CHAPTER 3.1

The Gulf Cooperation Council (GCC) Countries and the World: Scenarios to 2025: Implications for Competitiveness

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The World Economic Forum has developed three scenarios for the future of the Gulf Cooperation Council (GCC) countries to 2025. From the underlying models of economic, social, and political development used to create the scenarios, it is possible to derive forces that will shape the economic environment of the GCC and assess their implications for the competitiveness of the GCC countries over the next 17 years. This chapter introduces the three scenarios for the region from 2007 to 2025 and examines their implications for the future of the GCC countries competitiveness.

What are scenarios?

Scenarios are stories about the future. Leading global companies often engage in constructing large-scale scenarios to help formulate their business and investment strategies. Scenarios enhance the robustness of strategies, allow better strategic decisions, raise awareness of the external environment, provide impetus for current action, and increase the speed of response to unexpected events. The World Economic Forum produces a diverse and wide-ranging set of scenarios as part of the World Scenario Series. Previous projects include scenarios for India, Russia, China, the Digital Ecosystem, and Technology and Innovation in Financial Services.

Good scenarios are plausible, challenging, and rigorously constructed to address the most critical questions that decision makers need to face. The Gulf Cooperation Council (GCC) and the World: Scenarios to 2025 were developed over a period of one year and involved workshops in Abu Dhabi, Doha, London, Sharm El Sheikh, New York, and Washington, DC. They synthesize the perspectives of many leaders in business, society, government, and academia from both within and outside the GCC countries. Supporting analysis has added insights from multiple stakeholders, and the underlying economic basis is backed by rigorous modeling in conjunction with research partners of this project.

For a region as diverse as the GCC, no single set of scenarios can claim to describe all possible futures. Each story that has emerged describes one of many different, plausible futures for the GCC countries. Importantly, they are not predictions but rather possibilities. They are intended to provoke readers, challenging their assumptions about what may happen and providing a useful shared basis for debate.

Notes:
The authors would like to thank Johanna Lanitis and Sandrine Perrollaz for their excellent research assistance.
The full text of The Gulf Cooperation Council (GCC) Countries and the World: Scenarios to 2025 will be available to Forum members following its exclusivity period with our developing partners. For further information, please contact the World Economic Forum Scenario Team at scenarios@weforum.org.
In developing these scenarios, the Forum closely involved senior executives from leading global companies, as well as thought leaders, scenario practitioners, and public figures. Together they identified the following critical questions:

- Will leaders in the GCC countries be willing and able to implement the necessary economic and political reforms and enforce the rule of law, both in public and in private governance?
- Can the GCC countries maintain internal order and stability, in particular vis-à-vis a complex and uncertain regional situation?

Answering these questions in different ways provides the basis for imagining different futures for the GCC countries based on their progress in implementing economic, political, and social reforms and the various possibilities in terms of regional stability. Both questions are also of vital importance for the evolution of national competitiveness and economic growth.

**Key themes of the scenarios**

The GCC countries have benefited enormously from oil and gas reserves and assets that have generated significant financial liquidity in the six years between 2001 and 2007. Its present wealth poses an interesting question for those interested in the future of the GCC countries, and one that these scenarios seek to address: How can this wealth be put to use to ensure that the GCC countries expand in affluence, and also ensure that they overcome the internal and external pressures that could shift them from the path of sustainable prosperity?

In positing three possible futures that address these questions in different ways, two key themes consistently emerge as being crucial to the future of the GCC countries. Both of these directly and indirectly affect the competitiveness of the GCC countries:

- **Education and innovation.** The GCC countries face the challenge that their collective oil reserves, although vast, will not last forever. Nor are oil and gas always a reliable source of wealth—there have been many times when GCC budgets were in deficit and public debt rose as a result of falling energy prices. However, in attempting to diversify away from oil, the GCC countries face a major problem in that their existing skill base for workers is low by world standards, and relatively little research, development, and innovation are occurring in the region. Data from the Global Competitiveness Index indicate that the region significantly lags behind in terms of education and innovation (see Chapter 1.1 of this Report for a more detailed discussion).

