

MIDDLE EASTERN STUDIES

VOLUME 26 NUMBER 4 OCTOBER 1990

- | | |
|---|--------------------------|
| Territorial Nationalism in the Arab World | Amatzia Baram |
| Women and Islam in Pakistan | Izzud-Din Pal |
| Developments in the Jewish Communities of Morocco 1956-76 | Michael M. Laskier |
| The Iranian Communist Movement under Reza Shah | M. Reza Ghods |
| Structural and Economic Change in the Arab Gulf after 1973 | Robert E. Looney |
| The Breakdown of the Johnston Negotiations over the Jordan Waters | David M. Wishart |
| The 1894 British Takeover of the Egyptian Ministry of Interior | Harold H. Tollefson, Jr. |
| Overt Conflict to Tacit Alliance: Anglo-Israeli Relations 1948-51 | Ilan Pappé |
| Social Mobility in Qajar Iran: Haj Muhammad Hassan Amin al-Zarb | Shireen Mahdavi |
| Book Reviews | |

ISSN 0026-3206

Structural and Economic Change in the Arab Gulf after 1973*

Robert E. Looney

Only a couple of decades ago, the Gulf seemed a most unlikely location for a major industrialization drive. There were limited resources, limited skills and relatively limited finance. The great oil shock of 1973/74 opened up vast new opportunities for the region's planners, with the result that at the current time there are petrochemical and fertilizer plants in Saudi Arabia, Kuwait, Qatar, Bahrain and Abu Dhabi, iron and steel plants in Saudi Arabia, Bahrain and Qatar, aluminum plants in Bahrain and Dubai (and maybe soon in Qatar and Umm al Qaiwain), ship repair yards in Bahrain and Dubai, cement plants and construction firms everywhere, and a host of intermediate and light manufacturing ventures throughout the Gulf.

Four motives seem to have dominated the push for industrialization. First and perhaps most important, the Gulf states wanted to diversify their economies and reduce their dependence on the volatile crude oil market. Second, given their new-found wealth, they felt an obligation to embrace economic development. Third, they hoped that they could profit from the downstream move by reaping the benefits of value-added products. Finally, they believed that after 1973-74 they could gain control over the international oil industry by creating their own vertically integrated structures (from crude through refined products and petrochemicals, and so on down the line) in imitation of the multinational oil companies.

The diversification argument was the most powerful, and the fact of the oil markets in the 1980s underlies its justification. With oil prices now in real terms little better than they were before the 1973-74 oil shock, the dangers of reliance on a single commodity export have been brought home to the producers with a vengeance.¹

On the other hand, studies on the process of industrialization in the Gulf by advocates and critics alike have tended towards negative conclusions in recent years.² For those who advocated industrial development as a path out of colonial dependency towards greater Arab economic integration, there has been a disenchantment at the lack of progress and at the pursuit of individualist policies by many Gulf countries.³ For those with less lofty aspirations for the Gulf industrial sector such as an important source of national wealth, employment, or output, there have also been disappointments of varying degree.⁴

The aim of this paper is to examine these issues and provide an overview of the main structural changes that have taken place during the post-1973/74 period in the economies of the Arab Gulf states. In doing so, we are interested in determining the extent to which these countries have been able to achieve their major economic objective: the diversification of their economies away from oil, and in particular the development of a viable, diversified industrial base.

In particular, we shall attempt: first, to gain some insight into the morphology of the region's industrial development, to examine the underlying factors responsible for the area's industrial development and to indicate their relative significance; second, to provide systematic information concerning industrial activity, and, third, to appraise the prospects and the direction of its future development.

Consequently, the analysis that follows is policy-oriented. Which countries have been most successful in reducing dependence on the oil sector, and in what sense? Did all the Gulf Cooperation Council (GCC) countries' sectoral patterns evolve in a similar manner following the 1973/74 oil price shock, or were there significant individual differences? Do these differences reflect conscious economic decisions and policies on the part of individual governments, and if so how did they affect progress towards industrial diversification? Are these effects unique to the oil producers of the Gulf, or are they present to one extent or another in other Arab countries?

PATTERNS OF STRUCTURAL CHANGE

The usual method of examining Gulf industrial progress is to examine changes over time in its share of gross domestic product (GDP).⁵ On an aggregate basis (Tables 1–3) it reveals that:

1. The manufacturing sector along with agriculture has retained a more or less steady (albeit low) share of GDP (one and six per cent respectively).
2. While much publicity has been given to expansion of the construction sector in the GCC region, its share was relatively constant, increasing from 7.6 per cent of GDP in 1975 to 8.0 in 1985.
3. During the 1975–85 period the most significant structural shifts for the GCC countries as a group were towards the service sectors: (a) housing, (b) government services, and (c) other services. During this period, the share of service activities increased from 9.5 per cent of GDP in 1975 to 11.2 in 1980 and 19.6 by 1985.
4. The distribution sector: (a) commerce, restaurants and hotels, (b) transportation, communication and storage, and (c) finance, insurance and banking, experienced a similar pattern, with its share increasing from 13.1 per cent of GDP in 1975 to 16.2 in 1980 and 21.8 in 1985.
5. Largely because of its fall in price, and reductions in the rate of production, the oil (here, including mining) sector fell from 62.7 per cent of GDP in 1975 to 58.2 per cent in 1980 to 39.9 per cent by 1985.
6. Correspondingly, non-oil GDP increased its share in total output from 38.6 per cent in 1975 to 41.5 per cent in 1980, up to 60.2 per cent by 1985.
7. Similarly, domestic absorption (total consumption and investment) increased from 60.3 per cent of GDP in 1975 to 62.0 in 1980 and was at 87.3 per cent by 1985.

In terms of major structural differences between the GCC and other Arab

TABLE 1
ECONOMIC STRUCTURE: ARAB WORLD COUNTRIES, 1975
(Per cent of gross domestic product)

Country	A g r i	O i l m i n i n g	M a n u f	D i s t r	S e r v i c e	C o n s t	N o n o i l G D P	A b s o r p t i o n
GCC Countries								
UAE	0.8	67.1	0.9	15.6	4.5	10.9	32.9	54.6
Bahrain	1.6	27.8	23.0	24.1	17.8	5.4	72.2	78.8
Saudi Arabia	1.0	75.8	5.3	5.6	6.9	5.5	24.8	37.5
Oman	2.8	67.2	0.3	11.1	8.5	9.8	32.8	83.1
Qatar	0.7	68.2	2.6	12.8	7.4	7.8	31.8	36.6
Kuwait	0.3	70.4	5.7	9.1	12.1	6.0	37.3	71.2
AVERAGE	1.2	62.7	6.3	13.1	9.5	7.6	38.6	60.3
Non-GCC								
Iraq	7.3	56.9	12.3	13.5	2.2	na	na	
Jordan	8.3	5.2	12.7	39.0	24.7	6.1	94.8	158.4
Libya	2.2	51.9	2.3	13.2	15.7	11.5	48.2	89.7
PDRY	18.8	0.2	10.2	34.0	21.3	7.8	99.8	159.7
YAR	41.1	0.7	5.3	28.1	11.6	4.8	99.3	133.8
Egypt	27.9	2.8	16.9	25.6	17.2	4.6	97.2	117.5
Algeria	8.8	28.0	10.1	20.0	12.9	11.7	72.0	111.8
Tunisia	18.2	9.6	8.8	23.9	18.8	7.1	90.4	104.8
Sudan	38.7	0.3	9.2	28.3	12.0	4.3	99.7	113.2
Syria	17.9	na	20.2	41.0	16.3	4.6	na	112.5
Somalia	54.9	0.8	5.0	14.8	8.2	4.4	99.2	114.7
Morocco	17.4	9.1	16.6	23.9	24.0	6.5	90.9	109.6
Mauritania	24.9	19.5	4.4	15.6	21.7	5.4	80.5	125.5
Lebanon	9.2	na	16.6	38.7	24.9	4.0	na	117.4
AVERAGE	21.1	15.4	10.3	25.6	17.3	6.1	88.4	120.7
Ratio:								
GCC/Non-GCC	0.06	4.07	0.61	0.51	0.55	1.25	0.44	0.50

Source: Computed from data in Arab Monetary Fund, *National Income Accounts, 1974-1985*.

countries:

1. As might be expected, the two groups of countries vary most with regard to the relative importance of agriculture and oil. These differences did not change significantly during the period under consideration, with agriculture in the GCC region averaging about 6 per cent of that in the non-GCC countries. Oil/mineral production was about 3.5-4.0 times higher in the GCC countries.

