ISSUES OF DIVERSIFICATION OF INDUSTRIAL PRODUCTION IN THE PERSIAN GULF COUNTRIES

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Abstract: *The Persian Gulf countries are diversifying their economies to reduce reliance on oil exports. UAE and Saudi Arabia have increased their non-oil sectors to 78% and 73%, respectively. Other GCC countries are also progressing in industrialization, with industry shares ranging from 34.7% in Kuwait to 59% in Bahrain. This study analyzes the progress, challenges, and growth opportunities in GCC countries' economic diversification. It emphasizes the need for promoting non-oil exports, stimulating innovation, and attracting foreign investment. A conducive business environment, private sector involvement, and regional cooperation are vital for successful diversification.*

Key words: *diversification, production, industry, oil, economy.*

Introduction

According to their economic potential, the concentration of non-oil sectors of the economies of the Persian Gulf countries is quite significant. In 2020, the share of trade, logistics, industry and construction in real GDP in the UAE was more than 78%, and in Saudi Arabia, 73%. In other Persian Gulf countries, the share of industry in the structure of national economies accounted for 59% of Bahrain, 37.5% of Qatar, 34.7% of Kuwait, 17.5% of the Sultanate of Oman. The volume of industrial production has also been increasing lately, as the capacity utilization rates of existing enterprises increased, the share of non-oil exports remains high, exceeding 90% in the UAE and Saudi Arabia, with the countries of the Persian Gulf facing promising prospects for the development of industrial projects, such as the industrial sector in the Philippines. In addition, the international experience of the past two hundred years has shown a direct and positive connection between economic growth and the processes of serious structural changes in the economic system of many countries, including the Persian Gulf countries themselves.

The article is devoted to the study of the revival of the issue of diversifying industrial production based on the formation of non-oil sectors of national economies in the Persian Gulf countries. Despite the large reserves of oil and natural gas, substantial revenues from their sale, these countries have long-term strategic priorities for changing the innovative and technical structure of their economies. However, despite substantial changes in the scale of diversification programs and some positive trends in the non-oil sectors of the economies of the Persian Gulf countries, the challenge of developing robust and diversified non-oil economies remains a strategic priority requiring the rethinking of current and proposed policies and initiatives. It is obvious that robust and diverse households, investor, and business expectations and behaviors do not evolve overnight.

Background and Rationale

The object of this research is the economy of the Gulf oil-countries (Bahrain, Kuwait, Qatar, UAE, Oman, Saudi Arabia). The subject of this study is the background, trends and performance of economic growth of industrial production in these countries. A socioeconomic rationale for a comprehensive study of main sources of the growth of industrial output of these countries is a constant demand of the labor services in various unconventional professions with high educational requirements in the Persian Gulf region. It provides income for the population in general and – for the citizens of the Persian Gulf countries - payroll income [1]. Residents of the Persian Gulf countries can receive decent income without sufficing high educational costs (in contrast to Russian provincial citizens). Thus labor migration from urbanized world's regions to the Persian Gulf is a relatively cheap, fast (for a prospective migrant) way to obtain the "loop economy".

General situation in the Persian Gulf region raises a number of questions about the main sources of the economic growth in the Peninsula, opportunities of diversification from there of income in general and the payroll income in particular to decrease Siberian labor migration, prospects of economic cooperation of Russia with the countries of the

Gulf Cooperation Council (GCC) to reach these goals. The analysis of the Russian intellectual sources shows that the Persian Gulf as one more or less developed source of oil has become a constant object of political and economic research of domestic researchers. Currently is topical an objective and comprehensive evaluation of the level, results, measures of further economic development of the Gulf oil-countries.