- **Leadership and governance.** The GCC countries are ruled by traditionally organized family groups, with varying underlying executive, legislative, and judicial models. Leadership and governance will therefore be instrumental in determining the path that the GCC countries will take over the next 20 years. Although much is being undertaken today in terms of reform to improve the efficiency and openness of these systems, the strategies chosen and the rates of change vary between GCC countries.

Before discussing the scenarios and their implications in detail, it is useful to take a look at the competitiveness landscape of the GCC countries that emerges in 2007.

**Current competitiveness challenges in the Gulf Cooperation Council countries**

The results of the Global Competitiveness Index highlight a number of competitive strengths and weaknesses for the five GCC countries it covers—Bahrain, Kuwait, Oman, Qatar, and the United Arab Emirates. The Index assesses competitiveness of countries by looking at nine criteria that affect competitiveness: institutions, infrastructure, macroeconomy, health and primary education, higher education and training, market efficiency, technological readiness, business sophistication, and innovation. The average results in these categories are benchmarked against Singapore in Figure 1.1.

Not surprisingly, given the current surge in oil prices, members of the GCC display stable macroeconomic indicators. In particular, oil revenues combined with better fiscal management than in previous years fueled budget surpluses and enabled governments to partly repay public debt and increase national savings,
but this also increased inflation. On average, countries also display well-run institutions with relatively well protected property rights and fairly low levels of corruption. Businesses have trust in the honesty of politicians and consider public spending to be well invested. Efforts to strengthen the financial sector have paid off in the region, and financial markets display, on average, a fairly high level of sophistication. At the same time, however, financial markets are not sufficiently geared toward fueling entrepreneurship, and access to finance for local companies remains difficult in many countries, despite high liquidity levels.

In order to realize their full competitive potential, GCC countries should focus on strengthening the availability and quality of educational institutions at the primary, secondary, and tertiary levels, although the performance on educational indicators among GCC countries is very diverse. Some countries lag behind in terms of primary education and display fairly high levels of illiteracy, while other countries need to improve university education. A common problem that occurs across the region, however, is that the educational institutions do not teach young people the skills necessary to succeed in the private sector.

In most GCC countries, more openness to domestic and international competition would benefit the economy. Also, the ability to adopt technologies from abroad and the capacity to innovate are on average limited. This is mainly because of the low quality of research institutions, but also because of the scarcity of qualified staff, such as scientists and engineers.

**Overview of competitiveness aspects within the scenarios**

Three different paths for the GCC countries through to 2025 are represented in Figure 2, displayed as movements through a matrix defined by the key questions above. The resulting scenarios are called *Oasis*, *Sandstorm*, and *The Fertile Gulf*.

**Oasis**

*Oasis* describes a scenario where regional stability continues to be a challenge for the GCC countries, which are nevertheless able to achieve substantial institutional reforms in an environment of relatively stable oil prices that have a floor of US$45 per barrel. The GCC countries develop strong identities and work together to coordinate diplomatic and economic policies through technocratic governance and a strong internal market. Overregulation in world markets slows the process of globalization of the world economy to global GDP growth rates of 3–3.5 percent, affecting the GCC countries; nonetheless, these countries are an oasis of stability and prosperity in an otherwise troubled region. By 2025, the countries have all made significant gains in terms of competitiveness, but have done so via a series of top-down reforms and industry policy rather than by focusing on market liberalization. Thus, although health,
education, and technology have improved substantially, there remain some elements of friction within institutions and markets that are geared toward strategic priorities, and infrastructure investments occasionally suffer from poor planning. Nevertheless, efforts to build the private sector and improve the efficiency of the public sector have paid off in terms of increased business sophistication and reduced costs of bureaucracy and corruption.

2007–12
As tensions rise in the Gulf with regard to Iran and problems persist with sectarian and insurgent violence in Iraq, a new regional body known as the GCC Economic Coordination and Development Board progressively develops a coordinated regional economic strategy to make the most of relatively high oil prices—the “Three Pillars” strategy—that aims at (1) encouraging public-private partnerships, (2) encouraging economic diversification, and (3) improving governance through stronger and more efficient institutions. There is a focus on building the private sector through targeted incentives for domestic and foreign investment, particularly in tourism, business services, and energy-intensive industries such as petrochemicals, aluminum, and steel. Financial markets develop strongly, and there is talk of market consolidation following monetary integration in 2012.