TABLE 2
ECONOMIC STRUCTURE: ARAB WORLD COUNTRIES, 1980
(Per cent of gross domestic product)

Country	A g r i	O i l m i n i n g	M a n u f	D i s t r	S e r v i c e	C o n s t	N o n o i l G D P	A b s o r p t i o n
GCC Countries								
UAE	0.8	64.4	3.8	16.0	6.4	9.0	35.6	56.6
Bahrain	1.0	30.5	14.7	29.3	16.8	6.9	69.5	79.0
Saudi Arabia	1.2	61.8	5.0	9.9	10.3	11.2	38.2	67.3
Oman	2.5	62.0	0.8	17.7	10.1	5.7	37.9	74.7
Qatar	0.5	67.2	3.3	11.9	11.4	5.4	32.8	40.0
Kuwait	0.2	65.2	5.7	12.2	12.1	3.7	34.7	53.6
AVERAGE	1.0	58.2	5.6	16.2	11.2	7.0	41.5	62.0
Non-GCC								
Iraq	4.7	61.0	4.5	13.5	7.8	7.2	39.0	68.1
Jordan	7.1	4.0	12.9	34.7	20.4	9.9	95.9	150.1
Libya	1.5	62.7	2.3	9.7	11.3	8.6	37.2	68.3
PDRY	10.1	0.1	12.0	27.9	23.2	7.9	99.9	189.6
YAR	28.1	1.2	5.7	26.0	16.2	8.7	98.9	164.8
Egypt	19.0	17.2	12.2	27.5	13.3	4.4	82.7	106.3
Algeria	6.7	32.0	9.9	19.0	12.5	13.2	68.0	96.5
Tunisia	14.0	12.1	11.8	22.1	19.1	5.9	87.9	105.4
Sudan	32.9	0.1	5.9	30.8	13.8	5.2	99.9	109.2
Syria	20.2	na	16.3	38.1	18.4	7.0	na	117.2
Somalia	52.2	0.4	5.8	15.9	9.0	2.7	99.6	121.4
Morocco	18.1	4.9	17.1	23.5	26.1	6.8	95.1	110.1
Mauritania	21.7	12.7	5.8	18.9	26.2	7.3	87.3	132.3
Lebanon	8.5	na	13.0	47.6	35.8	3.4	na	127.6
AVERAGE	17.5	17.4	9.7	25.4	18.1	7.0	82.6	119.1
Ratio:								
GCC/Non-GCC	0.06	3.34	0.58	0.64	0.62	1.00	0.50	0.52

Source: Computed from data in Arab Monetary Fund, *National Income Accounts, 1974-1985*.

2. Because of their rapid growth, services and distribution activities in the GCC countries rapidly approached the levels of relative importance achieved in the non-GCC group. In 1975 the service sector in the GCC group was about half the share of GDP as experienced outside the region. By 1985 it accounted for a slightly higher per cent than in the non-GCC countries. Distribution's gain was less dramatic, increasing from about 55 per cent of that achieved in the non-GCC countries in 1975 to 85 per cent in 1985.

TABLE 3
ECONOMIC STRUCTURE: ARAB WORLD COUNTRIES, 1985
(Per cent of gross domestic product)

Country	A g r i	O i l m i n i n g	M a n u f	D i s t r	S e r v i c e	C o n s t	N o n o i l G D P	A b s o r p t i o n
GCC Countries								
UAE	1.4	45.3	9.3	22.3	13.1	8.9	54.7	72.0
Bahrain	1.1	18.1	11.3	35.3	23.1	9.6	81.9	96.8
Saudi Arabia	2.9	34.5	8.1	18.0	21.3	13.1	65.5	109.5
Oman	2.8	47.8	3.2	22.1	14.8	7.0	52.2	85.8
Qatar	1.0	43.2	7.1	16.2	25.7	6.1	56.8	59.3
Kuwait	0.5	50.2	6.2	17.0	19.7	3.4	49.8	100.6
AVERAGE	1.6	39.9	7.5	21.8	19.6	8.0	60.2	87.3
Non-GCC								
Iraq	14.0	23.3	9.6	27.2	17.6	9.3	76.6	115.4
Jordan	7.2	3.3	12.3	33.5	20.7	7.9	96.7	143.9
Libya	3.6	36.1	4.8	15.7	21.9	11.6	63.9	86.2
PDRY	8.7	0.1	11.3	25.2	23.4	11.0	99.9	186.0
YAR	33.9	1.0	7.0	23.4	16.4	6.5	99.0	135.7
Egypt	17.7	15.7	12.9	27.0	16.1	4.4	84.2	109.4
Algeria	8.3	22.1	10.6	21.2	13.3	14.8	77.9	97.4
Tunisia	15.2	10.2	12.6	23.7	18.7	5.7	89.8	107.2
Sudan	31.4	0.1	9.3	40.9	10.2	5.6	99.9	109.5
Syria	21.8	na	13.9	37.6	19.9	6.8	na	110.9
Somalia	43.8	3.5	6.0	22.5	11.7	3.6	99.7	121.6
Morocco	18.4	4.7	16.6	22.9	27.0	6.5	95.3	108.3
Mauritania	30.7	11.2	5.2	21.9	11.2	6.3	88.7	133.4
Lebanon	8.8	na	12.6	15.3	11.5	3.3	na	183.4
AVERAGE	18.8	10.9	10.3	25.6	17.1	7.3	89.3	124.9
Ratio:								
GCC/Non-GCC	0.09	3.66	0.73	0.85	1.15	1.10	0.67	0.70

Source: Computed from data in Arab Monetary Fund, *National Income Accounts, 1974-1985*.

3. The relative importance of manufacturing in GDP did increase in the GCC countries during this period, but only marginally relative to progress outside the region. In 1975 manufacturing in the GCC countries was about 61 per cent of that in the non-GCC countries – by 1985 this figure had risen to 73 per cent.

In terms of individual Arab world countries, the largest real gains in manufacturing were made by Algeria and Iraq, suggesting in the instance of Iraq the often observed boost to local manufacturing provided by war,

inflation and the disruption of traditional supply lines. A constant price series for aggregate Arab world GDP is not available, but during the 1970s it would most likely have shown a lesser role for the extractive industries, as did constant price data for individual oil-producing countries.⁶

In the 1980s, and especially since oil prices started to spiral downwards, a constant price series might be expected to show the extractive industries maintaining a large share of aggregate GDP, although inflation and disinflation in the non-oil sectors of economies like Saudi Arabia or the UAE have tended to mirror oil price movements dictated by external markets, so limiting the extent of divergences.⁷

While manufacturing may have held its own on an aggregate Arab world GDP basis, there have been important shifts within individual countries. Of the GCC countries, Oman, Qatar and the UAE have experienced substantial expansion of their manufacturing sectors' share of GDP. Bahrain was already significantly industrialized by 1973 as a result of several major ventures; since the late 1970s, however, the expansion of the banking sector has reduced manufacturing's importance, although value added at current prices has continued to rise.

