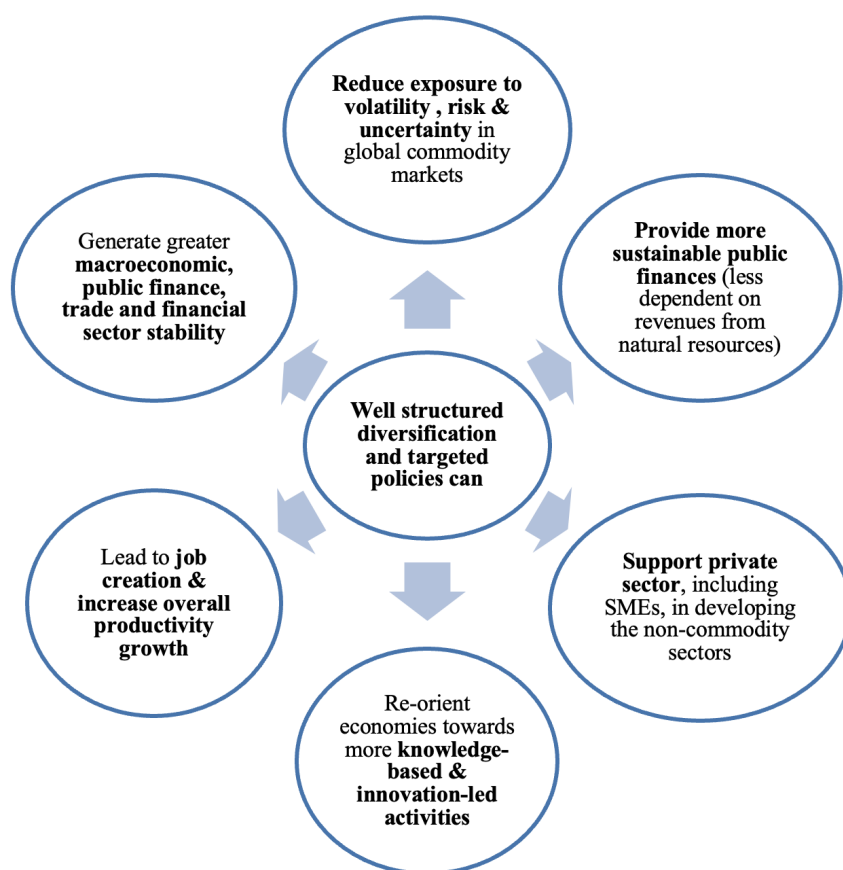


# Weekly Insights 14 Feb 2025: Progress of Economic Diversification in the Middle East

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Weekly Insights 14 Feb 2025: Progress of Economic  
Diversification in the Middle East

## 1. Measuring Economic Diversification



- Diversification is key to reducing macroeconomic risks, avoid 'natural resource curse', achieve a balanced economy, sustained economic growth, trade and development and job creation.

- Diversification visions and strategies exist: but there were **NO harmonized, comparative, comprehensive, quantitative indicators to measure their progress and guide strategy and policy**
- The **Global Economic Diversification Index (EDI)** fills **this gap**, by creating an index **based solely on publicly available, quantitative measures** with no qualitative/perceptions indicators. The overall Global EDI is composed of **three sub-indices** tracking
  - **Output diversification.** As commodity exporters diversify, lower their dependence on resource rents and potentially score a higher score on the EDI
  - **Trade diversification.** Greater trade diversifications reduces impact of trade-related & external shocks, increases economic linkages and product complexity
  - **Government revenue diversification.** For non-diversified nations, when price of the commodity falls, there is a significant decline in government revenue, public spending, current account balance and international reserves: more volatility.
- The **Global EDI 2025 tracks the performance of 115 nations** (including major commodity exporters, not limited to just oil) over the **period 2000-2023**, across 25 indicators (including three digital indicators).

## **2. Economic Diversification Index by region**

- North America, Western Europe and East Asia Pacific countries top EDI scores over the years. Only three of the eight regions show an increase in EDI compared to pre-pandemic readings (Western Europe, East Asia Pacific and South Asia). Though Latam and MENA scores are very similar, a breakdown by sub-indices shows that MENA is outperformed by Latam in both output and revenue sub-indices by a large margin.
- **US, China and Germany retain the top 3 ranks in the EDI for 2023**, with the top 10 nations having less than a 10-