The skills shortage begins to be addressed by educational reform aimed at enhancing human capital in strategic sectors, improving public infrastructure across the region, and implementing on-the-job training through appropriate training schemes. Training programs for nationals in both domestic and international firms are being funded. Because the strategy indicated that high-tech industries should be developed within the oil and gas sector, a public-private partnership to train local engineers has been established. At the same time, a review of educational standards across the six GCC countries has been undertaken, and a plan for regional accreditation of universities has been put in place. Leaders have been encouraged to be role models for private-sector participation; the educational system has reinforced this message. Taken together, all this has contributed to upgrading the image of the professional worker and strengthened meritocracy among the workforce. The GCC region achieves over 5 percent real compound annual growth for the period.

2013–20
Nuclear proliferation causes regional concerns and increases the volatility of the price of oil. Efforts to accelerate economic diversification continue with strategic research and development (R&D) investments,
capturing more of the energy value chain and increasing the world market share of associated industries. The GCC countries work toward possessing some of the leading technologies for oil-field mapping and enhanced oil recovery. The push in R&D is leading to advances in chemicals and starting to spill over to plastics; the GCC is set to become home to a very successful cluster of firms specializing in advanced materials. Top-down economic reform is broadly successful, and—following a significant joint effort on the part of the countries’ leaders—educational standards are established across the GCC countries to create a deeper regional labor market. Another particular focus is the creation of public affairs management colleges to educate a generation of technocrats in order to increase the effectiveness of the public sector. Political reforms progress slowly, with pressures from local populations managed through a combination of financial incentives and partial inclusion through (mostly symbolic) consultative bodies. Real growth over the period is slightly lower, at just under 5 percent, but some economies in the region far exceed this. Despite diversification efforts, government revenues remain dependent on resources and drop significantly around 2011 as oil prices hit a low, but recover in the following years (see Figure 3).

**Figure 3: Gulf Cooperation Council budget balance: Oasis scenario**

![Graph showing budget balance of the Gulf Cooperation Council from 2005 to 2015.](source: PFC Energy)

2021–25

Governance structures in 2025 are, in most cases, profoundly different from those in 2007, following 17 years of streamlining the still-dominant public sector. A generation of talented, nationally educated technocrats ensures that, for the most part, GCC national institutions are efficient and effective. Ruling families primarily act as occasional advisers rather than executive leaders, and there is a strong meritocratic culture throughout the public and private sectors. This is created through effective leadership by example and through instilling the merit principles in the educational system. Unemployment, although still important, remains contained below 13 percent overall despite a population that has almost doubled in 25 years. Governments are focused on refining their industry policies—these occasionally fail, but they have been fairly successful in a global environment characterized by solid GDP growth of 3.5 percent. These industry policies have a distorting side-effect of skewing entrepreneurship toward government-favored sectors, and productivity remains below levels of international peers. At the same time, the private-sector benefits from well-enforced corporate governance standards and from world-class financial institutions operating in the region. Oil continues to be the primary source of budget revenue for the GCC countries because oil prices are robust, and
budgetary spending is largely contained. Despite a somewhat difficult environment, integration with the global economy continues and there is a strong increase in trade in goods and services. Both trade in goods and trade in services more than quadruple. The politics of the region are not profoundly different from the beginning of the century, but wealth has increased significantly, with GDP per capita hitting levels above US$30,000 in nominal terms. Despite ongoing calls for increased transparency in decision-making, people are generally satisfied with their governments’ management of natural resources and social issues.

Sandstorm

Sandstorm describes a future where regional instability is a defining factor, affecting the ability of GCC countries to effectively carry out much-needed institutional reforms. In a depressed global environment affected by extremely volatile oil prices, reforms deflate or collapse from a lack of attention to the root cause of internal issues and the tendency for governments to focus on short-term stability at the expense of long-term solutions. Caught in a shifting, violent environment, the GCC countries are blinded, unable to navigate their way out of the sandstorm and identify opportunities for prosperity for their populations, despite the fact that low oil prices from 2011, caused by the global slowdown, offer a wealth of incentives for reform. In terms of competitiveness, the GCC countries find themselves worse off than they were at the beginning of the century, with stagnant and inflexible institutions, eroded and irrelevant public infrastructure, a poorly developed and internationally struggling private sector, and a lack of educational and financial capital with which to rectify the situation.

