Overcoming of 'Dutch Disease'

Economic Modernisation of Gulf Monarchies in the 21st Century

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The article deals with necessity of oil-rich countries of the Gulf Cooperation Council (GCC) to move away from commodities export in favor of more diversified economies in times of low prices on crude oil. Such issues as the rise of alternative branches of industry, the shift of agriculture to developing countries in Asia and Africa, investments in shares of profitable enterprises and property in the West, and the development of the service economy are examined.

Keywords: GCC countries, modernization, crude oil, aviation, aluminum, construction industry, tourism, investment, retail trade.

The monarchies of the Gulf represent a phenomenon of rapid transformation from mainly Bedouin nomad life and pearl-gathering activity of locals into modern post-industrial petroleum states, but they are highly dependent on one commodity – crude oil, thus creating preconditions for a 'Dutch disease'. Petrodollars allowed creating generous welfare states where ruling families do not tax population, which in turn does not require accountability from them. But this is about to change with the Arab Spring and record low oil price during the past few years. The aim of the article is to show the ways and means of how six regional monarchies are trying to diversify their various economies

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in order to lessen dependency on the export of energy resources. Main research steps include gathering statistical information, defining the reasons behind the rise of non-oil economy and analysis of principal sectors of economic activity which are intended to lessen the dependency on petrodollars. The sources of information, used in this article, are taken from regional mass-media outlets such as the Khaleej Times, Gulf News, Arab News, as well as IMF and World Bank reports.

The monarchies of Arabian Peninsula are known as the Arabian Six. Saudi Arabia, Qatar, United Arab Emirates, Kuwait, Oman and Bahrain are members of this club, but the wealth between them is shared disproportionally according to their energy resources. The UAE and Qatar belong to the ranks of the richest countries in the world, whereas Bahrain and Oman are lagging behind all others. Saudi Arabia lies in the middle, since it has the biggest population and land area in the Gulf. The whole region is populated by 50 million people with 28 million of them living in a huge desert Kingdom. Combined regional GDP constituted 1.6 trillion dollars in 2013 and considerable positive balance of trade was registered for local countries – 558 billion due to high oil prices. Saudi Arabia possessed the largest economy with GDP around 711 billion dollars; the UAE, Qatar and Kuwait were behind with 385, 192 and 183 billion dollars respectively. Finally, there were the two poorest countries in the region – Oman with GDP of 64 billion and Bahrain with 30 billion dollars.[1]

All those monarchies are different, depending on their natural resources. For example, Bahrain has become one of the oldest in the Gulf, where commercial production of oil first appeared in 1932, and now it imports black gold from the Saudi Arabian field Abu Safah via a pipeline and Oman's production is likely to finally run out in 2030. The same lack of oil resources is evident for the emirate Dubai – a small member of UAE confederation, which is the second most important economic player in this country after wealthy Abu Dhabi. Lacking huge oil resources of its bigger southern neighbor, Dubai rulers decided to develop a service economy, and build unusual buildings and shopping malls in the desert. Saudi Arabia, which possesses 16 percent of world oil reserves, is more reluctant to diversify, still considerably relying on black gold. Kuwait, destroyed during seven months of Iraqi occupation, when retreating Iraqi troops set ablaze more than 600 oil wells, now strives to rebuild and further develop itself purely using oil as the main tool of economic development. In general, this region possesses 40 percent of oil resources and a quarter of natural gas fields in the world, therefore GCC countries previously had little or no incentives to diminish dependence on black gold.[2] Today only in Qatar, which is considered the biggest LNG exporter, oil is less important than abundant natural gas in the capacity of export commodity.

But there are several factors defining the necessity to diversify economy. One of the main preconditions of the region's development is stability of the political systems of the monarchies, bought by considerable social expenses. Many countries (except Kuwait and Bahrain) do not have parliaments, relying instead of councils with purely advisory powers knows as *shura.* They consist of distinguished religious activists, technocrats and people with high moral standings in society. Rulers remain in alliance with religious leadership that justify and support their policies by issuing respective orders for their followers or, in the case of Saudi Arabia, *fatwas*. They also frequently grant gifts in form of land plots or provide money allowances during holidays, pardon criminals, meet citizens once in a year to hear their complaints and organize nationwide events. Stability is tightly connected to petrodollars, since they are used to pay exorbitant salaries to servants in the state sector, to keep prices for imported agricultural goods, local gasoline, electricity and potable water at an extremely low level, and to liberate native population from taxation in any form. For example, the top ten countries with the cheapest petrol in the world (after Venezuela) are Saudi Arabia, Kuwait, Egypt, Iran and the UAE. A gallon of fuel costs only 1.77 dollars in Emirates, which is extremely cheap.[3] The same also concerns water, since desert and arid countries are among top users of this scarce commodity. Many people in the region are obese because they possess several cars and have unlimited access to cheap local food outlets or American breakfast chains. Qatar, the United Arab Emirates, Kuwait and Bahrain are among countries with the highest number of overweight people in the world. Among them, citizens of Kuwait are the heaviest, as the average weight of adult in this country exceeds 77.5 kg.[4] Moreover, a rent in apartment for three people constituted 268.5 dollars in the UAE, 160 dollars in Oman, 135 dollars in Bahrain and Qatar, 83 dollars in Kuwait and 55 dollars in Saudi Arabia.[5] In accordance with World Bank data, fuel subsidies in the GCC countries exceed 160 billion dollars or ten percent of gross domestic product.[6] The absence of income tax makes salaries here one of the highest in the state sector anywhere in developing world, whereas the refusal of local elites to impose VAT contributes to low prices for imported consumer goods.