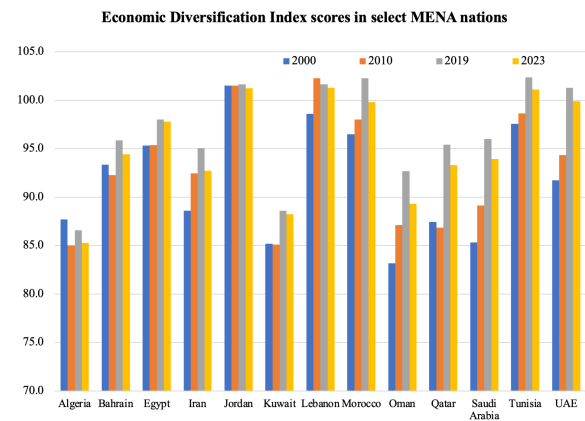
point difference in scores (implying the strength of diversification). **Twenty-five of the top 30 nations are high income**, alongside four upper-middle income (China, Mexico, Thailand and Thailand) and one lower middle-income nation (India). **Lowest EDI ranked countries are all highly commodity or natural resource-dependent**, many either lower-middle or low-income nations.

- On analyzing the **“middle” diversifiers** e. countries with rankings 48 to 67, **Moldova, UAE and Vietnam’s performance stand out** – having moved up from being among the bottom 30. But, countries such as Argentina and Uruguay have seen ranks drop by 10+ places (2023 vs 2000).
- **MENA saw an improvement towards the latter part of the 2010s** decade as many oil exporters began to accelerate diversification plans. Its performance in the output diversification sub-index remained very volatile, given oil price fluctuations. Trade diversification sub-index is where a steady improvement was evident: a combination of a drop in fuel exports (as % of total exports), increase in manufactured exports (as % of total exports) and a jump in medium & hi-tech manufactured exports (as % of manufactured exports). Revenue diversification sub-index: a marginal increase only given lack of tax structures in many oil exporters. **There is a large variation in performance within the MENA region group**, with oil exporters having the lowest scores (though individual country-specific performance has varied over time).

EDI scores, by region and over time

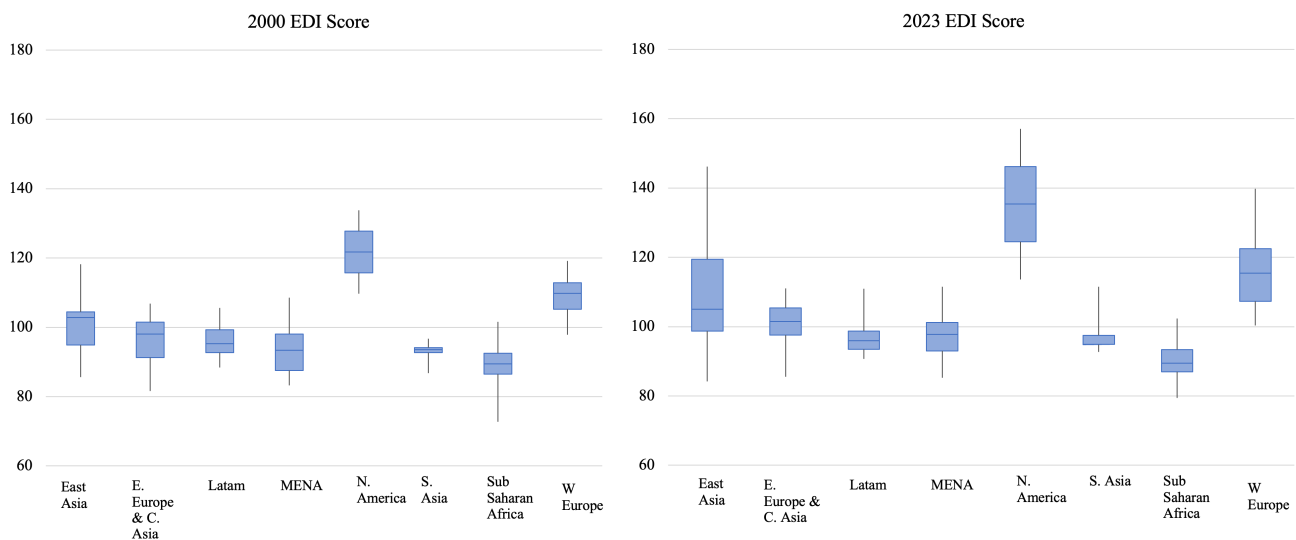
	2000	2004	2008	2012	2016	2019	2023
North America	121.7	122.7	128.3	131.3	133.1	136.0	135.3
Western Europe	109.0	110.5	112.6	112.2	113.4	114.5	115.4
East Asia Pacific	101.3	102.7	103.7	105.9	107.1	108.3	108.7
Eastern Europe & Central Asia	96.9	98.0	99.2	100.0	100.9	101.3	101.2
South Asia	92.8	94.7	95.2	95.8	96.8	97.4	98.3
Latam	95.9	95.7	96.1	96.6	97.6	97.6	97.2
MENA	93.4	93.7	93.7	95.1	98.3	98.4	97.2
Sub-Saharan Africa	88.6	88.9	89.2	89.7	90.9	90.5	89.8