2007–12

The Gulf region is thrown into chaos in 2009 when the United States undertakes a military strike against Iranian nuclear sites, provoking Iranian missile attacks on US bases in GCC countries along the Gulf and helping to precipitate a global recession. Oil prices stabilize, after an initial drop, when they reach levels as low as US$30 per barrel in 2011 down from US$140 in 2009. In addition, populations in GCC countries react strongly to the deteriorating security situation, resulting in a period of internal instability. GCC governments scramble to head off internal and external threats to their authority. Funds are diverted to military spending at the expense of improving institutions and education. Instead of fostering R&D and creating a long-lasting capital base, investments are directed toward public infrastructure of limited utility, creating only temporary employment. As a result of the political instability, military attacks, and the like, and the failure to support private-sector reforms (negating the influence of fluctuating oil prices), the real economy contracts by 19 percent over the period.

2013–20

In a depressed global environment, a lack of attention to the causes of internal problems mean that reforms are ineffective. Governments have a tendency to focus on short-term fixes rather than long-term solutions, and they divert the oil revenues that do exist to extensive arms purchases and investment in nonproductive assets. Capital is leaked to Europe. A series of terrorist attacks causes Gulf populations to carefully consider their internal security, and financial markets across the region suffer heavily as a result. Nevertheless, real non-oil GDP recovers slightly to regain the levels prior to the conflict with Iran, and success for Kuwait and United Arab Emirates brings the GCC current account balance back into the black.

Labor markets continue to be strongly regulated in favor of national employees, who appear not only often to lack the necessary skills but also to have a less performance-oriented attitude than foreign workers. This in particular affects executive positions in companies. Reforms of government bureaucracies, although undertaken, are only superficially implemented, constituting a major impediment to business. Huge delays and costs for obtaining permits are the rule and government contracts are awarded arbitrarily. The bureaucratic problems intensify after reforms are scaled down in 2015 and 2016. By 2020, businesses consider the inadequately educated labor force and the inefficient government bureaucracy to be the two most problematic factors for doing business.

During this time, GCC countries start falling further behind the rest of the world in terms of the adoption and implementation of new technologies, and they have more and more difficulty competing with international players from China and India. Even in the exploration and production of oil, the value added is not captured successfully. And although a few pockets of excellence emerge in selected sectors and countries, reforms are not implemented effectively and a more prosperous and productive private sector does not emerge.

2021–25

The GCC countries are caught in a trap of needing to control their populations out of fear of further unrest, but being thereby unable effectively to create the conditions for renewed growth, despite rising oil revenues. GDP growth in the GCC is stable at annual rates of about 5 percent. Reform efforts remain constrained by the fears of a deteriorating security situation. Access to education remains difficult, and distance learning is the only viable option. At the same time, ICT infrastructure is considered subversive by governments. Meanwhile, thanks to resilient populations making the most of the
globalization of communications, a new sense of identity emerges although the broader humanitarian cost of the economic slowdown (the result of the inability to create the conditions for renewed growth) is considerable—and at least partly avoidable. Succeeding generations hope to make a better start in 2025, but they have far less to work with than they might have had.

The Fertile Gulf

describes the rise of the GCC countries as innovation hubs in a global environment characterized by strong demand for energy and increasing globalization. Regional stability gives the GCC countries the opportunity to focus on enhancing their human capital at all levels, investing heavily in education while proceeding carefully with political and institutional reforms to support their growing economies and societies. High oil prices resulting from sustained demand and global growth provide GCC countries with ample resources. In this way, along the Persian Gulf modern, highly competitive economies make the most of the conditions of globalization, thanks to efficient institutions and markets and a broad base of local, highly skilled workers.