Historical Overview of Industrial Production in the Persian Gulf

Along with the remaining economically and industrially underdeveloped regions, the Persian Gulf region is generally viewed as an agrarian region. However, in contrast with these regions, there are a few large cities with considerable contents of commerce, finance, and production of a few types of goods (ships, oil products, etc). Over the last two to three decades, some writers have stressed the historical depth of these cities, which have become powerful and modern only in the twentieth century, based on external social relations - the interests of the large colonial and post-colonial powers - but which existed as important trading locations long prior to this. The involvement of this region as a whole in the contemporary international division of labor leads to its economic specialization, that special feature of the underdeveloped countries emphasized by the traditional, pre-industrialization theories of economic development; in the economic structure of the countries of the Persian Gulf, the presence of oil completely dominates the internal and external relations of production.

Pre-oil Era Industries

Depending on the pearling location, sometimes other ocean items washed ashore - driftwood; valuable hard woods, such as teak; rhinoceros horns, and elephant tusks. Fishermen provided the main supply of fish and other marine items for the Persian Gulf and Sea of Oman littoral settlements. Fish was and is still a staple food, but also fertilizers, pearls, and corals were returned to these areas. Coastal trading would also occur, with goods usually being transported by smaller dhows. These coastal and inter-Gulf trade transactions would consist of a myriad of different hulls and tonnages. The long-term and large Indian Ocean trade would be the transports of a few big dhows by very able sailors [2]. When required, the sailors would be able to navigate their way across hostile waters by means of solar navigation. Early natives of the Persian Gulf coastlines, Brunei, the Philippines, South India, and Ceylon became especially adept at building and manning the big, high-decked, large-sterned dhows. The ability to transport tons and tons of special and different types of materials and goods from and to the Persian Gulf can be seen as precursors to the oil industry and its great imports and exports. For example, today three types of loaded Panamax tankers can transit the fully widened Suez Canal. The transport of Panamax ships would be of interest to shipbuilders of the region. Oil transit for the Persian Gulf and the Middle East is handled in two transshipment waterways - the Cape of Good Hope route; the Suez Canal.

The traditional industries of the coastal peoples, mostly of the Arab sections, consisted of some of the following as found on the Persian Gulf littoral: shipbuilding and seafaring; fishing; diving for pearls and some coral; pearl marketing; date palm staples - dates and date syrups - and dates by-products - date woods and fronds. The shipyard would build a few or several dhows during the year, and these would be used in commerce with Africa, India, other areas of the Persian Gulf, and East Africa. Coastal and deep-sea fishing would provide fish, especially the large fish such as sharks, for people to eat and for export. Fiercely diving for pearls in hostile waters, far from shore, was a risky art, and divers and felicas were in very short supply. The pearls might have several shapes, and some may be quite round. Women working in the labor-rich pearling industry would take care of the other grades of pearls and their marketing to the rest of the world, or trade the pearls to sharks. Fish obtained while diving for pearls was an additional plus.

Current State of Industrial Production in the Persian Gulf

GDP is a volume-based indicator of production in fixed and current prices. The share of shares of 3.82, 20.5, and 16.7 are taken up by industry, manufacturing, and construction in the well-known Sector Database on 48 selected variables. In terms of the GDP growth of 3.1%, the largest contributions are made by manufacturing (0.66 pp), separate construction types (highway and street construction with 0.37 pp), and other manufacturing (0.22 pp). The weighting coefficients that place the manufacturing sector into its estimate are based on the statistical data of the Federal State Statistics Service provided in the GDP structure by type of economic activities [3].

The share of industrial production in the economy of the countries of the Persian Gulf is not significant. As a part of world industry, it is in its infancy. The economy of the countries in the region is dominated by high rents, which is due to the production of oil that has a high ratio of rent component. Among the factors that impact the production structure and the level of economic development, oil production can have a double impact on economic development, both strengthening the impact of the resource endowment and simultaneously weakening the impact of the factor of country-specific activities and economic growth strategies.