Kinninmont argues that government expenditures are used as a tool to lessen political contradictions with the populace, but not necessary in order to facilitate economic development. Many of those measures intended to buy the loyalty of locals were implemented in response to the Arab uprisings of 2011.[7] At the same time, Abed and Davoodi from IMF believe that the large public sector represents a heavy burden for the Gulf economies due to poor quality of personnel and slow tempo of work. Additionally, they spend a lot on weapons and are unable to implement a radical tax reform indented to introduce at least value added tax (VAT). As a recommendation those countries should develop a strong private sector and create modern tax-generating infrastructure.[8]

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After the nationalization of oil assets of multinationals in the 1970s, local countries decided to develop a related infrastructure in order to simplify the export of black gold. The first priority of modernization was to create local facilities to extract, transport and efficiently sell oil. For example, Saudi Arabia (now possesses world's fourth biggest number of tankers with 37 ships) and Kuwait (with 30 crude carriers) built huge tanker fleets from scratch. On the other hand, Qatar amassed, with the assistance of South Korean chaebols, the largest number of LNG vessels in the world – 65.[9] Those countries also bought refineries in Europe, Asia and the USA along with a net of petroleum stations in order to supply crude oil to foreign markets and easily sell refining products. Petrodollars allowed construction of highways, condominiums and ports, the movement from a pearl and salt-extracting economy, dependent on caravan trade, towards modern infrastructure and settled life for tribal nomads. High world oil prices resulted from wars in the Middle East, constant instability in Iran, Iraq and Lebanon, and the reluctance of users to switch to nuclear energy after the Chernobyl disaster in 1986. India, China, Japan, South Korea, the EU and the USA are among top consumers of Gulf oil, with the two giant Asian countries gradually gaining importance due to population explosion and growth of GDP. As a result, the modernization of non-oil sectors remained moderate at best. Today the UAE boast the most diversified economy in the region while Saudi Arabia's is lagging behind all others except Kuwait. Oil-poor Bahrain with the freest economy in the Middle East is the second most in diversity after the UAE thanks to Islamic banking, Arab tourism and aluminum industry, followed by Oman, Qatar and Kuwait.[10] Kuwait, with a native population of 1.25 million people, enjoys currency reserves of 592 billion dollars, and extracts 2.8 billion barrels of oil daily with low production costs and sees no need to change the policy of overwhelming oil reliance.[11]

Despite heavy investments in chain of extraction, production and distribution of energy resources, GCC countries are willing to diversify economy. Crude oil is burned to generate electricity, and to provide energy for desalinization plants and air-conditioning units. Taking into consideration that most families own two or three cars, fuel subsidies remain considerable and as a result, rampant consumption of oil takes place. For example, Saudi Arabia burns around three million barrels of it daily in order to satisfy domestic needs.[12] Another reason behind the drive towards diversification is a young and unemployed population, whose number is growing under the influence of generous state subsidies and house loans. The opportunities to create jobs for those people in the lucrative oil industry remain limited due to domination of white collar work force from Europe, India and the USA. The policy, when young and middle-aged citizens are employed in state institutions and are well-paid for actually doing nothing, cannot last forever because of population explosion. In the wake of Arab Spring, carried out by people of young and middle age, those segments of society represent a real danger for the ruling elite. Moreover, increased levels of North American oil production along with the discovery of shale gas reserves in Argentina, Algeria and China, together with the subsequent drop of world prices to the level of 30-40 dollars, could mean that even rich countries of the region have to diversify economy in order to achieve a balanced budget. China, as one of the biggest exporters of goods and consumers of oil, is facing gradual economic slowdown. The same is true for India, confronted by a number of domestic problems after prolonged populist rule of the Indian National Congress, whose leaders tried to influence voters before parliamentary elections with generous social spending covering two-thirds of the population. Also it's important to note that volumes of bilateral trade in the region of the Gulf remain relatively small and only diversification of local economies can bring results. Interchange between the GCC countries constituted only 146 billion dollars in 2014 due to heavy resemblance of their export commodities – oil, gas and petrochemicals, aluminum and palm dates.[13]

Local countries are endowed with substantial means to diversify economy since they possess sovereign wealth funds with 2.367 billion dollars or in other words, have at their disposal 32.6 percent of the global assets of such institutions. The money may be invested in local infrastructure, in foreign shares of profitable enterprises and in property in the famous European tourist countries – Switzerland, the United Kingdom and France.[14] Egypt or Turkey are also considered as targets for investments because both countries have extensive recreational facilities and control important highways of international traffic – the Suez Canal and Black Sea Straits. Moreover, GCC governments have decent chances to borrow cheap money abroad for large-scale projects due to high credit ratings of their respective countries, which means a low risk of borrowing. For example, the Moody Agency assigned rankings Aa2 to Abu Dhabi, Qatar and Kuwait, and all others (except for Bahrain with Baa2) possessed a rating not less than A.[15] It's important to add that until 2014 GCC countries enjoyed considerable budget surpluses and those funds can be used for diversification of economy in years of record oil sales. For instance, Saudi Arabia declared a surplus of about 55 billion dollars in 2013.[16]

