



The Strategy of Economic Diversification in the Arab Countries

Hanaa Najm *University of Agronomic Sciences and Veterinary Medicine of Bucharest, 59 Marasti Blvd, District 1, Bucharest, Romania*

AL-MAFRACHI *Mustafa Bucharest University of Economic Studies, Piata Romana 6, Bucharest, Romania,*

Ahamad Kannas *University of Agronomic Sciences and Veterinary Medicine of Bucharest, 59 Marasti Blvd, District 1, Bucharest, Romania, Emails*
Corresponding author: Hanaa Najm

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ABSTRACT

Macroeconomic stability is a necessary condition for development and growth in all countries. Therefore, there are recommendations circulating from international organizations about the conditions that constitute good macroeconomic management to achieve stability and growth to a large extent. In fact, however, many developing countries have reached results below the required level.

This paper aims to study the issue of economic diversification in the Arab countries by focusing and finding a strategy to formulate diversification of the resources and incomes of the Arab economy. From dependence on petroleum

KEYWORDS: economic diversification, Arab economy, economic diversification strategy, strategic alliances

I. INTRODUCTION

Economic growth is closely related with exports, which explains the great interest in export activity, and there are some standard studies that have been done to determine the extent of interdependence between exports and economic growth, through several angles such as the value of exports, the structure of exports, a higher concentration of diversity in non-oil exports. The oil countries in the Arab region, and this is considered a major economic challenge due to the dependence of the economy of these countries on natural resources. Oil strongly affects this economy, as it is the main resource for financing their balance of payments, and in light of the sharp fluctuations in oil prices. Therefore, facing such challenges requires addressing the causes of imbalance in these economies.

In its 1987 report, the World Bank stressed the need to identify the export promotion policy as one of the most important development policies, and that rapid growth and effective industry are associated with external orientation (Al-Hammoury, 2003).

This study down several themes:

- A. To diversify the economy and its measurement indicators.
- B. Arab experiences in the field of economic diversification strategy.
- C. The reality of economic diversification in some Arab countries.
- D. Economic diversification and its measurement indicators.

A. STRATEGY OF ECONOMIC ALLIANCES.

Economic diversification helps raise the level of contribution of alternative economic sectors to the GDP, especially in the oil country that is still highly dependent on oil revenues.

1. Define economic diversification:

Economic diversification is a development policy that aims to reduce the proportion of economic risks; raising the added value; improving the level of income; Expanding investment opportunities and strengthening interconnections in the economy. Economic diversification efforts usually have three overlapping objectives: stabilizing economic growth; expanding the revenue base; Raising the added value (Al-Tuni, 2016).

It is also known that economic diversification is only diversification of the export sector. Diversification of the basket of export commodities is in fact part of the concept of economic



diversification and an essential part of diversification of production structures, and therefore economic diversification does not necessarily mean an increase in non-oil exports only, but it can also include the replacement of imports (Lazaar, 2016).

2. The importance of diversification for oil countries:

There are many benefits that can arise from a more diversified economy, the most important of which are that the economy becomes less vulnerable to external shocks, increase the realization of commercial gains, achieve the highest rates of capital production, help more regional integration, and create diverse job opportunities that absorb the labor force, looking for these opportunities (UN., 2011).

Accordingly, the importance of diversification for oil-producing countries lies in the following points (Al-Jubouri, 2010).

- a. Building a sustainable economy for current and future generations, far away while encouraging the private sector and foreign investment.
- b. Balanced economic development, regional and social.
- c. Achieving stability for the public budget by activating other productive sectors;
- d. Encouraging the implementation of future plans by providing what the planning needs in terms of local and foreign expertise, administrative institutions and a social environment by providing the required funds.