In Saudi Arabia, the dramatic swelling of the construction sector has masked, in relative terms, a steady expansion of the manufacturing sector, and the situation is somewhat similar in Kuwait, although the commitment to domestically-based manufacturing has been partially challenged by successful government investment in overseas industry, by a slowdown in local and Iraqi markets, and by a shortage of non-associated natural gas.

Apart from the difficulties involved in evaluating the importance of relative shifts within Arab countries' GDP structure without recourse to value terms, additional problems center on whether actual distribution patterns are comparable in view of differing pricing policies within the various countries. In Saudi Arabia, for example, agricultural support prices have reduced the competitiveness of agro-industries based on local produce. Another important variant in manufacturing value added is utilities costs. The heavy subsidization of electricity, water and gas in Saudi Arabia (and to a lesser extent in Kuwait) results in a negative share of GDP for that sector, which is clearly compensated for by extra shares allocated to other commodity sectors.

Another core problem related to the comparability of value-stated industrial statistics concerns exchange rates and their role as an equalizer of differential inflation rates. Few of the Arab world exchange rate regimes are market oriented and the room for distortion in translating industrial values to a dollar common denominator at official exchange rates is obvious.

The persistence of overvalued exchange rates where they exist has also facilitated the penetration of manufactured imports into countries not exercising quantitative import restrictions nor imposing very high protective tariffs, and hindered the performance of Arab industrial exports in international markets.

Doubts about the comparability of certain statistics notwithstanding, there has undoubtedly been a major shift in the locational focus of Arab manufacturing production and investment in recent years towards the GCC

states. Saudi Arabia has been the major influence in this development as its contribution to aggregate Arab world manufacturing value added has risen from fourth largest in 1973 to the largest in 1985. The UAE's contribution has also increased substantially.

These concerns aside, a major problem involved in using the sectoral share of total GDP for assessing progress towards diversification is the simple fact that increases in, for example, manufacturing will show up simply due to declining oil revenues. Few would argue that this phenomenon would represent permanent progress towards a more balanced economic structure. To avoid this problem, an assessment of the region's changing economic structure can be obtained by using non-oil gross domestic product as the basis for computing sectoral shares.

The results of this analysis (Tables 4–6) again show some distinctive patterns:

1. Interestingly enough, in 1975 the GCC countries had considerably higher shares of manufacturing – nearly 1.5 times relative to the non-GCC Arab countries. This superiority has gradually declined over time, however, so that by 1985 the two groups had nearly equal shares of manufacturing in non-oil GDP.
 2. As part of this process the shares of manufacturing in non-oil GDP fell from 15.4 per cent in 1975 to 12.4 per cent by 1985. Given the fact that the share of manufacturing in non-GCC countries stabilized at around 10.5 to 11.0 per cent, it is apparent that most of the relative decline in the gap between GCC and non-GCC countries was due to sub-par performance on the part of the GCC countries.
 3. In terms of the GCC countries, the UAE had the biggest gain in industrial diversification, followed by Qatar and Oman. The other GCC countries experienced declines in their share of manufacturing in non-oil GDP.
 4. On the other hand, the shares of both services and distribution in the GCC countries were not only higher in 1975, but increased throughout the period under consideration. Bahrain and Oman registered the greatest gains in distribution, while Qatar had by far the largest increase in services.
 5. As might be imagined construction activity declined in the GCC countries as a whole over the 1975–85 period. Saudi Arabia, however, experienced a gain during this period, increasing its share of construction from 22.2 per cent in 1975 to 29.3 per cent by 1985. Smaller gains were experienced by Bahrain and Qatar. On the other hand the UAE, Oman and Qatar experienced a significant contraction in construction activity.
 6. Another measure of diversification, the share of imports in non-oil GDP also experienced several significant trends during this period. At the beginning of the period, the GCC countries had about 1.7 times the volume of imports relative to the non-GCC countries. By the end of the period, 1985, this ratio had dropped to 1.35. The UAE, Bahrain, Oman and Qatar all experienced considerable reduction in
-

TABLE 4
ECONOMIC STRUCTURE: ARAB WORLD COUNTRIES, 1975

(Per cent of non-oil gross domestic product)

Country	A g r i	O i l m i n i n g	M a n u f	D i s t r	S e r v i c e	C o n s t	I m p o r t s	A b s o r p t i o n
GCC Countries								
UAE	2.5	203.6	2.8	47.5	13.7	33.1	86.6	165.7
Bahrain	2.2	38.5	31.9	33.4	24.7	7.5	151.0	109.1
Saudi Arabia	4.0	303.5	21.3	23.8	28.0	22.2	78.7	151.3
Oman	8.5	205.1	8.8	34.2	26.9	29.8	154.7	253.6
Qatar	2.2	214.2	8.1	40.3	23.3	24.4	51.7	114.9
Kuwait	0.9	238.4	19.2	30.7	40.8	7.1	88.0	241.1
AVERAGE	3.4	200.6	15.4	35.0	26.2	20.7	101.8	172.6
Non-GCC								
Iraq	17.1	131.9	13.7	28.4	31.4	5.3	103.3	na
Jordan	8.7	5.5	13.4	41.1	26.0	6.5	101.8	167.1
Libya	4.6	107.8	4.7	27.4	32.6	23.9	91.6	186.5
PDRY	18.9	0.2	10.2	34.0	21.3	7.8	79.3	106.0
YAR	41.4	0.7	5.3	28.3	11.6	4.9	38.4	134.7
Egypt	28.8	2.9	17.4	26.3	17.6	4.8	37.0	121.0
Algeria	12.2	39.0	14.1	27.8	17.9	14.8	64.9	155.4
Tunisia	20.1	10.7	9.8	26.7	20.8	16.3	40.0	116.0
Sudan	38.9	3.1	9.2	28.3	12.0	7.9	24.7	113.6
Syria	na	na	na	na	na	4.3	na	na
Somalia	55.3	3.5	5.0	15.0	8.2	4.4	27.6	115.6
Morocco	19.1	4.7	18.2	26.3	26.4	7.2	36.0	120.5
Mauritania	31.0	11.2	5.5	19.3	27.0	6.7	79.9	156.0
Lebanon	na	na	na	na	na	na	na	na
AVERAGE	24.7	26.8	10.5	27.4	21.1	8.8	60.4	124.4
Ratio:								
GCC/Non-GCC	0.14	7.49	1.47	1.28	1.24	2.35	1.69	1.39

Source: Computed from data in Arab Monetary Fund, *National Income Accounts, 1974-1985*.

imports, while Saudi Arabia and to a lesser extent Kuwait saw this figure increase.