In order to train the local workforce, the monarchies should invest in education. There are 24 million foreign workers in the Gulf, who send home tens of billions dollars. This amount can be earned by local population and remain in the region, thus boosting the spending power of people and encouraging their loyalty towards royal families. After Saddam Hussein's invasion of Kuwait in 1990, Palestinian and Yemeni workers were deported at large scale and substituted with more peaceful Muslims from South Asian countries – India, Bangladesh, Pakistan and, to a lesser extent, from eastern Sri-Lanka. The exception for people from other regions was made for Filipino maids, since they were considered very professional and trouble free. Today the impact of the Arab workforce is limited, with the majority of workers coming from Egypt, Jordan and Lebanon. A cheap work force does not participate in strikes, makes a lot of services competitive and allows carrying out huge construction work in the Gulf for a fraction of real price. Moreover, locals have a lack of necessary skills for hi-tech or military jobs, or to the contrary – demonstrate a pride of family honor, which limits their selection of professions. Serhat Yalcin stresses that the status of the foreign labor force in the region is regulated via the system of kafala, which demands the invitation for worker be issued by a national sponsor or employer. Previously, foreigners could not change their jobs without explicit permission of aforementioned sponsor and only in the 2000s such countries as Bahrain, Oman and UAE relaxed this regulation.[17] Today, the kafala system defines the high level of control of local employers over foreigners and limits their human rights.

As a result, unemployment rises and considerable levels of it can be seen among women, taking into consideration that conservative traditions forbid them to work outside the household. Females have a higher level of education than young men but unfortunately they cannot find jobs. The wages in the private sector are insufficient to attract nationals, who mainly work in public institutions, where they earn more during limited working hours and are protected from sacking by the law or family connections.[18]

This situation demands a change. In order to make the workforce competitive, GCC countries have implemented a policy of substitution of foreign labour whenever it is possible. Known as Saudization or Omanization, it is only viable in the retail industry, nursing services, or the military or police sphere, but all other jobs cannot be successful without a modern education, especially a technical one. Thus the development of educational facilities is quite natural, since the region possesses a very young population. Local girls do not travel abroad without their male relatives and rarely can attend Western universities on their own. Also, the rising number of affluent expatriates with children makes the issue of private schools and universities even more urgent. Therefore, local countries exert considerable efforts to develop education by building new and refurbishing old educational institutions. They open branches of famous universities and lure Western, Egyptian or Indian lecturers with high tax-free salaries and outstanding benefits, including free healthcare and several annual journeys to the region of family members. Today many non-oil Arab countries are experiencing the lack of professors, as they have left for the Gulf. The United Arab Emirates host 35 international branch campuses and is considered to be a regional leader in the field of private education. Qatar follows this path by heavily investing money in research funds and opening the unique Education City. Moreover, those countries have introduced a range of practical work-oriented courses and invited teachers from the United Kingdom to help with the English language. Saudi Arabia remains the most conservative in the region with the dominance of public schools, since its leadership is afraid of growing

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foreign influence on young population. In 2014 GCC countries decided to spend more than 90 billion dollars on education. The total number of students during the same year has exceeded 11 million.[19] Local rulers also traditionally send their children to English-speaking countries to help them to get a classical education. This concerns mainly the USA and United Kingdom, but a decade ago many students decided to study in Australia. Today 20 thousand young Arabs (mainly from Saudi Arabia) hone their skills there.[20]

On the other hand, the high quality of education of locals represents a hidden hazard for all ruling regimes in the Gulf. Byman and Green claim that the monarchies successfully withstood the influence of Arabic nationalism, the export of Islamic revolution from Iran and instability in the Middle East in general. But today their young population can be considered as a factor of instability because of greater assertiveness. There are many educated nationals aged 30 and less who demand more accountability from the state and access to popular state jobs. The monarchies also are unable to keep up explosive population growth with social services and sustain high levels of GDP growth.[21]

Despite the fact that many countries like Turkey, South Korea, Great Britain and France contributed to the economic development of the region, the USA can be considered as a main foreign partner of the Gulf countries in the field of modernization. Mneimneh claims that local monarchies and world's sole superpower have a convergence of interests. Americans are interested in military presence in the area, in the sales of complex systems of weapons and investments of Gulf money in their economy. On the other hand, the Gulf rulers were freed from Iraqi threat due to wars of 1991 and 2003 against the regime of Saddam Hussain and also greeted the US containment of Iran via a set of sanctions. Thus, Washington provides the security umbrella for the region and allows the local rulers to spend more on infrastructure and on development of new branches of economy.[22]