B. ARAB EXPERIENCES IN THE FIELD OF ECONOMIC DIVERSIFICATION STRATEGY.

1. The experience of the United Arab Emirates:

The UAE has relied on giving priority to education and building an advanced infrastructure to support the economic and investment environment with policies based on openness to the world and economic diversification. In the transformation from a country whose economy depends on oil by 90% of the GDP in 1971 to only about 30% in 2015, and the contribution of non-oil sectors by 70% in government revenues for the same year, this country also focused on three main sectors represented in industry, tourism. In addition, the UAE such as (Ghazlan and Hana, 2010).

➤ Investment in the context of diversifying the local economy, in creating new assets, infrastructure and services of high quality.

➤ Establishment of a free trade zone to develop export capabilities (Dubai)

➤ Inclusion of several strategies: UAE Vision 2021, Abu Dhabi Vision 2030 and Dubai Plan 2015

2. Qatar Experience

Qatar's non-oil economy grew rapidly averaging 20% between 2004 and 2011, but most of this growth would not have occurred without oil and gas. Construction services, utilities and transportation of finished products (profits from transporting LNG) have also been developed to meet the needs of the growing hydrocarbon sector. The availability of cheap raw materials has had a catalytic effect in the growth of the economic sector and energy intensive activities. High government spending financed by oil and gas revenues has had a significant impact on other sectors of the economy. The expansion of budget activity was also reflected in all aspects of the economy through the significant expansion of infrastructure and the increase of public services to meet the needs of more residents in the country, and trade benefited from the rapid growth of population and total revenues. The Qatar Financial Center Authority actively encourages the establishment of asset management, insurance and reinsurance companies. To a limited extent, some sectors are experiencing an increase in taxes on government, public, retail and other local services, in line with projected economic growth and population growth. In the long run, economic growth will represent significant spending on infrastructure (Article IV - Qatar Report 2011).

C. THE REALITY OF ECONOMIC DIVERSIFICATION IN THE ARAB COUNTRIES.

Witnessed in 2019 the growth rate of decline in the Arab region, especially in the exporting countries. Oil prices after fluctuations, the world is not stable growth because of trade tensions and the increasing challenges associated with the general conditions of finance due to high government spending to drive economic activity, as well as the continuing impact of the internal situation unfavorable to growth in a number of Arab countries. The GDP at current prices in the Arab countries as a group amounted to about 2,744 billion dollars in 2019, registering about 5.1 percent compared to 9.7 percent in 2018. As a result of that, the gross domestic product decreased by about 6.0 percent. About \$6,707 to about \$6,669.

As a result of the impact of the aforementioned conditions, the rate of GDP growth at constant prices in the Arab countries declined



from about 2.2 percent in 2018 to about 5.1 percent in 2019. The real growth-rate declined by about 1 in the group of the nine leading Arab oil-exporting countries. The decline in output growth in this group was more severe in the countries of the Cooperation Council for the Arab States of the Gulf, where the rate of output growth declined from about 0.2 percent in the year-2018 to a stable growth rate of 3.0 percent in the year 2018. The real level in the group of other Arab countries with more diversified economies is the same as the level recorded in the previous year, which is about 0.3 percent. The GDP growth rates in the Arab countries varied according to the circumstances of each country.

In general, during the period (2010-2018), the Arab countries made strong strides on the way to improving their indicators in the pivotal development areas, such as mainstreaming education, expanding health care, promoting gender equality and combating poverty.

D. ECONOMIC DIVERSIFICATION AND ITS MEASUREMENT INDICATORS.

Despite this positive development, the majority of Arab countries are still facing fundamental challenges, including high population growth rates and unemployment rates, which amounted to about 9.15% of the Arab labor force in 2019, which is concentrated in the average young population. According to the Arab Human Development showed that about 703.0 points according to the United Nations Development Program for the year 2019. Arab countries are classified in the category of human development, which is medium (634.0 points), which is higher than its counterpart at the level of low human development countries The score of (507.0 points) is lower than an indicator that is much lower than the countries of the Organization for Economic Cooperation and Development (OECD) of (895.0 points) (UN. Development Program, Human Development Report. 2019).