7. Similar patterns characterize absorption – total expenditures on consumption and investment. Here, for the GCC countries, the ratio of absorption to non-oil gdp declined from 172.6 in 1975 to 147.9. These gains were not evenly distributed, however, with Oman experiencing the greatest decline followed by the UAE, Kuwait and Qatar. Again in contrast, Saudi Arabia and to a lesser extent

TABLE 5
ECONOMIC STRUCTURE: ARAB WORLD COUNTRIES, 1980

(Per cent of non-oil gross domestic product)

Country	A g r i	O i l m i n i n g	M a n u f	D i s t r	S e r v i c e	C o n s t	I m p o r t s	A b s o r p t i o n
GCC Countries								
UAE	2.1	181.1	10.7	44.9	17.9	25.1	96.9	159.0
Bahrain	1.5	43.8	21.1	42.0	24.1	9.9	132.4	113.7
Saudi Arabia	3.2	162.0	13.1	25.8	26.9	29.3	89.9	176.4
Oman	6.7	163.5	2.0	46.6	26.5	15.0	98.6	196.9
Qatar	1.6	205.0	10.0	36.1	34.9	16.6	63.4	124.6
Kuwait	0.5	187.6	16.3	35.0	34.7	10.7	98.5	154.2
AVERAGE	2.6	157.2	12.2	38.4	27.5	17.8	96.6	154.1
Non-GCC								
Iraq	12.0	156.2	11.4	34.4	20.0	18.4	80.6	174.7
Jordan	7.3	4.2	13.5	36.1	21.2	10.3	101.8	156.4
Libya	4.1	168.4	6.1	26.1	30.2	23.1	86.6	183.4
PDRY	10.2	0.1	12.0	27.9	23.3	7.9	104.2	189.8
YAR	28.5	1.2	5.8	26.3	16.4	8.8	71.9	166.8
Egypt	22.9	20.8	14.8	33.2	16.1	5.3	55.9	128.4
Algeria	9.9	47.1	14.6	28.0	18.4	19.4	44.9	142.1
Tunisia	15.9	13.7	13.5	25.1	21.7	6.7	52.3	119.8
Sudan	32.9	0.1	5.9	30.8	13.8	5.2	24.4	109.3
Syria	na	na	na	na	na	na	na	na
Somalia	52.3	3.8	5.7	16.0	9.1	2.7	30.1	121.8
Morocco	19.0	5.1	18.0	24.7	27.4	7.3	30.4	115.8
Mauritania	24.8	14.5	6.7	21.7	20.0	8.4	70.4	151.6
Lebanon	na	na	na	na	na	na	na	na
AVERAGE	20.0	36.3	10.7	27.5	19.8	10.3	62.8	146.7
Ratio:								
GCC/Non-GCC	0.13	4.33	1.14	1.40	1.39	1.73	1.54	1.05

Source: Computed from data in Arab Monetary Fund, *National Income Accounts, 1974-1985*.

Bahrain, experienced a fairly sizeable increase in absorption during this period.

Several group classifications have been applied to Arab countries in recent years. In the 1980 the *Joint Arab Economic Report*⁸ divided the Arab countries into four groups: the first two groups comprised the Arab OPEC members, distinguishing between those which were relatively densely populated and considered to have a diversified economic base and

TABLE 6
ECONOMIC STRUCTURE: ARAB WORLD COUNTRIES, 1985

(Per cent of non-oil gross domestic product)

Country	A g r i	O i l m i n i n g	M a n u f	D i s t r	S e r v i c e	C o n s t	I m p o r t s	A b s o r p t i o n
GCC Countries								
UAE	2.6	82.7	17.0	44.9	17.9	25.1	56.0	131.6
Bahrain	1.2	22.0	13.9	42.0	24.1	9.9	84.7	118.1
Saudi Arabia	4.4	52.7	12.3	25.8	26.9	29.3	74.8	167.2
Oman	5.4	91.3	6.1	46.6	26.5	15.0	69.1	164.2
Qatar	1.7	75.9	12.5	36.1	34.9	16.6	35.2	104.3
Kuwait	1.0	100.8	12.4	35.0	34.7	10.7	96.9	202.1
AVERAGE	2.7	70.9	12.4	38.4	27.5	17.8	69.5	147.9
Non-GCC								
Iraq	18.3	30.4	12.6	34.4	20.0	18.4	49.7	150.5
Jordan	7.4	3.3	12.8	36.1	21.2	10.3	96.5	148.8
Libya	5.6	56.5	7.4	26.1	30.2	23.1	36.2	134.9
PDRY	8.7	0.1	11.3	27.9	23.3	7.9	97.2	187.1
YAR	34.2	1.0	7.1	26.3	16.4	8.8	41.0	137.1
Egypt	21.0	18.7	15.3	33.2	16.1	5.3	34.7	129.8
Algeria	10.7	28.4	13.5	28.0	18.4	19.4	27.7	125.1
Tunisia	16.9	11.3	13.4	25.1	21.7	6.7	45.1	119.3
Sudan	31.4	0.1	9.3	30.8	13.8	5.2	20.3	109.6
Syria	na	na	na	na	na	na	na	na
Somalia	43.9	3.5	6.0	16.0	9.1	2.7	30.6	122.0
Morocco	19.3	4.9	17.4	24.7	27.4	7.3	36.7	113.7
Mauritania	34.6	12.6	5.8	21.7	20.0	8.4	101.8	150.2
Lebanon	na	na	na	na	na	na	na	na
AVERAGE	21.0	14.2	11.0	27.5	19.8	10.3	51.5	135.7
Ratio:								
GCC/Non-GCC	0.13	4.99	1.13	1.40	1.39	1.73	1.35	1.09

Source: Computed from data in Arab Monetary Fund, *National Income Accounts, 1974-1985*.

a large absorptive capacity for investment (Algeria and Iraq) and the others (Kuwait, Qatar, Saudi Arabia and the UAE).

The third group contained Bahrain, Egypt, Jordan, Lebanon, Morocco, Oman, Syria and Tunisia, officially defined as developing and sometimes divided between the five that were self-sufficient in oil and the three that were not. The final group contained the lesser developed countries of Yemen Arab Republic, Yemen PDR, Djibouti, Somalia, Sudan and Mauritania.

The *Joint Arab Economic Report* also suggested a division of the 21 Arab countries into four industry groupings in the early 1980s. The first comprised those countries considered to possess a diversified manufacturing sector – Algeria, Egypt, Iraq, Lebanon, Morocco, Syria and Tunisia. Bahrain, Kuwait, Qatar and Saudi Arabia were grouped together as countries with large-scale predominantly oil and gas industries. Sudan, Libya and the People's Democratic Republic of Yemen made up the third group of countries whose industry structure fell somewhere between their first two groupings' criteria. The remaining countries were classified as displaying industrial structures of limited diversity and size.

Another picture of the relative degree of progress made by the Arab world towards diversification can be obtained through creating indexes of industrialization and other major measures of economic structure. Here, a commonly used technique, factor analysis⁹ (and associated factor scores) can be used to create relative rankings of countries based on each of these structural dimensions. Comparisons of change and in relative rankings can then be made over time.

For purposes of analysis a five factor analysis was used with the major dimensions in the data consisting of imports, and the value added sectoral output of manufacturing, construction, oil/minerals, distribution, and services.¹⁰ Except for manufacturing, each of these variables was represented as a percentage of non-oil GDP and as a percentage of absorption (total expenditures). To get a better idea of the relative importance of industrial activity in each country the manufacturing factor included in addition to its share of non-oil gdp and absorption, its share relative to the distribution and service activities.

The derived factor scores, or relative rankings on each of the structural dimensions provide additional insights (Tables 7–12) into the evolution of Arab economies over the 1974–85 period:

1. For manufacturing (Table 7), three GCC countries – Bahrain, Saudi Arabia and Kuwait began the period with above normal (positive factor scores) levels of industrial output.
2. However, over time the UAE has shown the greatest progress towards industrial diversification (again with industry defined in terms of its share of non-oil GDP and domestic absorption). Qatar's performance has also been above average in this regard. Oman was also able to increase its position on the industrial scale somewhat, but still remained considerably behind the GCC countries in this regard.
3. As a result of these trends, by 1985 both the UAE, and Qatar had made sufficient progress in industrialization to be considered above average relative to other Arab countries.
4. On the other hand, Bahrain, Saudi Arabia, and Kuwait have despite their absolute increases in industrial value added, declined in terms of overall industrial diversification.