What are the ways to diversify the economies in the region in order to create jobs? First, it is necessary to develop the spheres of economy where cheap oil and gas can be useful, namely to invest funds in energy-intensive industries. For example, gas is extensively used to produce ammonia and urea fertilisers along with plastics. Taking into consideration that there is only Qatar that sells blue fuel abroad, other GCC members also have huge volumes of cheap gas at their disposal. Petrochemicals are destined to the overpopulated countries of Asia with developed agriculture – India, Pakistan, Bangladesh and Thailand. This allows sustaining relations with the largest producers of food, which in turn provides the region of the Arabian Peninsula with basmati rice, wheat, fruits and vegetables. Moreover, local factories supply plastics to China, South Korea and Taiwan, which later is used to produce electronics, mobile phones, parts of cars and home appliances. In 2015 GCC export of petrochemicals constituted 70 million tones or 80 percent of the whole production.[23] Local industry provided employment to 148,900 people and indirectly created three times as many jobs. Despite huge mineral resources, the Middle East controls only ten percent of the global petrochemical capacity, what means that this field of economic activity does not have any correlation with substantial deposits of oil and gas.[24] The rise of population in China after the country dropped its one-child policy and traditionally ingrained high levels of birth in India will enhance the profits of the fertilizer industry of GCC countries in the long run.

Aluminum production came to the Gulf in the 1970s and today regional companies produce some 4.5 million tones of light metal with the UAE's share constituting 2.3 million tones.[25] The demand for aluminum, rolling products and aluminum castings on international markets is traditionally strong. Local producers import bauxites from Australia and Guinea, using own cheap gas during the process of production. This metal is light, corrosion and temperature-resistant, environmentally-friendly and can be produced in the required shape, therefore it is in great demand in the space, construction and car-manufacturing industries, and used in foil, cans for drinks, refrigerators and in production of modern furniture as well. The trend in fuel conservation can be seen behind the recent rise in popularity of aluminum alloys in car parts and passenger aircraft. Local countries even created the Gulf Aluminum Council to coordinate the policy and their private members account for 13 percent of world production of this metal. Despite the regional leadership of UAE in this respect, for oil-poor Bahrain, where the ALBA (Aluminum Bahrain) plant operates, this industry is the second most important after banking services.[26] GCC countries are situated relatively close to Europe and not too far away from the main consumers of this metal in China, South Korea and Japan, with their developed automotive industry. They also use some of the most efficient ports of the world that are free of natural disasters. On the other hand, aluminum recycling is not well developed here and the trade is impeded by piracy near Somalia coast. Local gas is also widely used in metallurgy, since the Gulf area represents a fast growing market for commercial property and residential housing.

Construction industry remains one of the main drivers behind diversification of local economy. Social housing projects of the 1970s and the 1980s were connected to the need to attract tribal nomads to cities, guarantee their loyalty with own houses and create preconditions for demographic explosion necessary to lessen dependence on a foreign workforce. Another sector of economic activity consisted of building hotel towers for foreigners, barracks for South Asian workers and residential property for rich Arabs from other countries of the Greater Middle East. This was done together with the reclamation of land from the Gulf in order to increase the size of expensive land plots near the water. Emirate Dubai leads the region in this respect with a number of projects such as 'The Palm' and 'The World', whose properties are accessible by yacht or motorboat. Bahrain consists of 33 islands and also feels the need to reclaim the land, since it has been slowly sinking. The construction industry received a boost immediately after the Arab Spring, when rich Arabs emigrated for the sake of security from unstable Egypt, Syria, Libya and Tunisia and bought property in a relatively stable Gulf area. There is another area of activities of construction companies. For example, Saudi Arabia is extending facilities for Haj and Umrah pilgrims – Masjid al-Haram, and is constructing the world's biggest hotel towers in Mecca and international airport along with a ferry terminal in Jeddah for travelers from Egypt and Sudan. Simultaneously, this Kingdom is establishing economic cities in the desert in order to develop different regions. Regional countries also are building subways and railways. Underground systems of transportation are necessary to deal with road congestion, to develop tourism and to provide the growing population and the expat community with an efficient means of transport. It is expected that underground and railway projects will create 80,000 jobs for locals in the Gulf.[27]

Moreover, the countries are actively erecting skyscrapers in order to attract more tourists and demonstrate their economic success and cutting edge technology to foreign investors. For example, emirate Dubai possesses the world's highest building – the 160-story Burj Khalifa - and Saudi Arabia is building Kingdom Tower – a one kilometer high structure in Jeddah, which is considered the main resort of the Red Sea. UAE and Qatar also have won the right to organize large events like

Dubai-Expo 2020 and Soccer World Cup in 2022, which justified their heavy investments in infrastructure in the years to come.[28]

Considerable attention is devoted to the development of ports. Currently 35 of them handle rising imports of consumer goods and agricultural commodities to desert countries and carry out re-export operations to Iran and the rest of the Arab world. The region receives huge cargoes of cars, telecommunications hardware and electronics. The locals and expats in GCC countries not only buy cars and spare parts, but also sell used motor vehicles each year to poor Arabian neighbors. The demand for them would only increase if the Saudi Arabian authorities allowed women to drive. Moreover, the areas around the ports are used as customs-free trading zones with huge storage facilities. Emirates' deep-water port of Jebel Ali, which is the ninth busiest port in the world and the biggest one in the Middle East, plays a crucial role of middleman for the shallow Iranian Bander Abbas and enjoys connectivity with 140 ports all over the world. Another famous port, Omani Salalah, is situated on the shore near the Arabian Sea and can be turned into the biggest object of infrastructure in the region, since it helps to avoid tanker-congested Persian Gulf. The work of ports may become even more dynamic in 2018, when a regional 2.177 km-long railway is scheduled to open for business. The network will run from Kuwait through Saudi Arabia to the UAE and Oman, simultaneously providing links to the rest of the monarchies.[29]