Source: Global Economic Diversification Index 2025



### 3. Wide Disparities within Regional Economic Diversification scores

- Across all regions, the median score is the **lowest in Sub-Saharan Africa** for both 2000 and 2023, and the highest in North America. When comparing these years, all regions except Sub-Saharan Africa posted an increase in their median scores.
- In 2023, the **gap between the maximum and minimum score was the highest in East Asia** (China was among the top ranked, while Mongolia's score worsened compared to 2000). This gap has narrowed only in Sub-Saharan Africa.
- By comparing the inter-quartile range (height of the blue box), least variability is seen in South Asia in 2000, and the most in the MENA region. **The range narrowed in 3 of the 8 regions** (MENA the most) while it widened the most in East Asia. Furthermore, the **distribution for East Asia is skewed to the right in 2023** (i.e. higher EDI scores are more spread out).
- Furthermore, the lower-income and commodity producing nations in the regional group score lower than the median value (e.g. Mongolia in East Asia & Pacific, Algeria in MENA or Bolivia in Latin America).



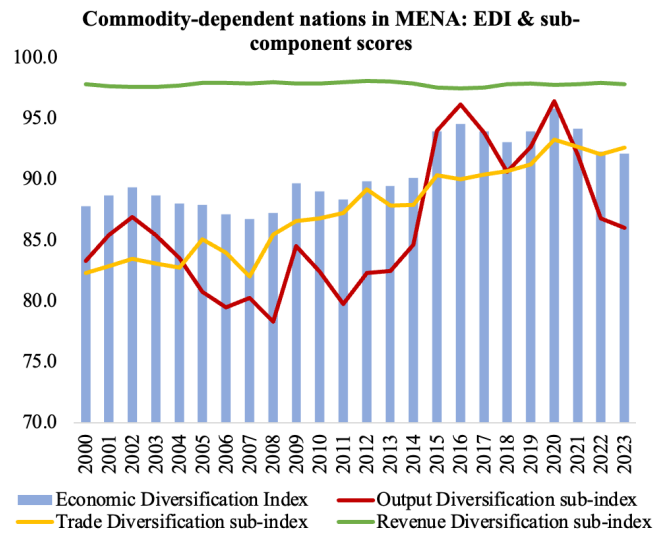
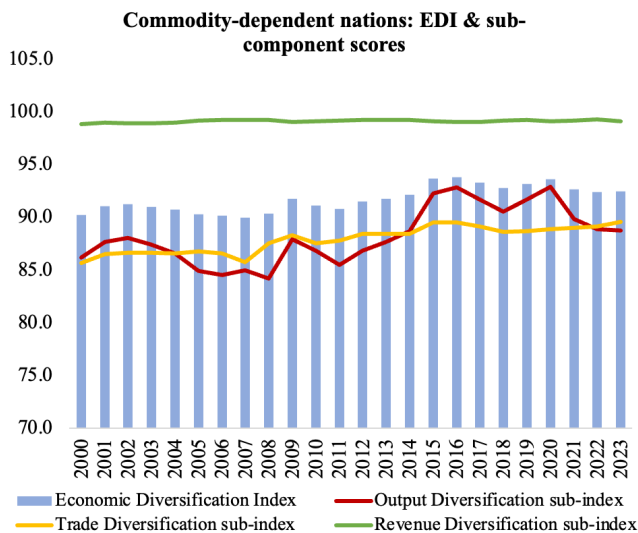
Source: Global Economic Diversification Index 2025

#### 4. Commodity dependent nations & diversification trends over time

- **Forty countries out of the 115 countries covered in this EDI report are commodity exporters, and within that, close to 50% are reliant on fuels.** The list is dominated by high and upper-middle income nations in equal number, and among the high-income nations fuel-exporting MENA dominate. The low-income nations are largely exporters of minerals, ores and metals in addition to agricultural goods (such as Uganda and Ethiopia).
- Including **all commodity producers'**, there has been an **increase in their overall score** (from 90.8 in 2000-03 to 93.3 and 92.8 in the pre- and post-pandemic 4-years). Gains were recorded in output and trade diversification sub-indices (volatile in the former), while revenue diversification has dragged down overall diversification gains (especially in the MENA region where a few still lack tax structures).
- While the **more diversified Mexico and Malaysia retain top rankings**, given the dynamic nature of diversification, other countries are also undertaking transformational policies: **notable cases include Saudi Arabia (up more than 30 places in 2023 compared to 2000)**, UAE (+24 ranks), Kazakhstan (+17 places), Qatar

(+12 ranks) and Oman (+10 ranks).

