The European Proceedings of
Social & Behavioural Sciences
EpSBS

Future Academy ISSN: 2357-1330

https://dx.doi.org/10.15405/epsbs.2018.11.02.71

ICPE 2018
International Conference on Psychology and Education

SOCIAL DYNAMICS IN THE PERSIAN GULF COUNTRIES AND THE NECESSITY OF CHANGES

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Abstract

The article shows the negative and significant impact of the oil crisis of 2014-2016 on the processes of social and economic dynamics of the national economies of the oil-producing countries of the Persian Gulf, united in an integration block - Cooperation Council for the Arab States of the Gulf (GCC). The countries of this group (Bahrain, Qatar, Kuwait, Oman, Saudi Arabia and the United Arab Emirates), focusing almost exclusively on the export of hydrocarbons for a long time, with the corresponding structure of national economies, intensified the sectoral transformation of their national economies in the conditions of a steep drop in oil prices in 2014-2016. They took concrete measures, aimed at structural changes - both at the national and regional levels, formed the relevant institutions and instruments, improved and developed the legislative base. According to the authors, this process has certain positive results, in particular, there is an increase in the non-oil segment of GDP (which gives also positive impact on educational quality). At the same time, the positive results, according to the authors, are not clear-cut and besides are very differentiated across the countries of the region, which creates additional tension here. The authors also note a number of more or less serious problems on the way to structural transformation of the Persian Gulf countries.

Keywords: GCC, social and economic dynamics, structural changes, specialization, GDP, per capita income.l

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Selection and peer-review under responsibility of the Organizing Committee of the conference
eISSN: 2357-1330

1. Introduction

The issues of the national economy diversification are topical for many countries of the world, especially in the conditions of the growth of the innovative component of the world economy on the one hand, and steep intensification of its volatility and preservation of the main signs of the Great Recession that continue to the present, on the other.

Both Russian and foreign scientific literature pays sustained attention to these issues. The review of theoretical approaches to the definition of the category "structural changes" allows us to define them as a redistribution of the share in GDP between the main sectors of the national economy that provide economic growth, i.e. between agriculture, industrial production and service sector (Silva & Teixeira, 2008).

However, a number of researchers justify the point of view that structural changes, i.e., transformation of economic activity, is the powerhouse of economic development (Lin, 2011, Lin, 2012, Syrquin, 2010).

Structural changes are the result of accumulation and redistribution of production factors and innovations (developments) between sectors in the national economy (Herrendorf, Rogerson, & Valentinyi, 2011, Duarte & Restuccia, 2010).

Structural changes for developing countries, especially those that have a significant resource component in their GDP and exports are especially important. These countries can provide a stable and long-term growth and, above all, change their specialization in the system of the international division of labor (MRI) by means of the diversification of the national economy. In general, structural changes can also be considered as a process of integration into the world economy by the formation of new specialization fields of the country in MRI (Shkvarya & Frolova, 2017).

According to a number of researchers (Krejdenko, Adashova, Melanina & Korenevskaia, 2017), as well as government officials (Ahmed Al Saati, 2017), structural changes are a vital task, including the GCC countries, which was demonstrated by the oil crisis of 2014-2016. As the empirical evidence shows, the impact of this crisis on socio-economic dynamics of different countries of the GCC varies widely.

The purpose of this article is to investigate the impact of the oil crisis on the social and economic dynamics of the GCC countries in terms of the formation of new structural elements of the national economy and the solution of social problems. This study is focused on a group of six countries and presents information on various structural, institutional, social and political aspects and characteristics that considerably confirm both the asymmetric impact of the oil crisis on the socioeconomic dynamics of the Gulf countries and the differentiated results.

2. Problem Statement

The paper deals with the problem of the social changes dynamics in Persian Gulf countries.

3. Research Questions

To describe the direction of the social changes in Persian Gulf countries and the negative impact of oil economy.

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4. Purpose of the Study

Development of the methodology for identifying, describing the social changes in Persian Gulf countries**.**

5. Research Methods

Methods of structural and statistical analysis.

6. Findings

To achieve the goal of the study, we used methods of structural and statistical analysis, based on international organizations (UNCTAD) data for 2007-2017, since long-term trends help to identify the vector of development.

Aggregated GCC indicators in the form of growth rates or GDP components are evaluated according to the GDP, estimated at purchasing power parity. The total GDP of the GCC countries corresponds to the sum of the values for each country (Table 1). Statistics show the continued strong dependence of the regional economy on the hydrocarbon segment.

