Non-oil GCC growth 'to average 5pc per year'

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Non-oil growth is forecast to average 5.1 per cent per year, much higher than the 3.3 per cent annual average growth expected in the oil and gas sector, according to a new Economist Intelligence Unit (EIU) report.

While challenges remain, the outlook for non-oil growth is robust. Over the next decade, the share of GDP that comes from the oil sector will gradually decline, says the report, which aims to show how the structure of the six GCC economies is likely to change over the next decade.

The report, which was produced independently by the EIU, argues that although the oil and gas industry is the mainstay of the GCC economies, diversification is imminent in order to keep it thriving. It is the single largest sector in almost all the GCC states, in most of which it also provides some 80 per cent of export earnings and government revenue.

The report, sponsored by the Qatar Financial Centre Authority (QFC Authority), assesses the motivations for diversifying away from oil and gas and identifies the most promising non-oil sectors out of a range of sectors currently being pursued.

As well as looking at the most likely scenario for diversification, the report also highlights the risks to the economy and to business if the region does not become less dependent on oil and gas.

The region’s oil and gas endowments have been lucrative, but they are limited resources that historically have been vulnerable to price volatility. According to the report, there are three main reasons why all the GCC states are looking to develop non-oil sectors in order to diversify their economies:

• Previous oil price slumps have highlighted the risks of oil dependence to the GCC states.
• These states are also keen to diversify because oil and gas provide few jobs, and the region’s fast-growing young population can no longer be absorbed by the public sector.
• Over the longer term, the GCC needs to prepare for the post-oil age, knowing that technological changes could significantly affect demand for oil even before reserves run out.

Policymakers will face five key trade-offs when pursuing diversification:
• Focusing on areas of greatest comparative advantage—generally energy-intensive industries—versus reducing dependence on hydrocarbons.

• Targeting most competitive industries versus a broad range of industries.
• Increasing the tax base versus maintaining low levels of tax to attract investors.
• Maximising growth versus targeting growth to create jobs for nationals.
• Pursuing nationalisation policies versus flexible labour markets.

The report also identifies four clear areas of comparative advantage for the GCC, and outlines key trends in each sector over the next ten years: energy-intensive manufacturing, for example petrochemicals, plastics, and aluminium; mining and mineral-based industries; trade (wholesale and retail) and logistics (based on location and experience); and tourism, hospitality and aviation.

The key success factor here is the progress of education reforms. The best-case scenario, as hoped for by policymakers, is that the GCC states will manage to convert their current tangible oil wealth into intangible human capital, by investing in the education and skills that are needed for a transition from economies based on the primary sector to more diversified economies with more value-added, skilled sectors. Such a transition will be difficult and risky.

It is not likely to be achieved within the ten-year timeframe covered by this report. But this overarching ambition will continue to shape policy over the next decade. It means that education will probably be the single most important economic policy issue for the GCC governments in the years to 2020.

“This important piece of research highlights the huge potential and the challenges that lie ahead for this dynamic and exciting region. It is also reassuring to note that the QFC Authority is aligned with the report's findings that education and skills will be key to economic policy issues for the GCC moving forward,” stated Shashank Srivastava, acting CEO of the QFC Authority.-