One of the most recent phenomena is the rise of local airlines, which have become important worldwide players and have achieved a global reach. There are many reasons explaining this sudden occurrence. First of all, land in the desert land is barren, relatively cheap and usually belongs to royal families. Secondly, the Arabian Peninsula is strategically situated between Eastern Africa, where only Ethiopian Airlines has a big fleet, and Western Asia thus playing a role of an important transport hub for those regions. For citizens of the EU and Australia regional airports are also important as transit points. Thirdly, the foreign work force, engaged under short-term contracts, is cheap and their representatives available for work during Fridays and Muslim holidays. They also never strike under the threat of immediate deportation or even imprisonment. Some of the companies such as Air Arabia employ flight attendants from different regions of the world with knowledge of many languages in order to make them useful for all passengers. Next, oil wealth was used to buy the brand-new planes and the local fleet remains among the newest in the world. Cheap local aviation fuel is also very helpful in competition with foreign carriers. Finally, there are many international customers. Local carriers provide their services to expatriate workers, travelling to and from their home countries. Moreover, GCC companies organize transportation of Muslim pilgrims that visit Mecca and Medina. Saudi Arabian Airlines allocates more planes on the domestic market and leaves vacant places for international destinations for Emirates, Etihad and Qatar Airways.[30]

Iran (with a population of 80 million), which remained under international sanctions until recently, is in dire need of modern aircraft. Thus, Iranians continue to use carriers from the Gulf as intermediaries in their flights to far-away destinations. The same is true for Iraq, Syria, Lebanon and Afghanistan, devastated by long civil wars and lacking money to purchase planes. Moreover, GCC citizens are extremely wealthy and usually spend their vacation in tourist trips to Europe or the United States. They can be seen during frequent flights to London and Geneva – the most important European destinations for wealthy people from the Gulf. It is important to add that the interstate road and rail network here is underdeveloped and GCC nationals are increasingly relying on local airlines during regional trips, many of which last only one or two hours. Some of the airlines may also enjoy generous state subsidies but this information is classified.

Local airlines also are competitive with European companies like Air France or Lufthansa since they have brand new planes at their disposal and provide relatively moderate ticket prices, a huge selection of Arabian, Indian and European cuisine, as well as the latest movies for entertainment during the flight. They invest in long-haul airplanes like Boeing-777x (extended range) in order to gain access to any destination in the world with this fuel- efficient twin-engine jet. For example, in 2013 Emirates ordered 150 777X and Qatar Airways ordered 50 planes of the same model.[31] Moreover, Emirates is the top operator of the Airbus A-380, which has 853 seats for passengers in one class. The UAE has the largest fleet of airplanes in the Gulf with Emirates, Etihad, Fly Dubai and Air Arabia companies. Emirates, which ranks as the best in the world, is considered the largest carrier in the Middle East with 219 passenger planes and the highest number of Boeing-777 and Airbus A-380 planes of any airline.[32]

Gulf airlines are aggressively purchasing shares of foreign air companies. In recent years, Etihad has bought minority stakes of stocks of Air Berlin, Air Lingus and Virgin Australia. Qatar Air became the owner of a 1.7 billion dollar stake in British Airways.[33] This provides enhanced access to European consumers in general and to some of the most important markets in Western Europe. They also sponsor sport teams and finance the construction or refurbishing of stadiums in the United Kingdom, France, Italy and Spain. Prestigious exhibitions take place here like the Dubai Air Show or Bahrain International Air show, where Boeing and Airbus present their latest models.

The monarchies also devoted substantial attention to the development of international tourism. Bahrain and Abu Dhabi are known for Formula One competitions. Apart from these, there are many other regional activities which are popular among foreign tourists such as camel races, desert safaris or falcon hunting. Unfortunately, only some of the GCC countries possess historic tourist attractions which can be interesting for demanding visitors. Saudi Arabia, known as a sacred place for 1.57 billion of the world's Muslims, also is famous for resorts on the Red Sea and the ancient Nabatean city of Madain Saleh. On the other hand, the desert Kingdom prohibits travelers who are non-Muslims to visit sacred Mecca and Medina and haram signs can be seen in the vicinity of both cities. Nonetheless, tourism, especially in connection with Hajj and Umrah, is a major source of revenue for dwellers of Jeddah and Mecca. The number of international pilgrims during the Hajj constituted over 2 million in 2013 and some 13-14 million religious tourists visited country during the previous year. In order to increase the number of visitors, Saudi Arabian workers are building 100 hotel super-towers with 24,480 rooms in Mecca.[34] The Kingdom is also striving to stimulate internal tourism by investing money in the renovation of old historic buildings. But potential development of this industry for the native population remains illusive, since many Saudi people travel abroad for entertainment or in order to spend their vacation in a more liberal environment – away from religious police and complete lack of social life. Today the leadership of the conservative Kingdom denies the possibility of Dubai-style international tourism within its own borders.