Based on another measure of diversification away from oil, the share of imports in non-oil GDP/domestic absorption, a slightly different picture

TABLE 7
STRUCTURAL CHANGE IN THE ARAB WORLD: INDUSTRIAL
DIVERSIFICATION
(factor scores)

Country	1974	1975	1976	1977	1978	1979
<i>Gulf States</i>						
UAE	-0.75	-1.35	-1.26	-0.75	-0.45	-0.61
Bahrain	1.89	2.72	1.47	1.42	1.39	1.68
Saudi Arabia	1.20	0.93	0.64	0.23	-0.18	-0.20
Oman	-1.99	-1.64	-1.86	-1.99	-1.97	-1.73
Qatar	-0.96	0.12	-0.19	-0.67	-0.52	-0.28
Kuwait	0.64	0.09	0.46	0.78	0.78	1.87
<i>Other Oil Producers</i>						
Iraq	na	na	na	na	0.51	-0.02
Libya	-1.46	-0.83	-0.90	-0.91	-0.99	-1.03
Algeria	-0.02	-0.11	0.86	0.81	0.78	0.97
<i>Non-oil Economies</i>						
Egypt	0.99	0.74	1.24	1.14	0.99	0.58
Jordan	0.17	-0.11	0.12	0.14	0.11	0.01
PDR Yemen	0.63	-0.32	-0.11	0.24	0.33	-0.30
Yemen Arab Rep	-0.37	-0.61	-1.04	-1.06	-1.11	-1.02
Tunisia	0.11	-0.19	0.48	0.45	0.63	0.55
Sudan	-1.09	-0.04	-0.05	-0.16	-0.38	-0.18
Somalia	-0.52	-0.46	-0.52	-0.55	-0.94	-0.97
Morocco	0.96	1.03	1.59	1.73	1.90	1.38
Mauritania	-0.45	-0.35	-0.93	-0.87	-0.85	-0.72

Country	1980	1981	1982	1983	1984	1985
UAE	-0.32	0.48	1.21	0.96	0.89	0.90
Bahrain	2.23	2.36	1.22	1.25	0.87	1.12
Saudi Arabia	0.12	0.10	-0.23	-0.37	0.20	-0.06
Oman	-1.94	-1.80	-1.83	-1.76	-1.61	-1.59
Qatar	-0.25	0.14	-0.06	0.04	1.50	0.97
Kuwait	0.31	-0.28	-0.02	-0.57	-0.68	-0.47
<i>Other Oil Producers</i>						
Iraq	-0.37	-0.44	-0.20	na	na	-0.01
Libya	-1.04	-1.04	-0.92	-1.15	-0.86	-0.71
Algeria	0.81	0.30	0.73	0.63	0.39	0.50
<i>Non-oil Economies</i>						
Egypt	0.69	0.69	1.01	0.93	0.68	0.82
Jordan	0.42	0.40	0.67	0.45	0.39	0.38
PDR Yemen	-0.06	-0.20	0.09	0.25	0.06	-0.17
Yemen Arab Rep	-0.87	-0.87	-0.93	-0.72	-0.92	-1.02
Tunisia	0.75	0.69	0.71	0.68	0.52	0.73
Sudan	-0.57	-0.61	-0.96	-0.61	-0.09	-0.37
Somalia	-0.85	-0.85	-1.20	-1.10	-1.30	-1.35
Morocco	1.60	1.63	1.73	1.96	1.59	1.90
Mauritania	-0.65	-0.82	-1.00	-0.86	-1.48	-1.55

Note: Based on five factor analysis of imports, manufacturing construction, distribution and service sectors, each as a percent of non-oil GDP, and domestic absorption.

emerges (Table 8):

1. As anticipated, the GCC countries have used oil revenues to finance levels of imports considerably higher than their non-oil Arab counterparts.
2. Oil *per se*, however, cannot account for several significant trends within the GCC, in particular those experienced by Bahrain and Kuwait.
3. In 1974, Bahrain was by far the country most dependent on imports. The country has reduced its import dependence somewhat over time, but by 1985 was still one of the Arab world's highest importers.
4. On the other hand, Kuwait, the GCC country least dependent on imports in 1974, has seen its reliance on foreign goods increase considerably over time so that by 1985 it was close to Bahrain as one of the region's largest importers.
5. Qatar was the only country other than Bahrain that was able to achieve significant reductions in imports. In addition to Kuwait, Saudi Arabia and Oman both had fairly large increases in imports relative to their overall domestic production and consumption.

Another indication (Table 9) of the manner in which the GCC countries have progressed in diversifying their economies is provided by their dependence on the extractive sector (here including both oil and mineral production):

1. Somewhat surprisingly, in 1974 three GCC countries – Bahrain, Oman and Kuwait – actually had somewhat relatively low shares of extractive activities in relation to their levels of non-oil production/ domestic absorption.
2. This had changed by 1975, however, with only Bahrain having a relatively undeveloped extractive sector. By 1983, all the GCC countries had above average development of their extractive sectors.
3. Qatar began the period with by far the greatest dependence on extractive activities. This had not changed by 1985.
4. Kuwait had the greatest increase in dependence on extractive activities during the period under consideration, followed by Oman. Simultaneously, Saudi Arabia and the UAE were able to reduce their dependence somewhat.

In terms of non-traded activities, construction has followed a pattern well documented in the literature. Needless to say, the sector's development has been almost identical to that noted above for the extractive sector:

1. There is just about a one-to-one relationship between the development of oil and the relative ranking of countries on the basis of the importance of construction activity in their respective economies.
2. Saudi Arabia has dominated the development of this sector followed by the UAE.
3. The two exceptions to the oil/construction relationship are Kuwait and Bahrain.

TABLE 8

STRUCTURAL CHANGE IN THE GULF: IMPORT DEPENDENCE
(factor scores)