Vertebrae	The value is in US dollars						Annual rate of change %					
	2013	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018	Annual rate of change 2013 - 2016
The average intra-Arab trade	119.4	120.6	106.4	98.0	103.2	109.6	1.0	-11.8	-7.9	5.3	-6.4	-6.4
inter-Arab exports	116.1	120.8	106.5	97.0	104.9	108.7	4.0	-11.8	-8.6	7.7	3.7	-7.5
inter-Arab imports	122.6	120.5	106.4	98.7	101.5	110.5	-1.7	-11.7	-7.2	2.8	8.9	-7.0

Source (Appendix (8/4) Arab trade data and the World Trade Organization International Fund for the year (2013-2018)

I. Strategic alliances

- Strategic alliance is defined as: - An alliance between two or more institutions or business units to achieve strategic goals of great significance and mutual benefits. (Al-Salem, 2005).
- It was also defined as: “cooperation replaces competition that may lead to one party’s exit from the market. The alliance leads to control of risks and threats and the parties share in the gains. Alliance also includes a wide range of contractual relationships that arise between institutions (Samira and Zahra, 2010).
- A type of special relationship in which 3 allied institutions establish a strong long-term relationship that goes beyond the framework of normal commercial relations. (Ibid., p. 3)
- The most important for the general foundations of strategic alliances (Samira and Zahra, 2012).
- Alliances are agreements or contracts concluded by choice, that is, they are not imposed by one party on another party;
- These alliances are flexible and imprecise, and at the same time they are complex and unsimple;
- May be concluded for a long, short or indefinite period;
- The motivation behind the alliance is to gain a competitive strategic advantage in the long term;
- Its goal may be to achieve profit, develop the product, enter the market, acquire and exchange knowledge, or avoid risks



Strategic alliances give an adapted response to expanding markets (internationalization) and dividing resources (financial, human, technological) by participating in the context of strong competition. The partner or the allied parties, secondly, tensions can arise between the allied parties, taking into account the absence of one's authority (there is a divided power), and therefore the alliance forces the institution to face an uncertain confrontation with the other party (such as counterfeiting, counterfeiting, industrial espionage) (Bisac, 2007), and alliances are not limited to production only, but their formulas extend to the field of marketing as well as research and development.

II. RESULTS AND CONCLUSION

It was found through the analysis of economic diversification indicators that the Arab economy is still dependent on the oil sector, and the level of economic diversification is not yet known. Therefore, it turns out that it is less diverse. That Working on developing a strategy to diversify sectors outside of hydrocarbons is an absolute necessity and represents a challenge that must be raised to reduce the degree of dependence on external variables; The Arab countries need to diversify their national asset portfolio and production base, manage their wealth efficiently and direct their investments in various fields, as well as involve the private sector in the development process, support and encourage it within a flexible and developed work environment. We conclude that economic diversification needs a set of coherent and interlinked policies to achieve the desired goals, and for the Arab countries, there is much that needs to be done to achieve economic diversification, and to disengage from the oil sector.

III. RECOMMENDATION

The following: The need to continue with reforms in conjunction with fiscal consolidation to shift from a growth model based on government spending on oil revenues to one characterized by increased productivity in the non-oil private sector; Public investment policies must be directed towards overcoming the economy's dependence on oil resources, by focusing investment in areas that ensure diversification of the production base. The necessity of adopting a long-term strategy for economic diversification, and moving away from ad hoc and temporary policies Coordination between Arab countries with regard to providing data and information and requesting aid from organizations concerned with international trade to raise export

operations for various commodities and industries In order for the alliance to be successful and achieve the goals set between its parties, it is necessary to take into account a set of important things represented in a clear understanding of the current and future capabilities of the institution: Foreseeing the future has become possible through the use of available predictive models, which allow to make the best use of the available capabilities, this is what It gives the organization a clear view of whether it can succeed on its own or must have a strategic alliance.

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