Table 01. GDP and per capita income dynamics in the GCC countries in 2007-2017, mln. dollars, current prices at the current exchange rate

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
DP											
Bahrain	1730,01	5710,87	2938,22	5713,27	8776,61	0749,33	2539,56	3387,69	1125,85	2179,07	2822,65
Kuwait	14635,5	47380,3	05967,8	15416	54040,7	74047,2	74167,6	62656,2	14059,4	10346,1	13215,1
Oman	2085,38	0905,45	8388,36	8641,25	7937,31	6689,58	8938,59	1034,4	9831,77	3170,96	4244,9
Qatar	8759,38	13892,5	6629,75	23627,1	67775,3	86833,5	98727,7	06224,7	64641,5	52451,9	66746,1
Saudi Arabia	15964,6	19796,7	29097,9	28207,3	71238,8	35974,8	46647,1	56350,3	51757,2	39617,1	51769,8
United Arab Emirates	61286,6	19597,4	56860,8	89787,5	50666,1	74590,7	90107,5	03137,2	58134,9	48743,6	57810,9
GCC, in total	**34461,5**	**187283**	**59883**	**141392**	**440435**	**578885**	**621128**	**642791**	**389551**	**346509**	**386609**
DP per capita											
Bahrain	0977,12	3067,56	9356,67	0722,1	2512,17	3649,39	4737,18	4983,36	2688,88	2579,1	2436,3
Kuwait	5791,73	5566,13	7591,39	8496,62	8272,73	1257,35	8401,61	3002,88	8980,02	7228,59	8237,4
Oman	5805,16	2075,08	6784,37	9280,63	0986	2134,91	1268,76	0458,45	6627,36	4276,69	4123,5
Qatar	6204,77	1975,85	0743,63	9466,08	5948,07	8564,82	8304,88	6852,71	6346,52	9324,34	3961,5
Saudi Arabia	6472,17	0037,83	6094,29	9259,59	3770,75	5303,09	4934,39	4575,4	0653,24	9817,3	0365,7
UAE	3230,27	6356,9	3504,77	5037,91	0434,37	2086,7	3315,14	4443,07	9122,04	7622,25	8652,4

Source: compiled by: Statistics United Nations conference on trade and development, http://unctadstat.unctad.org

As can be seen from the analysis of the data presented, the GDP reduction in the GCC subregion was estimated at between 3.5 and 4% in 2014-20216. The main reason was the fall in oil prices, as well as political instability in the region.

However, in 2017, the process of restoring regional social and economic dynamics began. In 2017, ESCWA projected the growth of the regional economy of 1.3% (Survey of Economic, 2017), but in fact, it reached 1.9%. A slow recovery of the regional economy in the short term: of 2.5% in 2018 and 3.2% in 2019 (World Economic, 2018) is predicted.

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However, in our opinion, the economic prospects for the region remain ambiguous, unless the structural transformations that have begun in the countries of the region are implemented more actively.

We came to this conclusion on the basis that the situation on the world hydrocarbon market and geopolitical risks, along with regional political instability, affect the social and economic dynamics in the region. Oil prices are expected to remain at $50-60 per barrel in 2018-2019. However, energy conservation measures, as well as expansion of the use of renewable energy sources can slow down the growth of world demand for crude oil earlier than it was predicted. On the other hand, a steady increase in domestic demand and an increase in production in the non-oil segments of the national economy remain the boosters for economic growth in the region.

Domestic demand in the GCC countries was supported in 2016-2017 due to the stability of financial and real estate assets, as well as significant interest of foreign investors - mainly from the countries of South and East Asia.

In addition, low consumer price inflation in the countries of the region (4.7% in 2017), especially in the food segment, also supported domestic demand.

The average consumer price inflation is expected to decline at a moderate rate of 4.5% in 2018 and 3.9% in 2019 (World Economic, 2018). However, in our view, the inflation rate will increase in 2018 due to the introduction of the single VAT in the region in 2018, but may differ across countries due to the continuing social and economic differentiation of the GCC countries in terms of social and economic development (it means there are states that have made significant progress in social and economic development and this success is quite comparable with indicators of developed countries).

Another important indicator of economic growth is the change in ***GDP per capita***, reflecting the increase in the level of well-being.

The study shows that the rate of population growth in the Gulf countries during the studied period (being high, in such a way that the population of the region is mostly young and 65% of the population are under 30) remained at a lower level than GDP growth, hence, there is an increase in the living standards of the population of the region as a trend (Table 1).

However, regional per capita income in the GCC countries remains two times less than the world average, but approximately twice as much as the average for the developing states. The statistical data in Table 1 confirm the steady growth of this indicator, which was negatively affected by the global financial and economic crisis in 2008-2009 and the fall in oil prices in 2014-2015.

As can be seen from the analysis of the statistical data in Table 1, the GDP per capita of the GCC countries ranges from 14.1 thousand dollars in Oman and 20.4 thousand dollars in Saudi Arabia to 63.96 thousand dollars in Qatar.

The latest figures are the highest in the Arab world as a whole and Qatar ranks 1st in the global economy in this indicator.