Country	1974	1975	1976	1977	1978	1979
<i>Gulf States</i>						
UAE	0.28	0.58	0.21	0.25	0.55	0.63
Bahrain	3.65	2.26	2.50	2.14	1.88	2.15
Saudia Arabia	-0.13	0.03	0.11	0.17	0.60	0.43
Oman	0.04	1.82	0.90	0.70	0.98	0.56
Qatar	0.27	-0.54	0.25	0.33	0.16	0.30
Kuwait	-0.88	0.32	0.50	1.06	0.99	0.60
<i>Other Oil Producers</i>						
Iraq	na	na	na	na	-0.16	0.12
Libya	-0.08	0.43	0.03	0.02	1.04	1.30
Algeria	-0.46	-0.19	-0.37	-0.22	-0.42	-0.86
<i>Non-oil Economies</i>						
Egypt	-0.38	-0.91	-1.19	-1.11	-1.03	-0.60
Jordan	0.02	0.80	0.93	1.01	1.04	1.30
PDR Yemen	-0.30	0.23	0.67	0.86	0.76	0.50
Yemen Arab Rep	-0.67	-0.75	-0.44	-0.46	-0.06	-0.06
Tunisia	-0.26	-0.86	-0.86	-0.84	-0.80	0.68
Sudan	-0.71	-1.18	-1.38	-1.58	-1.76	-1.93
Somalia	-0.42	-1.12	-1.34	-1.46	-1.51	-1.29
Morocco	-0.20	-1.03	-0.92	-0.95	-1.34	-1.39
Mauritania	0.20	0.09	0.39	-0.07	0.03	-0.06
Country	1980	1981	1982	1983	1984	1985
<i>Gulf States</i>						
UAE	0.74	0.17	0.03	0.11	0.00	-0.01
Bahrain	2.21	2.12	1.40	1.25	1.30	1.27
Saudi Arabia	0.40	0.28	0.56	0.63	0.88	0.60
Oman	0.75	0.54	0.63	0.50	0.48	0.51
Qatar	-0.28	-0.56	-0.28	-0.53	-0.88	-0.79
Kuwait	0.84	0.62	0.87	1.11	1.35	1.22
<i>Other Oil Producers</i>						
Iraq	0.18	0.37	0.33	na	na	-0.22
Libya	0.89	0.44	0.79	0.28	-0.42	-0.71
Algeria	-0.95	-0.88	-1.13	-1.12	-1.14	-1.16
<i>Non-oil Economies</i>						
Egypt	-0.52	-0.83	-0.99	-0.94	-0.77	-0.85
Jordan	0.89	1.32	1.47	1.45	1.52	1.43
PDR Yemen	0.79	0.78	0.65	0.86	1.03	1.19
Yemen Arab Rep	-0.11	-0.07	-0.36	-0.35	-0.51	-0.54
Tunisia	-0.67	-0.50	-0.55	-0.40	-0.26	-0.40
Sudan	-1.61	-1.54	-1.61	-1.26	-1.58	-1.46
Somalia	-1.45	-1.60	-1.51	-1.33	-1.06	-0.93
Morocco	-1.44	-1.16	-1.29	-1.17	-0.77	-0.74
Mauritania	-0.12	0.58	0.96	1.46	0.82	1.58

Note: based on five factor analysis of manufacturing, imports, construction, services and distribution.

TABLE 9
STRUCTURAL CHANGE IN THE GULF: DOMINANCE OF THE EXTRACTIVE
SECTOR
(factor scores)

Country	1974	1975	1976	1977	1978	1979
<i>Gulf States</i>						
UAE	1.66	1.67	1.81	1.69	1.67	1.72
Bahrain	-0.87	-0.29	-0.18	-0.11	-0.06	-0.34
Saudia Arabia	0.95	1.80	1.70	1.96	1.69	1.36
Oman	-0.30	0.96	0.89	0.68	0.61	0.50
Qatar	3.02	1.82	1.35	1.09	1.15	1.20
Kuwait	-0.59	0.22	0.37	0.47	0.76	0.67
<i>Other Oil Producers</i>						
Iraq	na	na	na	na	0.72	1.12
Libya	-0.25	0.56	0.91	1.11	1.03	1.04
Algeria	-0.04	0.04	0.28	0.26	0.26	0.43
<i>Non-oil Economies</i>						
Egypt	-0.38	-0.80	-0.91	-0.90	-0.85	-0.75
Jordan	-0.47	-0.76	-0.65	-0.71	-0.71	-0.60
PDR Yemen	-0.26	-0.71	-0.60	-0.69	-0.59	-0.70
Yemen Arab Rep	-0.31	-0.88	-0.87	-0.68	-0.75	-0.84
Tunisia	-0.16	-0.54	-0.58	-0.59	-0.65	-0.62
Sudan	-0.17	-0.88	-0.95	-1.01	-1.10	-1.16
Somalia	-0.62	-0.91	-1.23	-1.23	-1.44	-1.51
Morocco	-0.40	-0.61	-0.69	-0.53	-0.67	-0.66
Mauritania	-0.89	-0.70	-0.76	-0.81	-1.05	-0.87
Country	1980	1981	1982	1983	1984	1985
<i>Gulf States</i>						
UAE	1.59	1.31	1.08	1.42	0.40	0.81
Bahrain	-0.31	-0.27	-0.17	0.19	0.19	0.29
Saudia Arabia	1.67	1.95	2.00	1.72	0.72	0.60
Oman	0.47	0.65	0.73	0.83	0.62	0.99
Qatar	1.21	1.10	0.93	0.56	2.68	2.23
Kuwait	0.41	0.42	0.16	0.39	1.22	1.46
<i>Other Oil Producers</i>						
Iraq	0.77	0.62	0.49	1.14	na	-0.19
Libya	1.17	1.19	1.61	1.03	0.83	0.95
Algeria	0.66	0.51	0.62	-0.73	-0.45	-0.35
<i>Non-oil Economies</i>						
Egypt	-0.87	-0.80	-0.74	-0.94	-0.52	-0.47
Jordan	-0.45	-0.34	-0.44	-0.30	-0.65	-0.45
PDR Yemen	0.70	-0.46	-0.87	-1.23	-0.64	-0.47
Yemen Arab Rep	-0.78	-0.75	-0.73	-0.86	-0.89	-1.01
Tunisia	-0.70	-0.60	-0.58	-0.50	-0.38	-0.40
Sudan	-1.07	-1.12	-1.12	-1.15	-0.84	-1.32
Somalia	-1.56	-1.48	-1.37	-1.53	-1.23	-1.39
Morocco	-0.71	-0.65	-0.68	-0.67	-0.04	-0.16
Mauritania	-0.80	-1.29	-1.20	-1.30	-1.03	-1.10

TABLE 10
STRUCTURAL CHANGE IN THE GULF: SHIFTS IN THE CONSTRUCTION
SECTOR
(factor Scores)

Country	1974	1975	1976	1977	1978	1979
<i>Gulf States</i>						
UAE	0.92	2.00	2.02	1.87	1.94	1.98
Bahrain	-0.05	-0.42	-0.23	0.18	0.60	-0.08
Saudi Arabia	0.36	1.18	1.72	2.10	2.06	1.87
Oman	2.35	1.10	0.90	0.42	0.17	0.15
Qatar	0.63	1.74	1.15	1.03	0.69	0.62
Kuwait	0.10	-0.76	-0.46	-0.39	-0.39	-0.54
<i>Other Oil Producers</i>						
Iraq	na	na	na	na	0.28	1.07
Libya	1.57	0.96	1.02	1.04	1.12	0.97
Algeria	0.77	0.35	0.50	0.37	0.50	0.81
<i>Non-oil Economies</i>						
Egypt	-1.23	-0.79	-0.98	-1.04	-0.93	-0.77
Jordan	-0.55	-0.79	0.77	-0.73	-0.64	-0.45
PDR Yemen	-0.08	-0.61	-0.54	-0.57	-0.37	0.60
Yemen Arab Rep	-0.14	-0.86	-0.81	-0.48	-0.41	-0.63
Tunisia	0.19	-0.35	-0.52	-0.61	-0.60	-0.58
Sudan	0.15	-0.87	-0.94	-1.05	-1.11	-1.19
Somalia	-0.75	-0.80	-0.98	-1.01	-1.34	-1.39
Morocco	0.21	-0.42	-0.44	-0.42	-0.52	-0.52
Mauritania	-0.76	-0.63	-0.64	-0.69	-1.04	-0.73
Country	1980	1981	1982	1983	1984	1985
<i>Gulf States</i>						
UAE	1.70	1.22	0.89	1.39	1.27	1.22
Bahrain	-0.33	-0.37	-0.26	0.26	0.37	0.39
Saudi Arabia	2.04	2.05	2.00	2.06	2.21	1.61
Oman	0.21	0.31	0.30	0.42	0.35	0.43
Qatar	0.73	0.43	0.37	0.10	0.36	0.26
Kuwait	-0.25	-0.30	-0.41	-0.33	-0.65	-0.82
<i>Other Oil Producers</i>						
Iraq	0.68	1.23	1.11	na	na	0.27
Libya	1.19	1.54	1.88	1.19	0.93	1.53
Algeria	1.02	0.79	0.94	1.43	1.56	1.83
<i>Non-oil Economies</i>						
Egypt	-0.98	-0.93	-0.91	-0.86	-0.96	-1.01
Jordan	-0.32	-0.28	-0.31	-0.28	-0.44	-0.49
PDR Yemen	-0.69	-0.45	-0.33	-0.19	-0.69	0.11
Yemen Arab Rep	-0.58	-0.53	-0.63	-0.62	-0.96	-0.77
Tunisia	-0.78	-0.67	-0.65	-0.55	-0.65	-0.78
Sudan	-0.96	-0.94	-0.98	-1.00	-0.82	-0.87
Somalia	-1.39	-1.27	-1.19	-1.21	-1.28	-1.35
Morocco	-0.67	-0.62	-0.61	-0.51	-0.64	-0.65
Mauritania	-0.62	-1.21	-1.20	-1.28	-0.66	-0.71