Key Industries and Sectors

It's time to mention the priority areas used by these countries to diversify their economic production factors and implement the most ambitious national and international projects. It is unusual that there is no unified system for selecting a strategy or some manufacturing industry, depending on the country's economic preferences. However, in recent years, the following groups of initiatives are clearly recognized: ensuring the fulfillment of domestic and international demand for petrochemical products; creating a high-tech environment for the petrochemical industry and encouraging further self-funding of research work in the area of new marketable petrochemical materials; creating an additional working environment for the petrochemical industry, which would serve as a component of a diversified economy; use of competitive costs in the economy by creating the best technology package [4].

Three oil-rich countries of the Gulf Cooperation Council: Saudi Arabia, the United Arab Emirates, and Kuwait - have made significant efforts to diversify their economies by transforming the oil rent into primary industries. The governments of these countries initiated a number of international, public-private, and private companies and production facilities throughout the world. They started new construction required for the technological level of various economic activities in the country, as well as explored and stimulated the development of technological packages or the creation of joint ventures. The purpose of these plans is usually the establishment of sustainable long-term cooperation, which would be attractive to international participants primarily because of the desire to reduce costs in the economy, access to educated and highly trained professional and technical labor resources, and access to a natural source of top-quality energy materials.

Challenges and Limitations in Diversification Efforts

Some diversion to attract investors to negotiate long-term contracts in the oil and gas sector will not be possible. The economic base of the Gulf countries, which support private enterprise and government, is a strategic objective to diversify the economy, while permanent sources of public income will require political incentives. These political costs need to go through the evaluation previously conducted by the political and administrative stability of the social and cultural guidelines proposed by the developing economic goals of the indigenous population. Achieving consensus targets in these areas requires capital formation, licensing, deployment, public policy guidelines, and rent-seeking costs to the relevant countries. After that, the pursuit of a perfect coordinated policy unit based on special fact for each country, part of the economy in other countries must be input key, knowledge, and experience. The conventional diplomacy of the international investment community (including investment in the host countries) is not always easy to combine with palaces, economic policy management practices, and the current economic nationalist character of all countries.

The process of diversification of the economies of the Persian Gulf countries is fraught with considerable challenges, first and foremost because of oil revenues. High oil revenues create internal and external incentives for the non-oil production sector of the economy to lag behind its capabilities, and the rent it generates covers the costs of government policy, including social policy, assimilates to the income of Gulf citizens and expats, and does not create a competitive environment for the private sector [5]. In addition to oil revenues, long-term contracts with investors in the field of natural resources make it difficult for the fear of their interests in other sectors of the economy, providing public goods and services. These products must be competitive enough to attract private investment, indicating that countries that rely on the diversification of activities in this sector need to develop an attractive long-term investment environment.

Resource Dependency

And only when the average oil price began to go down, because the country's budgets began to leak, falling into a deficit and turning the accumulated foreign exchange reserves, for which Norway's example is the most characteristic, from a factor of prosperity into a source of negative risks, the countries of the Persian Gulf began to look more attentively towards the current state of affairs and began to form national visions at the expense of the future. Large-scale programs and grandiose projects are numerous, and it is very much like intended purposes and desired directions of these programs. However, the first obstacle to economic diversification in such countries as a resource-rich country is the structure of economies that do not favor change. The creation of a productive, non-oil export economy implies such actions that would undermine the country's short-term rent extraction capabilities, and oligarchs, who in one way or another are supported by members of their families, will each time stand behind government leaders to remind them of their almost unique power, if something goes not in favor.

At the moment, most of the economies of the Persian Gulf countries are determined by oil and gas revenues. Industrial production is of an auxiliary nature, helping to build the economy of the country that produces resources. Economic vulnerabilities have long forced governments to think about diversifying their old and tired oil economies. In recent decades, they have accelerated the process of diversifying economic activities. Against this background, non-oil exports have been growing, albeit from a very low initial level, and the economies have, on average, become less dependent on hydrocarbons. But, the economic history of the countries of the previous century shows that this strategy of diversification was tough enough, and money was largely spent on building non-oil industrial clusters. Of course, states have approached their incentive to the private sector in terms of diversification very wisely - without limiting costs, but without spending too much money.