2007–12

Growing tensions and insecurity spur a series of multilateral conferences involving the leadership of GCC countries. The problem of regional violence is addressed at political and cultural levels, resulting in increased regional stability. At the same time, recognizing the importance of education and innovation, a number of GCC governments decide to spend their built-up wealth on educating their people and jump-starting R&D in a radical and dramatic fashion. As a result, a number of huge education and R&D funds emerge, sponsored by private individuals and supported by GCC governments and commercial partners. Encouraging entrepreneurship by creating more business-friendly regulatory and institutional environments through improving corporate law and by significantly reducing the number of procedures required to set up a business were key elements to the success of these reforms. Just as important was the establishment of funds that both incentivize and aid the development of new business ideas, so that the GCC countries effectively begin to emulate the “Silicon Valley” model. The involvement of the private sector in these economic reforms is an important aspect of their success, and is at least partly responsible for compounded real annual growth of over 6 percent for the region as a whole.

2013–20

Less volatile (but still bullish) oil markets do not distract GCC countries from private, non-energy sector development, the success of which reduces national unemployment while creating an array of sought-after, highly skilled jobs for those coming out of the newly reformed educational system. A series of international bilateral agreements to financially support research projects in exchange for intellectual property rights results in an innovation explosion in the GCC countries, and new R&D firms flood into the region. Incremental improvements in institutions (including strong reforms to property rights in terms of legislation and enforcement) to manage the burgeoning entrepreneurship combined with a more influential business community further support regional development. Public investment in infrastructure is more efficient, and transparency and accountability of public institutions are significantly strengthened, reducing corruption and nepotism. A one-license approach is introduced in the GCC. Regional infrastructure is developed and it is easier for people to move between countries, thereby rendering the labor allocation more efficient. In some countries, professional ethics are strengthened and the business sector benefits from an increasing participation of women in the labor market. Financial markets in the region are significantly strengthened in terms of sophistication of both products and regulation. Economic expansion continues strongly on the back of monetary integration averaging over 5 percent real growth for the period, with extremely strong growth in Kuwait and the United Arab Emirates.

2021–25

Political reforms, which have proceeded at different stages across the GCC countries, find balance; Western democratic ideals are not directly transplanted. Instead, governments generate their own models of participatory governance over a period of experimentation and increasing engagement with their populations. After a sea change in both attitudes to and the provision of tertiary education, Arab graduates are keenly sought after for positions in finance, engineering, and medical sciences in Asia, Europe, and North America. GCC-based business schools make it to the top 50 in world rankings. Thanks to the improved education and good business climate, unemployment is greatly reduced while the proportion of migrant workers decreases. Credit is widely available to a new generation of entrepreneurs, who drive much of the continuing strong growth in the region. Economic diversification results in a greatly reduced share of oil in GDP, and the GCC countries emerge as an innovation hub, where the constraint of demographics is turned into a world-class asset, enhancing the region’s competitiveness. This looks set to continue with extremely healthy, and growing, positive budget and current balances.

Figures 4–7 show the diverging evolution of the main economic indicators in the three scenarios; Table 1 summarizes the impact on the nine categories used to assess competitiveness.
Figure 4: Oil prices

Source: PFC Energy.

Figure 5: Real GDP per capita

Source: PFC Energy.
Figure 6: Share of non-oil sector in real GDP

![Graph showing the share of non-oil sector in real GDP from 2000 to 2024 for different scenarios.]

Source: PFC Energy.

Figure 7: Gulf Cooperation Council budget balance

![Graph showing the budget balance for different GCC countries from 2000 to 2024.]

Source: PFC Energy.
### Table 1: Qualitative comparison of the trends between 2006 and 2025 based on the Global Competitiveness Index