TABLE 11
STRUCTURAL CHANGE IN THE GULF: EVOLUTION OF THE SERVICE SECTOR
(factor scores)

Country	1974	1975	1976	1977	1978	1979
<i>Gulf States</i>						
UAE	-0.74	-1.11	-0.74	-0.99	0.72	0.44
Bahrain	1.94	0.56	1.02	0.96	1.31	0.64
Saudi Arabia	-0.49	0.78	0.75	0.28	0.30	0.51
Oman	0.21	-0.03	-0.36	-0.02	0.18	0.57
Qatar	0.14	0.64	0.24	0.03	0.69	0.58
Kuwait	1.37	1.70	1.71	2.13	1.89	1.50
<i>Other Oil Producers</i>						
Iraq	na	na	na	na	-0.98	-2.40
Libya	0.87	1.09	1.17	1.11	0.96	1.07
Algeria	-1.07	-0.72	-0.99	-1.02	-0.90	-0.19
<i>Non-oil Economies</i>						
Egypt	-0.10	-0.51	-0.29	-0.47	0.61	-0.90
Jordan	0.74	0.38	0.12	-0.34	-0.57	-0.31
PDR Yemen	-0.52	-0.18	-0.28	-0.56	-0.51	-0.07
Yemen Arab Rep	-1.34	-1.36	-1.51	-1.04	-1.04	-0.64
Tunisia	-0.13	0.21	0.34	0.23	0.22	0.19
Sudan	-1.04	-1.28	-1.21	-0.99	-1.14	-1.05
Somalia	-1.47	-1.83	-1.66	-1.55	-1.34	-1.17
Morocco	1.23	1.00	0.99	0.88	0.92	0.78
Mauritania	0.39	0.66	0.72	1.06	1.34	1.33
Country	1980	1981	1982	1983	1984	1985
<i>Gulf States</i>						
UAE	-0.90	-0.73	-0.76	-0.71	-0.53	-0.25
Bahrain	0.51	0.83	0.52	0.32	0.43	0.56
Saudi Arabia	0.29	0.24	0.20	0.45	0.79	0.63
Oman	0.07	0.22	0.04	0.25	0.20	0.55
Qatar	2.00	1.62	1.84	2.41	2.93	2.60
Kuwait	1.47	1.23	1.27	0.73	0.72	1.00
<i>Other Oil Producers</i>						
Iraq	-0.67	-0.55	-0.86	na	na	-0.22
Libya	0.65	0.43	1.03	0.96	0.95	1.24
Algeria	-0.66	-0.96	-0.85	-0.91	-0.85	-0.89
Egypt	-0.97	-0.61	-0.58	-0.74	-0.75	-0.76
<i>Non-oil Economies</i>						
Jordan	-0.40	-0.81	-0.86	-0.75	-0.67	-0.42
PDR Yemen	-0.28	-0.46	-0.51	-0.49	-0.45	-0.28
Yemen Arab Rep	-0.92	-1.11	-0.68	-0.60	-0.50	0.49
Tunisia	0.21	0.15	0.29	0.03	0.28	-0.30
Sudan	-0.86	-1.02	-1.16	-1.46	-0.74	-1.62
Somalia	-1.74	-1.44	-1.45	-1.26	-0.96	-0.94
Morocco	1.21	1.48	1.38	0.94	0.56	0.50
Mauritania	1.00	1.49	1.14	0.82	-0.87	-0.92

TABLE 12
STRUCTURAL CHANGE IN THE GULF: SHIFTS IN THE DISTRIBUTION SECTOR
(factor scores)

Country	1974	1975	1976	1977	1978	1979
<i>Gulf States</i>						
UAE	1.32	1.56	1.69	1.39	1.03	0.98
Bahrain	0.89	1.29	1.48	2.19	2.39	1.75
Saudi Arabia	0.36	-1.01	-1.15	-1.11	-1.20	-1.03
Oman	-0.82	-0.65	0.81	0.82	0.87	1.20
Qatar	3.11	2.00	1.06	0.45	0.78	1.00
Kuwait	-1.22	-0.89	-0.51	0.26	0.20	-0.11
<i>Other Oil Producers</i>						
Iraq	na	na	na	na	-0.28	0.40
Libya	-0.45	-0.71	-0.81	-0.89	-0.87	-0.94
Algeria	-0.10	-0.42	-0.37	-0.33	-0.15	-0.73
<i>Non-oil Economies</i>						
Egypt	0.00	-0.06	0.07	0.00	0.20	0.24
Jordan	-0.10	0.95	0.27	0.07	0.36	0.29
PDR Yemen	-0.08	0.27	0.09	-0.43	-0.80	-0.42
Yemen Arab Rep	-0.14	-0.03	-0.41	-0.43	-0.69	-0.87
Tunisia	0.19	0.11	-0.02	-0.11	-0.10	-0.10
Sudan	0.15	0.34	1.23	1.25	1.17	1.54
Somalia	-0.75	-1.48	-1.46	-1.42	-1.38	-1.68
Morocco	0.21	0.00	-0.31	-0.27	-0.17	-0.34
Mauritania	-0.76	-1.27	-1.66	-1.44	-1.37	-1.20
<hr/>						
Country	1980	1981	1982	1983	1984	1985
<i>Gulf States</i>						
UAE	1.34	1.20	1.51	1.40	1.25	1.42
Bahrain	2.16	2.49	2.48	2.41	1.85	1.95
Saudi Arabia	-1.12	-1.06	-0.85	-0.67	-0.13	-0.87
Oman	0.84	1.01	0.95	0.82	0.72	0.83
Qatar	1.04	0.84	0.41	0.30	0.69	0.25
Kuwait	0.18	0.43	0.38	0.12	0.08	-0.39
<i>Other Oil Producers</i>						
Iraq	-0.03	-0.09	-0.27	na	na	0.35
Libya	-1.04	-0.92	-0.63	-0.80	-0.99	-0.85
Algeria	-0.27	-0.28	-0.24	-0.18	-0.41	-0.25
Egypt	0.66	0.26	0.30	0.36	0.21	0.33
<i>Non-oil Economies</i>						
Jordan	0.38	0.05	0.06	0.20	0.21	0.31
PDR Yemen	-0.97	-1.04	-0.97	-0.97	-1.20	-1.25
Yemen Arab Rep	-0.74	-0.65	-0.89	-0.85	-1.18	-0.97
Tunisia	-0.30	-0.41	-0.28	-0.26	-0.47	-0.25
Sudan	0.79	0.68	0.79	0.87	1.87	1.92
Somalia	-1.39	-0.35	-0.45	-0.55	-0.93	-0.88
Morocco	-0.35	-0.53	-0.60	-0.48	-0.68	-0.65
Mauritania	-1.19	-1.64	-1.75	-1.75	-0.89	-0.93

4. Kuwait's construction activities have been relatively low by GCC standards, and certainly in terms of its oil production. Construction in Bahrain appears to have taken on a size much greater than warranted by the country's hydrocarbon resources.