Government Policies and Initiatives

Partnerships between the local and foreign businesses have been a key element in economic development in Dubai and the other emirates. The chief and most visible political initiatives have appeared in various forms as World Trade Centre properties, government-owned free zones, or as joint venture or bilateral arrangements with leading multinationals. These alliances have been strategically directed to sectors such as oil, port and cargo handling, distribution services, real estate, power, telecommunications, hotel management, and airlines. Dubai's business park has been the latest attempt to trigger new economic activity, as have the recent announcements of pioneering infrastructural and offshore developments. Meanwhile, several government-owned and managed local development corporations have been created to encourage fiscal, regulatory, and infrastructure-related assistance to innovative projects in manufacturing, urban development, and service sectors in each emirate.

The Preferred Place movement is part of a more comprehensive strategy for economic diversification. In attempting to stimulate local interests in economic activities at ground level, the rulers have been under no illusions about the difficulties. Dubai's business-oriented Commerce and Tourism Authority (DCTA), as well as Dubai's Millennium Report, have emphasized that much more can be done to nurture initiatives and promote enterprise. The main economic development policies have been, in local terms, a radical experiment in privatization, building long-term strategic alliances with foreign firms, granting broad fiscal and other concessions to business, and a managed openness to global economic forces.

Investment Incentives

Development of investment laws and tax incentives. The attraction mechanisms should be based on clear investment laws, promotion of manufacturing, access to credit from banks, and fiscal, customs, and currency regulations that are either freely floating or pegged to relevant targets. Most Persian Gulf countries are determined to attract direct foreign investments by providing advanced transport and banking systems, energy and water resources necessary for local economic operations, a liberal labor market, as well as tax retention and other benefits for businesses [6].

Attracting foreign investments. An increase in foreign investments and transnational capital allows for the structuring of a new regional economy, one that is more diversified and less dependent on oil and mono-resource rent. The national investment policy should aim to restructure and reprofile the national economy and industry, create joint ownership, and establish institutions for risk and profit sharing. Governments must also work towards reducing corruption and bureaucracy in the regions.

Success Stories and Best Practices

The overall aim of this study was to assess the structural changes in the 1970-2014 economy of Qatar in an attempt to ponder the demise of the Dutch disease and diversification in the economy, yet noting that other analysts recognized the specific features of the GCC rentier states through qualitative analysis or small data. This study deploys descriptive time-series data, and an extended period of 45 years in the case of Qatar. Past analyses were typically shorter and deployed international sources such as energy-information-entities or professional services that modeled a few economic replication coefficients arriving from a small set of traded and nontraded sector sizes recorded in the social accounting matrix, which they may source from the statistical registers and sources they had access to. None of these countries show any scientific representation to investigate how the non-hydrocarbon activities have evolved over such long stretches. Consequently, this study pursues forward-thinking research and hopes to contribute to the country's economics and evaluation methodology and knowledge, both countries with the model of a small population.

Qatar's small population has forced the state to build nonresidential infrastructure on a large scale to retain its international prominence. Most of the country's oil and natural gas revenues in LE's early years went to develop the oil and hydrocarbon sectors. Over the years, the share of the NeGP remains above the desired level of 70%, thus the economic base did not appreciate by Construction is consistently the second most significant sector albeit driven by hydrocarbons. Resurgent construction is deployed in the various run-up of World Cup related infrastructure, i.e. hotels, football stadia, Olaham development, roads, etc. Qatar National Master Plan (QNMP) 2030, launched in 2007, reflected the State's development objective and its empathy to use modernity, preserving its cultural heritage and respecting past contributions to nation-building. His

Highness the Heir Apparent, Sheikh Tarnim bin Hamad al-Thani, broadly inaugurated QNMP implementation and especially the urban transport strategy.