Oman attracts visitors with green scenery, since its southern part is under the influence of Kharif season, which brings rainy monsoon weather. It is also known as a land of Portuguese and Arab forts, spices from the bark of frankincense trees, and curved daggers, which are in great demand among Arab billionaires. Despite the fact that in 2015 only 2.4 million tourists visited the sultanate, this country has a good opportunity for tourism development, taking into consideration that its northwestern neighbor Dubai is the biggest hub for regional travelers and Oman has extensive areas suitable for green and historic tourism away from the noisy UAE. [35] Moreover, it is the only country in the Gulf with a long ocean coastline exceeding 2,092 kilometers and inexpensive tourism services, where mainly local Arabs work.

The rest of the GCC countries have to rely on new-invented wonders in order to attract tourists. For example Bahrain, a small archipelago of 33 islands, positions itself as regional gate to the Saudi market due to its proximity to the biggest oil fields in the eastern part of the Kingdom. Many expats live here and work during the day in Saudi Arabia near Dammam. Saudi citizens travel to Bahrain via the 26-kilometer-long King Fadh causeway (known also as the Johnnie Walker Bridge because of frequent smuggling of whiskey and wine to the Kingdom) at the weekend to enjoy a more liberal life and entertainment here. Therefore the country has relatively many Arab visitors with the bulk of them represented by Saudi citizens. Bahrain, wary of possible consequences of Shia rebellion for the economy after the events of 2011, decided to introduce liberal visa requirements in order to prop up the tourist industry. Today nationals of 113 countries are entitled to receive Bahraini electronic visas.[36]

The UAE is a very interesting example of tourist development in a desert terrain with few tourist attractions. Rulers of this emirate had a preference for unusual buildings and those architects who could build anything revolutionary found welcome and financial support. Moreover, the country boasts excellent air connectivity. Only Emirates airline operates flights to 120 destinations daily in six continents.[37] This allowed the international airport of Dubai to transform into the busiest in the world. The region is also oversaturated with Iranian goods, since many of local residents are of Persian origin and adhere to the Shia belief. Lately Arabs from other GCC countries frequented Dubai for entertainment and decided to buy commercial property in this city, which had a more vibrant and liberal life than their places of residence. Football teams prepare themselves for an incoming season in the Emirates during winter, more resembling an early summer in Europe. Major tennis and golf competitions also take place here. On the other hand, Doha and Dubai present itself as hubs of business conferences and exhibitions in the Middle East. Abu Dhabi, situated 126 kilometers to the west from Dubai, also attracts an increasing number of tourists. The capital of the UAE, which is investing billions of dollars in the hospitality sector and the most expensive religious structure of the world (Sheikh Zayed Grand Mosque), also has constructed museums whose administration has the rights to exhibit artifacts from the Louvre and Solomon Guggenheim. As a result, the UAE has become one of the most attractive destinations in the whole Middle East.[38]

Finally, Qatar is striving to become the leading sport destination in the region as well as the centre of the Middle Eastern diplomatic summits. The city of Doha plays a key role as a venue of conferences with the participation of the representatives of Arab countries, Palestinians and the members of Syrian opposition. This wealthy country is expensive but poor on attractions, nevertheless a building spree promises to create world-class infrastructure before the 2022 World Cup – exotic hotels, Hamad International Airport with 100 shops, brand-new stadiums, including a floating one. On the other hand, Qatar remains the poorest on man-made attractions, since it boasts only the Katara Cultural Village, several mosques and a modest museum of Islamic art.[39]

The only monarchy in the region which is not striving to attract tourists of any kind is conservative Kuwait. First of all, the local currency (the dinar) is the most expensive in the world and its exchange rate is one to 3.5 US dollars. Second, this country is in position to show visitors only several man-made wonders – the three Kuwait Towers and the famous National Parliament building, designed by the architect Jorn Utzon, who also is considered the father of the Sydney Opera House. Local sources point out that citizens of Kuwait have spent five billion dollars on travel abroad, as staying in the country during vacation is extremely boring.[40] Kuwait can be considered as a gate to the ancient Iraqi sites, but unfortunately Iraq is very unstable and parts of it are occupied by Daesh.

One of the main local attractions is retail shopping. GCC countries became attractive venues for shopping in the 1970s when nomads settled in the cities and tasted the wonders of modern civilization. Growing urbanization also contributed to this trend. Since local markets are protected by a five percent external tariff, many malls sell Western and Japanese goods at significantly lower prices than in Europe or Japan. Arab women in the Gulf are free to spend their time on shopping, taking into consideration that Filipino and Sri Lankan maids do the bulk of the housework. Shopping malls substitute for the lack of entertainment in all countries except the UAE. Moreover, the large population of expatriates creates a constant demand for fashion items, shoes and perfumes. Even the airports, which serve as intermediaries for the Middle Eastern passengers, have opened huge duty-free areas. For example, the company Dubai Duty Free operates the world's largest airport retail district with annual sales of 1.8 billion dollars.[41]

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Locals also have an expensive taste for luxury goods. Many Arab women buy famous brands to put them on at home, because in the public eye they are forced to wear the black abaya. The high income of the average Gulf Arab allows the purchase of gold items, perfumes, yachts and luxury cars. As a result, the Middle East houses many of the main 'shopping cities', with Dubai occupying fourth place worldwide, Kuwait City ninth, and the Saudi Arabian capital twelfth.[42] Huge discounts are present during the Dubai shopping festival or Dubai Summer Surprises and these events are accompanied by different shows for families with children. Indians and Russians are especially attracted by the opportunity to buy gold jewelry and this emirate accounts for a substantial share of the world gold trade. Dubai Summer Surprises was introduced in 1998 to attract visitors during the hot and humid season with great discounts in 6000 stores and became quite successful.[43] Several other regional countries are trying to emulate the success of this emirate in the field of retail shopping.