- **MENA region commodity exporters**, shows a substantial increase in average EDI scores from 88.6 in 2000-03 to 93.6 in 2020-23, largely due to the steady pickup in trade scores (up almost 10 points in the initial period versus 2020-23).

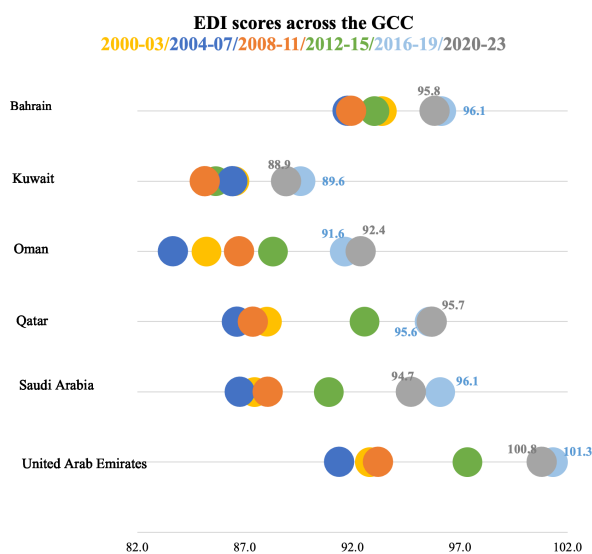


Source: Global Economic Diversification Index 2025

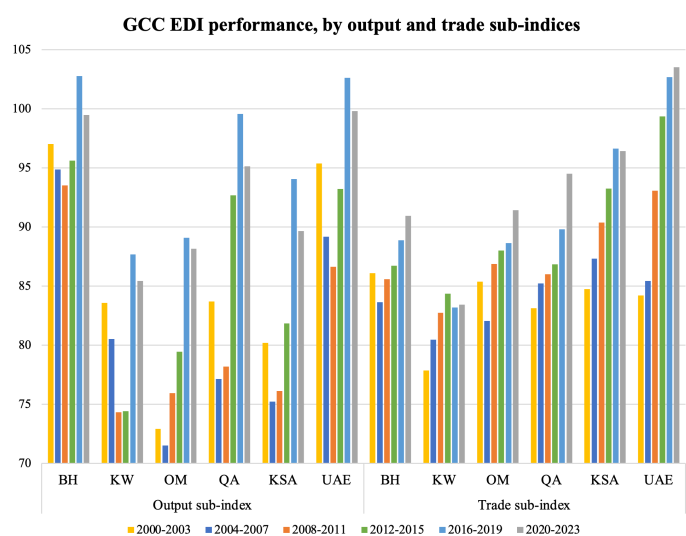
## 5. GCC's Economic Diversification performance

- **Bahrain & UAE continue to be frontrunners of economic diversification in the GCC**, with UAE outperforming in the trade sub-index. **Kuwait remains the laggard** among the GCC nations; Oman and Saudi Arabia gained the most compared to the initial 4-year period of 2000-2003.
- **UAE and Saudi Arabia's overall average EDI scores in 2020-2023 remained below pre-pandemic levels**, with declines in output sub-index while UAE saw an uptick in trade sub-index (supported by recent bilateral trade agreements & non-oil exports push).
- **The GCC has been undertaking reforms at an aggressive pace post-pandemic** including the push to raise non-oil trade (Saudi, UAE), privatisation efforts in the UAE and Oman, Saudi's opening of new sectors (e.g., industry, tourism), Oman's fiscal consolidation plans & labour market reforms (such as long-term visas, increased

labour market flexibility, supporting greater female labour force participation and encouraging nationals' employment in the private sector among others). The emergence of “new” sectors (pursuant to digitalization policies and use of AI) could potentially lead to productivity improvements and introduction of new revenue sources (e.g. UAE’s corporate tax, potential introduction of VAT in Kuwait & Qatar / income tax discussions in Oman) could improve scores in the future.