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<th>OASIS</th>
<th>SANDSTORM</th>
<th>THE FERTILE GULF</th>
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</table>
| **1st pillar: Institutions** | • Public-sector reform leads to technocrats ruling. National institutions are more effective and less wasteful, but weak areas remain. A focus on top-down reform and implementation means the public sector is still the cornerstone of economic development.  
  • Property rights are strengthened along with the rule of law, but there is still a lack of transparency at high government levels in a number of countries, and the elite still control many of the resources.  
  • Reform of corporate law means that private institutions are stronger and more effective; government remains fairly hands-off vis-à-vis corporations in a bid to encourage private-sector development. | • Corruption and lack of transparency worsen as defense spending rises across the region and political reforms are pulled back.  
  • Property rights remain relatively undeveloped across the region as governments seek maximum control over their populations.  
  • Business reforms needed to survive the global economic downturn were not sufficiently implemented by the governments.  
  • Unaddressed tensions in the region, occasionally spilling over into domestic unrest, lead to reduced security and higher business costs of terrorism.  
  • The GCC remains vulnerable to terrorism and oil-price volatility. | • Governments streamline regulation to reduce red tape, introducing "one-stop shops" and improving coordination between and within ministries.  
  • Despite a rather slow start, GCC countries proactively embark on fundamental and genuine political, legal, and administrative reforms for increased transparency and accountability, accelerated by a push from corporations. This results in lower corruption and improved judicial independence.  
  • Improved regional security lowers the business cost of unrest. |
| **2nd pillar: Infrastructure** | • Despite attempts to coordinate investment at a regional level, infrastructure development is haphazard among the GCC countries.  
  • Top-down implementation of clear economic strategies means infrastructure improves over time, but lack of transparency and a rigid approach to planning lead to occasional misallocation of resources. | • Scarce resources are not focused toward infrastructure development and lead to poor overall quality.  
  • Tendency to spend vast amounts on public infrastructure projects of limited utility, creating temporary employment rather than a long-lasting capital base. | • Infrastructure development is coordinated and heavily invested both within and among the GCC countries, primarily in partnership with the public sector, resulting in an efficient allocation of budget surpluses toward critical infrastructure to support sustainable economic diversification. |
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### 3rd pillar: Macroeconomy

- Despite relatively high oil prices, fast-growing populations and government spending results in budget deficits by 2011 in many GCC countries. Strong economic growth internally and robust oil prices return most governments to surplus by 2015, enabling sustained public investment.
- GCC monetary integration occurs in 2012, positively influencing regional trade but causing problems for some countries in terms of achieving inflation and fiscal targets, given the economic differences between the GCC countries.
- Oil-price volatility and a failure to diversify away from hydrocarbons means governments struggle to keep their budgets balanced. Government debt grows substantially across the region.
- GCC countries experience problems keeping their currencies on their peg due to fluctuations in the value of the US dollar, and monetary integration (scheduled for 2010 and then delayed) is eventually called off.
- Consistently high oil prices and strong global demand in the non-oil sector drives consistent regional budget surpluses. This results in decreasing government debt levels and healthy savings rates.
- High inflation rates from strong consumer demand and government spending on infrastructure investment causes concerns, but subsides follow market-driven increases in the domestic supply of both goods and labor.

### 4th pillar: Health and primary education

- Gradual improvement in both health care and primary education are the result of large public investment in both areas.
- Deterioration of the health-care systems in some GCC countries result in reduced life expectancy and higher infant mortality. A failure to address shortcomings in primary curricula and an overall deterioration of the educational system means an ongoing lack of economically relevant skills in the population.
- Modern health infrastructure, skilled staff, and low infant mortality are reinforced by civil society and private-sector involvement.
- School curricula are modernized and revised on an ongoing basis, ensuring the relevance of further education.

### 5th pillar: Higher education and training

- Education standards are established across the region as part of a bid to coordinate skills and training programs.
- Governments fund on-the-job training for nationals with both local and international firms and launch a regionwide job search website.
- Lack of funding, restrictions on curricula, and a lack of incentives for achievement mean higher-education standards across the region deteriorate.
- Alliances with foreign institutions cease to exist and some leave the region altogether.
- Modern health infrastructure, skilled staff, and low infant mortality are reinforced by civil society and private-sector involvement.
- Exchange programs with secondary schools and universities are encouraged to develop cross-cultural and academic learning.

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<td>Education standards are established across the region as part of a bid to coordinate skills and training programs. Governments fund on-the-job training for nationals with both local and international firms and launch a regionwide job search website.</td>
<td>Lack of funding, restrictions on curricula, and a lack of incentives for achievement mean higher-education standards across the region deteriorate. Alliances with foreign institutions cease to exist and some leave the region altogether. The very wealthy send their children abroad, but travel restrictions mean that for the middle class distance learning is the only viable option.</td>
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Table 1: Qualitative comparison of the trends between 2006 and 2025 based on the Global Competitiveness Index (cont’d.)
### 6th pillar: Market efficiency

- Marked improvement is seen in markets for goods, labor, and financial products. Reforms are top-down and occasionally subject to overregulation.
- Distortions occur because of government-directed industry policy and the existence of sectoral subsidies, leading to capital bias.
- Labor markets for GCC citizens are generally open and for the most part are regionally coordinated, with movement of labor greatly improved.
- Financial markets occasionally suffer from interference by government interests.