The Gulf Cooperation Council (GCC) is considering the introduction of a unified visa for citizens of 35 countries, which will allow them to visit all monarchies of the union. Small members are interested in this initiative, since they lack attractions to lure foreign visitors on their own and can only serve as an intermediary stop for a couple of days, thus increasing occupancy rate in hotels.[44] For example, Qatar has one of the largest fleets of planes in the Middle East, but remains boring for foreigners because of its tiny size and lack of historic architecture. So this country can be considered as one of the bridges to the rest of the region owing to developed airlines with a global reach.

Local governments are also striving to develop medical tourism in order to compete with Malaysia, Turkey and South Korea. Previously, Arabs travelled abroad to receive medical treatment and it was difficult for women to do so without the obligatory escort of a male relative. The population explosion along with obesity epidemics has created the necessary requirements for the development of this industry since cardiovascular and diabetes-related illnesses have become widespread. Today GCC countries buy state of the art medical equipment abroad and provide facilities in hospitals for rich patients from the unstable Middle East. They also attract the best doctors from Southern Asia with considerable salaries. The strategic location between East and West is important, since people with acute diseases cannot bear the long hours of flights. Taking this into consideration, Dubai rulers agreed to issue three-month renewable visas for medical tourists and their relatives. Local Health Authority points out that 135,000 patients visited the emirate in 2014 and their number is set to increase to 170,000 in 2016.[45]

The Gulf region is also turning into a new destination for cruise tourism. The season for visitors commences in late October and goes on till the end of March. There are several reasons behind this new phenomenon. First, the strategic location of the Arabian Peninsula is not far from Egypt, Southern Europe and Africa. Second, the winter temperatures here are mild and the weather resembles late spring in Europe. GCC countries boast a decent selection of airlines to and from the Gulf along with brand-new hotels and shopping malls. Today mainly Abu Dhabi, Dubai and Oman are considered important players in this field, since Bahrain has already been excluded from many programs of cruise ships after the events of Arab Spring and repression against Shia opposition in 2011. Nonetheless, there is significant scope for expansion of the cruise industry if we consider that the region is flanked by exotic destinations such as Yemen, known as a desert land of first mud skyscrapers and Socotra Island with dragon trees, and Iran with the historic cities of Shiraz, Yazd and Esfahan. The introduction of the single tourist visa will make GCC countries very attractive for cruise passengers, who like to travel without paper formalities and visit several countries during a single trip.[46]

The region is also gaining prominence as an alternative banking centre due to the easy access of local institutions to petrodollars. In 1975 many international banks left, destabilized by the Lebanese civil war, and settled in Bahrain and eventually other regional countries like the UAE. Banking (especially Islamic) remains one of the most important investment sectors in Bahrain and contributes 17 percent to the GDP. There are more than 400 banks and financial institutions in this tiny country.[47] The rise of financial services was connected with generous consumer loans for citizens, the necessity of South Asian and Filipino workers to remit money home, the need to exchange dollars and Euro into local currencies by the rising number of tourists and expatriates. Sharia law prohibits economic and financial deals that are risky and based on gambling or on false data, which regional countries decided to use to their advantage. As a result, the Gulf region is considered a scam-free area by international banking institutions and safe for financial operations. Moreover, all principal donors of the underdeveloped Arab world periodically use banks of local countries for charity transactions. In general, GCC countries together with Turkey, Malaysia and Indonesia probably have at their disposal 80 percent of world Islamic banking assets.[48]

Still, the monarchies are not only trying to diversify their economy in order to lessen dependency on oil, but also looking for the ways to protect their wealth from a possible rebellion of the local population. To this end, they make considerable investments in property abroad, shares of profitable Western companies (especially car-making factories) and luxury brands, debt obligations of national treasuries and so on. The USA, as a former main destination of those transactions, is gradually losing attraction. In response to the events of 9/11, when the main perpetrators of terrorist acts came from Saudi Arabia, the American government limited the movement of money, froze suspicious accounts and decided to put Arabs from the desert Kingdom under surveillance. Moreover, an unusually severe economic recession in the USA in 2008 also repelled Arab investors from this market. Europe (especially Great Britain, Switzerland and France) remains a top destination for GCC businessmen. For example, Qatar is considered one of the top investors in London property with such projects as the renovation of the Olympic village, construction of the Shard, the purchase of Harrods, under whose name sheikhs opened luxury hotels with shops in different parts of the world.[49] Sheikhs also are behind high-profile purchases of famous soccer clubs such as Manchester City, PSG and Malaga, as well as sponsorship of Real Madrid, AC Milan and Arsenal. These investments not only allowed them to put money into safe Western Europe, but also brought advertisement to GCC countries by raising their public profile. For example, the UAE and Qatar companies invested 160 million Euro into shirt sponsorship deals with European clubs in the past year alone.[50]

