This study argues that the major weakness of the GCC stock exchanges is that these markets have grown substantially in volume but not in sophistication. The study concludes that, in order to develop the securities markets significantly and to leap forward, GCC regulators and policymakers should set in place careful, fundamental and speedy reform; otherwise, they will lag.

Most GCC countries have recently implemented corporate governance codes or guidelines for being publicly listed, and although they have willingly acknowledged the need for corporate governance reform, this acknowledgement has not been translated into action. They still have a long way to go before they reach good corporate governance, particularly in terms of transparency and disclosure, board practices and risk management (Saidi 2011). This argument is consistent with one of the first surveys, conducted in 2006, on the corporate governance of GCC countries by the Institute of International Finance (IIF) and Hawkamah − the Institute of Corporate Governance of the Arabic region. This survey found that, in general, corporate governance in GCC countries lags significantly behind international corporate governance best practice among emerging markets.

A workshop held by the AMF and IMF in 2004 specified three stages necessary for reforms and the significant development of a capital market: the initial stage, which sets up the primary market and creates the foundation for secondary-market development; the deepening stage, which enhances liquidity in the secondary market; and the maturing stage, which forms sophisticated instruments and segments the capital market. This workshop stressed that these three stages incorporate specific essential conditions: a stable macroeconomic environment, the lessons of fiscal dominance, a liberalized interest rate, and a solid commitment to market funding (El-Qorchi 2005). Until now, however, these conditions have been absent in the GCC countries, since their economies are still excessively dependent on oil revenues. 'Diversify income sources' is a motto commonly heard at times of budget deficit and ignored at times of surplus.

The underdeveloped capital market of the GCC typifies the private sector trend in the GCC market. One reason for such a weak private sector might be related to the nature of the rentier state. The GCC state employs oil revenue as the key driver for any economic activities and economic growth within the private sector. Whereas capitalist economies, as a rule, reinforce tax cycles in the private sector, thus sequentially financing state expenditures, in the GCC states the absence of taxes separates the private sector from the state, thereby creating a unilateral relationship in which the private sector is dependent on the state and does not contribute to the financing of public services (Hertog 2012).

However, the nature of the rentier is not the only driver for the failing private sector, as seen in the example of Norway, since it is a rentier state but has simultaneously been able to have a strong and well-developed private sector. This success of Norway as a rentier state, related to its elected government, protects public rather than personal interest. This form of government is absent in most of the GCC states (Al-Yousef 2011).

Furthermore, competition in the private sector is absent to a large extent as a result of its small size and the extent of each market. More importantly, competition is absent because most business activities are manipulated by members of ruling families, or influential families that collaborate with these ruling families, so that no one can compete with them. The lack of appropriate legislation and regulation creates a private sector environment that is solely oriented towards the goal of profit maximization, regardless of its negative effect on society and overall development. There is no (or an extremely small) tax on profit, and the private sector is eager to realize excessive profit fast, which makes it unwilling to employ national labour. The private sector is not obligated to pay an acceptable minimum salary that enables the national workforce to cover living expenses (Al-Yousef 2011).

It seems that some of the governments take such a route not only to maximize personal interest at the expense of development goals but also to maximize their domination of the public and to control the national labour force (and national society as a whole). For instance, in some GCC countries, the governments can easily dismiss any employee who publicly criticizes government policies and performance or the internal policy or performance of governmental institutions. Thus, the possibility of criticism arising from the public is diminished by the strength of government authority, which results from domination of the public sector and the weakness of the private sector.

In conclusion, the creation and development of a strong and effective private sector and integration with the public sector are possible. Initiatives that will significantly strengthen the private sector in the development process include the following: reforming legislation, regulations and corporate governance; empowering and improving a skilled national labour force; and adopting a substitution policy that reduces imbalances in the population structure and works towards economic integration, which increases competition. No one can ignore the environment of political participation that is required to enhance the above-mentioned factors, achieve balance between personal and social interests, and create transparency between the public and private sector.

4.2. National visions and mission impossible

Fostering a diversified economy (i.e. having a variety of sources of revenues and profitable sectors) plays a key role in the creation and maintenance of strong, growing and sustainable economies. Such economies urge entities to create jobs, enhance citizens' quality of life, encourage the development of new knowledge and technology, and help to ensure a stable political climate (Shediac et al. 2008).

However, the national plans and visions that have appeared recently in each of the GCC states lack a clear strategy for achieving real diversification. Indeed, the evidence indicates that, in most of these national visions and plans, the oil and gas sectors will continue to dominate the economy and will continue the policy of state control. There is no indication that economic development will facilitate participation between the public and private sectors in most of the GCC states. Moreover, development of the non-oil sector has resulted in very little impact on their economic growth. This evidence highlights a critical question: are all of these plans and national visions a sort of window dressing, or are they actual exercises?