Source: Global Economic Diversification Index 2025



## 6. Post-pandemic global economy is contending with a lasting structural change: accelerated adoption of digital technologies (captured via EDI+)

- Including 3 trade indicators that capture the growth of digitalization in trade activities a “Trade+” & augmented EDI named “EDI+” is created: the top three regions remain the same; though MENA and Latam regions switch rankings (vis-à-vis EDI sans digital indicators), there are large variations within groups themselves.
- As with EDI scores, the MENA, Latam and Sub-Saharan Africa regions post a drop in overall score in 2023 versus 2018. While the top four ranked countries are the same in both the trade and trade+ sub-indices, of the bottom 20-ranked nations in the original trade sub-

index, ten are worse-off when including digital indicators. This indicates that **if adoption is delayed, existing digital divides only worsen performance** (unless specific reforms are undertaken).

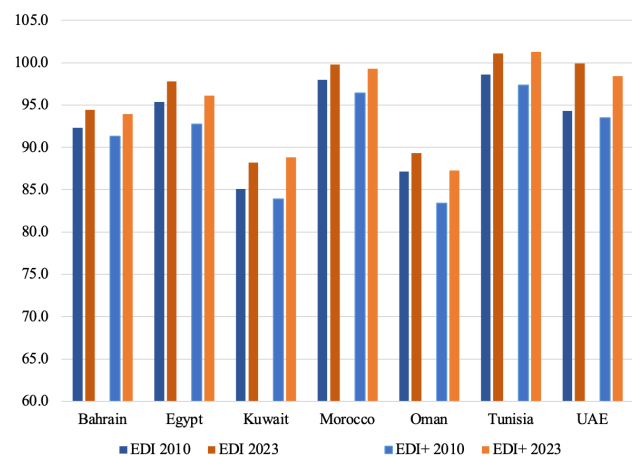
- Interestingly, **post-pandemic 4-year average shows a gain for trade+** (including digital indicators) **in lower-middle income nations** vs trade sub-index (excluding digital) which showed a slight dip. Not surprising as Congo, India, Philippines & Vietnam are part of this group.
- **Bottomline:** commodity producers can strongly improve their rankings by investment in and adoption of new digital technology & services.

**EDI+ scores, by region and over time**

	2010	2014	2018	2023
N America	123.0	125.9	128.1	129.7
Western Europe	105.4	106.4	107.2	114.4
East Asia Pacific	103.1	105.1	106.8	107.7
Eastern Europe C. Asia	98.6	99.1	100.0	101.3
S Asia	94.4	95.5	96.2	97.9
MENA	93.5	94.2	96.4	96.3
Latam	95.1	95.4	96.2	96.1
Sub-Saharan Africa	87.0	88.1	88.2	87.9

Source: *Global Economic Diversification Index 2025*

**Economic Diversification Index+ (EDI+) scores in select MENA nations**



## 7. What next?

**Economic diversification is a gradual process.** No country can transition to being highly diversified from being extremely dependent on commodities within a year or two.

Going forward, **commodity producing nations need to take three key factors into consideration:**

- **One, weather and climate change.** Growing weather volatility (temperatures, extreme weather events) will have an impact on commodities production/ extraction /



supply chains. Could also challenge monetary policy strategy.

- Two, **energy transition and demand for commodities** (fuel and metals). Some commodity producers may not have a choice when it comes to increasing diversification (OPEC+ members that are unable to survive with low oil prices) while others benefit from current high prices (such as copper, with Latam the stronghold for copper reserves).
- Three, **geopolitical tensions & trade fragmentation adds risk**. Trade fragmentation in commodity markets could lead to higher and more volatile prices, especially if production is concentrated & the product is difficult to substitute.

There is no one-size fits all set of policies for diversification; policies would depend on urgency (i.e. level of potential depletion of the non-renewable commodity) and its pace affected by other factors (effectiveness of institutions, governance, business environment etc).

Output related reforms	Trade-related reforms	Government revenue-related reforms	Support across all components via
<ul style="list-style-type: none"><li>• Precision farming</li><li>• Industrial policies</li><li>• Opening up services sector</li></ul>	<ul style="list-style-type: none"><li>• Exports of new products, to new markets</li><li>• Reducing non-tariff barriers</li><li>• Improve trade-related infrastructure &amp; logistics</li></ul>	<ul style="list-style-type: none"><li>• New taxes</li><li>• expansion of the tax base</li><li>• Efficient tax administration</li></ul>	<ul style="list-style-type: none"><li>• Digitalisation</li><li>• Education reforms</li><li>• Efficient labour markets</li><li>• Regional economic and financial linkages</li></ul>

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