5. Qatar and Oman have been able to gradually reduce the importance of construction in their respective economies, but still retain relatively high levels of activity relative to Arab states as a whole.

The other two largely non-traded activities, services (Table 11) and distribution, (Table 11) show several distinctive patterns and are perhaps more indicative than industry of the manner in which the GCC countries have modified their economies following the 1973/74 oil price shock:

1. There is a fairly close association between the expansion of services and the development of oil resources. However, this pattern is not quite as close as was the case with construction. Here the UAE has lagged behind the other GCC countries in developing its service sector.

2. Kuwait and Bahrain have historically dominated the development of service activities. Both countries have had a relative decline over time.

3. The most dramatic increase in service activities was experienced by Qatar, who by the end of the period had the most pronounced development of this sector.

4. Oman has also had an expansion in its service sector, although probably more than warranted by its rate of oil production.

5. The over-development of service activities is not necessarily an inherent consequence of oil production and export. One producer (albeit of lesser importance), Algeria, did not experience much of an expansion in service activities, and Iraq had one of the lowest shares of services relative to non-oil/domestic absorption in the Arab world.

In terms of the development of distributive activities:

1. A pattern similar to services has developed where, in general, the GCC countries have had relatively high ratios of these activities to non-oil GDP and domestic absorption.

2. Qatar began the period with by far the most extreme development of its distribution sector. Over time, however, and perhaps because of the rapid expansion in services, distribution has fallen so that by the end of the period it was fourth (after Bahrain, Oman, the UAE) in relative development in the GCC.

3. Largely because of its financial activities Bahrain has gradually increased its share of distributive activities. Since 1977, it has been the leading GCC country in terms of these activities.

4. Saudi Arabia and Kuwait have historically lagged behind the other GCC countries in terms of the relative importance of distributive activities in their respective economies.

CONCLUSIONS: THE PROCESS OF INDUSTRIALIZATION IN THE GCC

Because the subject of industrialization lends itself so readily on one plane to the abstractions of economic and development theory, there has been a tendency for Arab industry in general and that in the GCC in particular to be burdened over time with a range of expectations and targets, themselves devised in the abstract and bearing little reference to reality.

As noted, the arrival of a viable and self-sufficient manufacturing industrial structure has long been viewed as the prime objective of the Arab Gulf states, as the key to successful economic diversification, and as the main assurance of continuing and self-sustaining economic growth. Since the large increases in oil revenues in the 1970s, Gulf governments have directed a substantial portion of their huge development outlays towards the creation of an adequate industrial infrastructure and the establishment of certain major state and joint public/private public heavy industries.

It is clear from the patterns described above, however, that any way one looks at it, industry has expanded at rates lower than in the non-oil countries and in fact much lower than experienced by the service and distribution sectors. In this sense, attempts by the GCC countries at industrialization must be considered minor failures at the present time.

Before any final evaluations are made of GCC attempts at industrialization, however, it is important that two basic factors be recognized which render any precise objective analysis of the Gulf experience in industrialization difficult, if not impossible at the present time.

The first factor is the total time span from the first steps in modern industry to the present day, which has been too short to allow the industrial sector to become firmly established, and thus the effect of industrial development on the economic and social growth in the region to be quantified. The rupture which occurred in the productive processes of Gulf society in the transition from pre-oil export dominated economies was total, in that there is no direct connection or relationship between the introduction of modern industry to the Gulf states and the historical relations of production in the Gulf. Consequently, the process of industrialization has depended on external rather than internal dynamics.¹¹

As Abdulla Hamad al-Moajil has noted:

The fact that industrialization has been an external rather than internal process for the societies of the Gulf resulted in a false understanding of the true meaning of industrialization based on a confusion between the theory of industrialization in its broadest sense and the practical process of installing industrial plant through turnkey contracts with foreign construction and engineering companies. Factories set up in the Gulf on this turnkey basis belong to the region in a geographical sense, but the existence and continued functioning of the factories is dependent on external factors. In other words, the process of industrialization in the Gulf has tended to be a geographical rather than an historical phenomenon.¹²

The second factor preventing an objective assessment of Gulf industrialization is the absence of a comprehensive strategy for development on the regional level to provide a definition of the status and role of manufacturing industry within the overall process of social and economic development. Again as observed by al-Moajil, although each individual state in the region has formulated and instituted its own development plans, whether on the basis of declared five-year plans or a more general long-term policy, there has been little effort until recently to achieve any coordination between neighboring states.¹³

Thus while the success of each state in achieving its self declared targets has given the semblance of overall development even in terms of industrial growth, the actual growth of industry in each state has not been related to a regional strategy aimed at maximum exploitation of regional resources and markets. In the absence of a coordinated regional strategy, excessive capacity was installed in some sectors of industry, while none was installed in others. This imbalance coupled with the limited size of markets available within any single state, meant that there was no possibility for the growth of integrated industries, so long as development took place at state level rather than in a regional context.¹⁴

Both closer integration of industry to the domestic economies together with an increase in coordination with other regional countries may enable the GCC countries to successfully complete the industrialization diversification efforts begun over a decade ago.

NOTES

* This article was in the press before the invasion of Kuwait on 2 August 1990 – Eds.

1. 'The Gulf Gambles on Industry', *The Middle East* (Dec. 1988), pp.5–6.
2. See in particular, Muhammad Abd al-Shafi, 'Industrial Development in the Persian Gulf', *The Jerusalem Quarterly* (1986), pp.141–44.
3. Yusif Halabawi, 'Industrial Development in the Arab Homeland: Reality and Future Trends', *Arab Affairs* (Summer 1986), pp.152–69.
4. Some of these arguments are summarized in Yannis Stournaras, 'Is the Industrialization of the Arab Gulf a Rational Policy?', *The Arab Gulf Journal* (April 1985), pp.21–28.
5. Unless otherwise specified, all data is from: Arab Monetary Fund, *National Income Accounts, 1974–1985* (Abu Dhabi: Arab Monetary Fund, 1987).
6. Arab Banking Corporation, *Industrialization in the Arab World, Occasional Papers Series – No.3* (Manama, Bahrain: Arab Banking Corporation, 1986), p.6.
7. Ibid.
8. General Secretariat of the Arab League *Joint Arab Economic Report, 1980* (Abu Dhabi: Arab Monetary Fund, 1981) English edition.
9. See R.J. Rummel, *Applied Factor Analysis* (Evanston, Illinois: Northwestern University Press, 1970) for a description of this method. Computations were made using the Statistical Analysis System. Cf. *SAS User's Guide: Statistics, Version 5.0* (Cary, North Carolina: SAS Institute, 1985).
10. Since the construction sector was highly associated with oil, two separate runs were performed with each of these sectors individually factor analyzed with: imports, manufacturing, distribution and services.

11. Abdulla Hamad al-Moajil, 'Industrialization in the Arab Gulf States', *Arab Gulf Industry* (Jan. 1986), p.9
12. Ibid., p.9
13. Ibid.
14. Ibid., pp.9-10.