For GCC states, the key concern is to ensure the security of food supply after the increase of world prices in 2008 and the subsequent refusal of India and China to sell rice abroad. The arid region of Arabian

Peninsula lacks constant rivers and lakes, simultaneously experiencing one of the highest temperatures in the world during summer months. During the 1970s Saudi Arabia undertook extensive water supply projects, intended to attain the necessary level of production of milk, meat and wheat. Its neighbors followed the kingdom's example. Unfortunately, this failed since the water was extremely expensive and had been taken from the Gulf for desalination. This is especially true in the case of Saudi Arabia, which consumes around two-thirds of region's food supply. Today countries rely on desalination facilities with Saudi Arabia considered the world's biggest producer of such water and the UAE the most generous consumer of it per capita. A viable alternative for this expensive technology is water reuse. For example, putting into use a cubic meter of wastewater can cost 20 cents in comparison to one cubic meter for sea water after treatment.[51] The Gulf is becoming increasingly salty due to activity of these plants and as a result, local countries agreed to build several of them on the Omani coast within easy access to Arabian Sea and the Gulf of Oman. The treated water will be transported to other users by long regional pipeline.[52] In general, GCC countries have the largest capacity responsible for salt water treatment, since they control at least 35 percent of such plants.[53] Moreover, GCC members are investing funds in plots of land in Africa (Northern Sudan, Ethiopia, Egypt, Tanzania, and Kenya), South Asia and Eastern Europe so as to not depend upon volatile agricultural prices. On the other hand, new investors in Africa have already met stiff resistance with an impoverished local population, socially-oriented decisions of countries to additionally tax the harvests from the Arab-leased land, regional conflicts, tropical diseases and local currency volatility.[54] They also have to endure competition from Indian, Chinese, Korean and Brazilian farmers willing to work here. The safer bet is Turkey, whose agribusiness companies are bought by GCC investors in order to supply food to the Gulf market.

Since oil is not a renewable resource and crude oil is extensively burned to generate electricity, GCC countries are still looking for ways to develop green energy projects. Direct sun radiation allows companies in the Arabian Peninsula to not only generate electricity during the whole year, but also sell it abroad. The emirate of Abu Dhabi is building Mazdar, the city of future, where 85 percent of demands are satisfied by sun and wind energy due to the work of solar panels. All water is recycled and wind-catchers in towers (like ancient structures in Persia) cool the air inside of buildings. Simultaneously, neighboring Dubai decided to create a 3.2 billion dollar facility called Mohammad Bin Rashid Al Maktoum Solar Park with a capacity of one gigawatt.[55] Many capital cities in the Gulf are increasingly adopting energy-efficient high-rise buildings, which use the power of sun rays. Moreover, Iran's nuclear program has caused a chain reaction in the region and today the UAE and Saudi Arabia are going to build several nuclear plants in response. For example, emirate of Abu Dhabi allocated some 20 billion dollars in order to construct four nuclear reactors by 2020 with South Korean assistance. By this time, the emirate intends to satisfy 25 percent of electricity needs with atomic energy and sell surplus oil abroad.[56]

Overcoming of 'Dutch Disease'

Regional integration can be considered a suitable step for further diversification of economy. The Gulf Cooperation Council was established in 1981 as a response to the Iran-Iraq war. Today Gulf nationals can travel to any of the GCC countries only with an identity card. The customs union in 2003 envisaged the introduction of a five percent protective tax for imported goods from other regions and no taxes in trade between GCC members. Since 2009, when electricity nets were interconnected, it helped to avert more than 1073 blackouts during hot summer months.[57] The countries want to increase the overland connectivity by building railway systems in order to intensify movement of goods, people and services. Moreover, it can be considered as a uniting factor for different nomad tribes.

Despite considerable oil wealth, every country in the region is developing its own model of economic diversification. Oil-poor Dubai and Bahrain lead the Gulf in this respect, but other countries are also actively engaged in this activity under the influence of the Arab Spring, the volatility of world oil prices in 2014-2016 and the shortage food supply from main agricultural markets. Today, the young and unemployed population of the GCC region is considered by economists not as a threat, but as an opportunity to escape from the rentier economy and limits of petroleum-dependent states. Sovereign wealth funds, oversaturated with petrodollars, are used as the main vehicles of growth of alternative industries and worldwide expansion of commercial interests of GGC countries. Saudi Arabia is betting on the development of religious tourism and creation of industrial cities in the desert, the UAE, Oman and Bahrain are improving banking, transportation and tourism services, Qatar is investing in Great Britain and is turning itself into the main educational and sport hub of the region and both the UAE and Qatar have created airlines with a global reach. There is a life and development without oil and gas in the Gulf and local countries are trying to prove it. Above all, ruling families should cut generous subsidies and introduce different taxes in order to overcome budget deficits in the event low oil prices are still in force.

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