Case Studies

The rapid development of the Dubai town has compelled the local leadership to try several times to carry out a restrictive policy, specifically elaborating town planning principles and updating the amplitude of its jurisdiction. The exceptional growth of Dubai, and the unprecedented problems that accompany it, have accelerated the improving and modernizing of its town planning system. As a matter of fact, general master, specific foundation, and detailed planning were almost never used until the first Gulf war. The great majority of the ideas, in regards to civil use, have developed after the war.

Dubai is experiencing an unprecedented building development which is deepening every year, bringing in an innumerable number of citizens, tourists, businessmen, and industrialists. Together with this city and country development, which is achieving a really extraordinary economic importance on the (otherwise) depressed markets of the Persian Gulf and the nearby Arabian-Indian peninsula, this work desires to present the modern urban and town planning system of Dubai. The use of new elements and technologies, carried out through already operative research, which has resolved the present significant problems [7].

Future Prospects and Recommendations

Within the process of internal country diversification, though what has been done so far is very little. Not only are very little and fragmented either the country-specific studies, but much more importantly very little has been done when it comes to a comprehensive comparison. The comparative analysis of the rentier state theory experience, therefore, becomes an imperative need to better understand the future developments of the Persian Gulf countries and the institutional changes necessary for overcoming the obstacles hampering their modernization and sustainable economic development.

Throughout the analysis, some patterns and problems have been highlighted. These are mainly issues concerning the heterogeneity of the Persian Gulf countries and concern the rentier state and state autonomy theorizations, the political-economic internationalization of these countries, as well as the internal issue connected to the state-business relationship. Analyzing the Persian Gulf countries as a unified model has led to a misleading understanding of the issue and of the developments. The reconsideration of such a broader perspective will allow the re-accentuation of these countries' internal issues, social-political stability, keeping closer to the problem at stake, whereas the empirical analyses show that the diversity of state-related issues is the most politically sensitive in the Persian Gulf countries [8].

Conclusion

Since the qualification and relevance of knowledge depends on the various social and economic contexts, their constant and dynamic evolution, time and place specific = yes, the question no longer seems to be whether or not to diversify, but rather whether there are adequate technologies available that correspond to the economic activities in place that are apt to lead to sustainable human development through innovation. The main concern of this article is to come to a better understanding of what are the technological innovations that can support the changing industrial production in the Persian Gulf. As will be made clear in the empirical part hereof, the GCC states' savage image that comes largely from their hydrocarbon oil and gas production as a percentage of their national wealth is inaccurate. Moreover, during the last three decades a significant transformation of the industrial production has been observable in the Persian Gulf. The technological leap that characterizes some of GCC states seems to provide a variety of opportunities only if the technological innovation of the public and private companies move rapidly to anticipate the new respective laws of comparative advantages. Different provinces are absorbing the costs associated with the global industrial restructuring through offshore facilities that perform industrial tasks from which the host province has been able to free itself as the interest for an industry is growing. As shown by President Clinton in his Council Address to the Nation, the United Nations has gained a certain credit among the developing nations for its efforts to promote meaningful free trade in the industrial heart, the Persian Gulf economics in order to lift the burden of billions of dollars of debts thus providing the basis to start a new process of economic growth. The United Nations bespeaks trust and encouragement on structural adjustments to the Western World and the Persian Gulf won't be an exception.

In today's environment, where there are strong calls for the formulation and implementation of national diversification policies, there are very few topics of discussion that enjoy such a high level of agreement. Diversification of the productive structure is key to achieving robust medium and long-term economic growth. Over-reliance on a narrow base of economic activities involves great risks and may lead into a deadlock since the conditions that made possible the high rate of growth of the countries in the past are unsustainable in the long run. The United Nations began to address human development as a multiform, multidimensional social movement. Shorthand verbal periphrasis of better living across the world entails overall national enrichment and growth, industry structure diversification among the other things become a key aspect on the growth issue. Promoting innovations to replace obsolete, out-dated sustainable development continues to encourage fossil energy sources as the exclusive foundation of durable prosperity at the crossroads of technological, energy, environmental and international policy.

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