### 7th pillar: Technological readiness

- Most GCC governments sponsor large-scale investments in ICT as part of their drive to improve skills.
- GCC countries continue to lag behind on adopting and implementing new technologies, while governments fail to stimulate the local business elite to invest and improve core ICT assets.
- Privatization of ICT improves quality and access to the Internet, and governments auction the rights to provide wireless access across the GCC.

### 8th pillar: Business sophistication

- Governments support and monitor a significant proportion of firms within business clusters, directing industry policy toward enhancing strategic sectors such as oil and gas value-added activities.
- Business sophistication is hampered by a lack of skills and the declining competitiveness of local firms.
- The formation of new industry clubs and proliferation of venture capital networks to support entrepreneurship increase inter- and intra-industry knowledge transfer.
Table 1: Qualitative comparison of the trends between 2006 and 2025 based on the Global Competitiveness Index (cont’d.)

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<td>9th pillar: Innovation</td>
<td>• Innovation mainly focuses on the oil and gas sector. R&amp;D increases significantly, but the bulk of this is directed toward government-sponsored projects. Some protectionism remains in certain areas, with governments citing security concerns.</td>
<td>• Limited innovation is present within the GCC. Most technology is imported, and the little that emerges locally is stifled.</td>
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Conclusion: The way forward

The GCC countries are currently at a crossroad in terms of their economic competitiveness. Although reforms to date have been, on the whole, well thought out and positively implemented, high oil prices and the resulting boom in revenue may distract governments from the need for further, more painful, reforms. Depending on their decisions now, the GCC countries could remain primarily oil exporters, or they could develop the Arabian Peninsula into an innovation hub that leads the global economy.

The competitiveness of GCC countries will depend on how well elements contained in the nine pillars are integrated, embedded, and constantly improved. Given the heterogeneity of countries, it is important to bear in mind that key themes such as leadership, strong and efficient institutions, diversification of the economy, effective primary and job-aligned higher education, the adeptness on technological prerequisites, and the foundation for innovation will play out differently in each country within each scenarios.

The stories that the scenarios present, supported by the underlying quantitative research and modeling, clearly indicate that the future of competitiveness for the GCC countries relies heavily on investment in education and innovation, supported by an enabling business environment and well-functioning institutions. While the view from 2007 is that institutional and economic reforms are well underway and look set to continue across the GCC countries, this is by no means certain. In addition, current competitiveness bottlenecks related to workplace skills, access to credit, and innovation must be resolved with effective investment and better incentives for increased productivity as well as improved labor force participation. The scenarios indicate that serious efforts in these areas must be accompanied by a strong leadership that is willing to forge ahead with sometimes unpopular reforms, using the region’s natural resource advantages to absorb costs of adjustment in the short term in return for improved competitiveness and sustainable economic prosperity in the long term.

Having illustrated three plausible futures for the competitiveness of the GCC countries in these scenarios, the next step is to look to indicators that can signal which path the GCC countries are proceeding down. These scenarios suggest that keeping the pulse of the state’s local education, R&D spending, and entrepreneurship could provide a useful indicator for the long-term health of regional economies. The Global Competitiveness Index, which comes to similar conclusions, provides policymakers in the region with a framework of indicators that not only point to competitive strengths and weaknesses as well as areas for potential investment, but can also be used to track progress over time. This Index also provides relevant benchmarks and can inform policy decisions by pointing to international best practice.

Another way in which the scenarios can aid economic competitiveness is by opening policymakers up to new opportunities to improve GCC institutions, and to ensure that they are well informed of alternative options and prepared for those times when expectations are not met. GCC countries seem to be on the high road of continued prosperity and improved competitiveness. However it is important that current investments be made wisely to ensure that this continues for the next 20 years and beyond.

Notes
1 The Gulf Cooperation Council (GCC) countries are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.
2 Singapore has been selected as a benchmark because it operates at the same stage of development as most of the GCC countries.