At the same time, the GCC state, as well as other Arab countries, face the problems of sustainability, equity and social security associated with their pension systems. These issues should be resolved urgently to prevent any negative impact on economic growth, fiscal and labor market stability in the context of sustainable population growth.

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We link the positive phenomena in the social and economic processes in the GCC countries with the structural changes taking place in the region. In the XXI century the GCC countries have made significant strides in their strategies for economic diversification. Experts and international organizations note that impressive growth was recorded in the non-oil sector of the region, in particular financial, telecommunication, transport, construction and services, differentiated with respect to countries (Regional Economic, 2015, p. 5).

This trend is shown in Table 2.

Table 02. The share of sectors in the GDP of the GCC countries in 1970-2017,%

1970	2017
Agriculture – 3 %	Agriculture – 1%
Services – 34%	Services – 44%
Producing sector – 50%	Producing sector – 39%
Construction – 5%	Construction – 6%
Manufacturing sector – 8%	Manufacturing sector – 10%

Source: compiled by: Statistics United Nations conference on trade and development http://unctadstat.unctad.org

It is implicit in fig. 1 that more than 50% of the GDP of the Gulf countries in the 1970s was formed out of the oil sector in all member countries, except for Bahrain and the UAE. However, in subsequent periods, this share is steadily declining, indicating the weakening of the dominant position of the hydrocarbon sector. In 2017 the contribution of this sector to the GDP of the countries of the region increased in value terms, but its share was much lower than in 1970.

All countries in the region are gradually striving to move away from oil specialization.

Thus, Oman is taking active measures to reduce the share of oil exports in GDP from 41.7% in 2007 to 9% in 2020, trying to reduce the oil dependence of the national economy.

It should be a diversified economy with a high level of savings and investment.

By 2025, all the emirates of the UAE intend to bring the share of oil in GDP to 1% and, respectively, to reduce its share in exports (Abu Dhabi Vision, 2008).

27.6% of the GDP of Bahrain is already created by the financial sector. There are more than 400 licensed financial institutions in the country (Shkvarya, & Aydrus, 2014. p. 54).

The analysis of statistical data allows us to speak about faster growth in the non-oil sector of the GCC countries, which is confirmed by the IMF studies (Economic Diversification, 2014).

Petroleum refining and petrochemistry (production of fertilizers, plastics, perfumes, etc.), metallurgy (mainly aluminum industry), machine building (primarily shipbuilding and the production of electrical equipment), construction materials industry, light (clothes, woolen fabrics, carpets, etc.) and the food industry, production of fresh water are being developed. Thus, Saudi Arabia is the world's largest producer of fresh water (33 desalination plants of the country desalinate up to 2.2 billion liters of sea water daily, satisfying 70% of the population's needs for drinking water) (Gukasyan, 2015, p .42-49).

According to experts, "production in capital-intensive industries is the fastest growing and labor-intensive is less growing" (Melyantsev, 2010).

Although the advanced development of high-tech industries and knowledge-intensive production is a worldwide trend (Rodionova & Gordeeva, 2009, p. 62-71), according to experts, high-tech and innovative production in the GCC countries is minor - only in the largest state enterprises such as *ALBA* and *GPIC* in Bahrain, *Saudi Aramco* in Saudi Arabia, *RAK Ceramics* in United Arab Emirates, etc.) (Rusakovich, 2017, p.33-40).

The service sector is growing in all countries (Figure 1) – from 34% to 44%. It is due to trade, tourism, hotel business and restaurant economy, finance, health, etc. The share of agricultural production is insignificant and has changed little for a quarter of a century. The exception was Oman (which has the largest area of arable land in the region) and, to a far lesser extent, Saudi Arabia, which, along with the UAE invested significant means in agriculture.

7. Conclusion

The conducted research allows to speak about the continued dominance of the hydrocarbon segment in the economies of the GCC countries and its predominant influence on the social and economic dynamics. Therefore, the volatility of world prices for hydrocarbons violates both economic and social stability in the region.

In this regard, the need for structural changes in the GCC countries seems to be a necessary condition for the sustainability of the social and economic dynamics of the considered group of countries in the long term.

Structural reforms should be aimed at the economy diversification, the private sector, the labor market development and changes in the financial sector. The GCC countries have formulated their long-term ambitions in various long-term development strategies of countries and investment plans. They are aimed at creating a competitive economy that uses the absolute and comparative advantages that the countries of the region have, including the available opportunities of the social sphere. However, the implementation of these structural reforms requires the constant political will of the governments of the GCC countries.

Acknowledgments

This paper was financially supported by the Ministry of Education and Science of the Russian Federation on the program to improve the competitiveness of Peoples' Friendship University of Russia (RUDN University) among the world's leading research and education centers in the 2016-2020.

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