This argument is explored in a valuable and critical study by Hvidt (2013), who argues that the practical capabilities and ability to implement and achieve planning are quite vulnerable throughout the GCC countries, particularly when bearing in mind the broader and more complex reforms which ought to be implemented in order to see through the diversification procedure. Hvidt states that such reforms require efficient and uniform performance within a broad range of ministries and agencies in the state bureaucracy, but more important is the states' coordination among national, regional and local entities. In other words, such reforms necessitate a mature administrative apparatus, which currently is not found in the GCC countries (Hvidt 2013: 39). More specifically, Hvidt indicates that these plans and national visions are at an impasse as a result of several barriers. One such is the small size of the market in the GCC states (except Saudi Arabia) along with the duplication of economic activities among them and lack of inter-regional trade. The GCC visions are devoid of any planning mechanism for effective coordination and enforcement of economic policies among the member countries, and these countries are not yet willing to trust in regional rather than national initiatives. This in turn makes diversification difficult if not impossible (Hvidt 2013).

It should also be mentioned here that the importance of diversification and the role of the private sector differ among the national visions and plans of the GCC states. For example, the national visions of Oman and Bahrain, owing to their small oil reserves, stress the urgency of accomplishing the procedure of diversification and the leading role of the private sector; however, Kuwait, Qatar and the UAE do not express any urgency to diversify their economies or to develop the private sector in order to take a leading role in economic development. Qatar in particular deliberately points towards a slow diversification process. Saudi Arabia is between these two groups (Hvidt 2013). More important to point out is that those states which express an urgent need for diversification of their economy and advancement of the private sector, such as Bahrain and Oman, realize their limited degrees of success. For instance, Oman is the second most diversified economy in the GCC and plans in its 2020 vision to have a non-oil sector at 81 per cent of GDP. However, at over two-thirds of the way towards completion of the vision for 2020, Oman's results seem far from what was anticipated. Oil and gas remain the biggest contributors to the Omani economy and accounted for approximately half of GDP in 2012, with a real GDP that grew 5.5 per cent in 2011, primarily owing to the increase in oil prices (IMF 2013). Their central bank cautioned in 2012 that the country's growth could be adversely affected if oil prices drop.[8] The results of Omanizing the private sector have fallen far short of what was expected, as the current amount of Omanis' labour in the private sector does not exceed 16 per cent of the total labour force there (GCC Secretariat General 2006–12). These figures support the argument by Hvidt (2013) that the current plans and visions of the

[8] For further information, see *Arabian Gazette* (2012).

GCC states are window dressing only. I would add that, without cooperation leading to economic integration, genuine economic development may seem like an impossible mission.

5. Conclusion

This paper highlights the economic position of the Gulf States over three decades after the establishment of the GCC, with an emphasis on three critical problems: the imbalance of the population structure, the dependency on oil revenues, and the failure of the private sector in development procedures.

The foreign labour force currently represents nearly half of the total population and two-thirds of the labour force. These rates are rapidly increasing in some states in a way that is considered to constitute a dangerous demographic structure, most threatening in the UAE and Qatar, where the national population is in the minority and the national labour force comprises no more than 5 per cent of the total population. Furthermore, the unbalanced population structure and the huge expatriate labour force in the GCC states are causing the loss of a significant portion of the national wealth as a result of the repatriation of a considerable amount of wages and salaries to labour-exporting countries. In fact, the IMF has reported that the GCC states' ratio of sent remittances to GDP appears to be the highest in the world, and is rapidly increasing. While this critical problem has been discussed and highlighted extensively for more than thirty years, none of the GCC states has adopted a strategy to change the skewed population structure. These states never employ the huge amount of oil revenue at their disposal to ramp up national human resources in order to reduce and replace part of the foreign labour force.

Today, the GCC economy depends solely on crude oil exports. Global oil demand manipulates real GDP, CPI, the budget balance and the current account. Even though capital revenues, such as oil income, must employ capital expenditures, tracing the history shows that the GCC states' budgets present a different case; capital investment expenditure depends directly on budget surpluses. In contrast, current expenditures such as wages and salaries can be illustrated as constant incremental expenditures whenever oil prices are up, but when oil prices drop, they are slow to decline. Such reluctance can be related to the domination of the public sector and the weakness of the private sector in attracting national labour. The persistent and heavy reliance on crude oil has created an international market that exerts a significant influence on the national economy, an economy in which the public sector dominates the private sector and has sidelined it, much to the detriment of economic growth and empowerment.

The private sector's development in the GCC states is a new issue, which is highlighted when deficits appear in the government budgets of GCC countries. The development of the private sector will reduce dependence on oil revenue as the sole and exhaustible income resource as well as lessen the public sector's domination; however, despite the importance of its role in overall development, there is clear evidence that the private sector in the GCC states is still far from experiencing real development. The significant influence of oil prices on GCC stock exchanges, the underdeveloped capital market, the weakness of the loan market, the high level of information asymmetry, the lack of capital market legislation and the general weakness of corporate governance provide significant evidence of the extent to which the private sector in the GCC states remains underdeveloped. The national plans and visions which have come out recently in each of the GCC states are far from achieving real economic development based on diversification and a strong private sector. One obstacle is the small size of the market in the GCC states (apart from Saudi Arabia), and the visions lack any planning instrument for real coordination and enforcement of economic policies among the GCC states.

All of these issues present barriers to real development, and although these issues have been debated for many years, the governments continue to ignore them, making vague promises but failing to implement them. However, current political factors, such as the Iranian ambition to dominate the region, the US policy of the New Middle East, and the ambiguous outcomes of the Arab spring, serve as pressing incentives for the rulers of the GCC to abandon their own separate interests and adopt political and economic reforms that lead to real development and integration and maintain a safe future for GCC nationals and for rulers.

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