Committee: ECOSOC

Topic: Addressing Strategies for Economic Diversification in Oil-Dependent Economies

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I. Introduction

There is a growing sense of urgency surrounding economic diversification beyond oil. The conventional thinking that has dominated oil market behaviour over the past few decades has centred on the concepts of “peak oil supply”, the point at which oil demand reaches its maximum, and on the idea that preserving resources for future generations by rationing supplies is a sensible way to manage a country’s oil. However, the pendulum has now swung towards the notion of “peak oil demand” and “oil abundance”, in which the pace of oil demand growth is expected to slow over time and eventually plateau or even decline, which would result in stranded assets. Furthermore, mitigating climate change requires an urgent transition away from the oil industry. It is widely believed that the world is on the verge of another energy transition, meaning conventional energy sources such as oil will eventually be replaced by low-carbon or zero-carbon alternatives. Moreover, countries that rely heavily on oil as an economic activity face further challenges. Oil wealth does not support the job market. In addition, oil prices and, therefore, revenue fluctuate with the amount of oil extracted. This revenue instability affects the overall rate of development and economic growth, living standards, fiscal balances, and quality of life. Therefore, a transition towards economic diversification can promote economic development, mitigate the impact of oil price fluctuations on local economies, and create job opportunities for the local labor force.

II. Definition of Key Terms

Economic diversification: The process of shifting an economy away from a single income source toward multiple sources from a growing range of sectors and markets to ensure stability.

Oil: A flammable and combustible liquid extracted from oil reserves deep in the Earth's crust, which is made up of a mixture of hydrocarbons. After it has been processed, it can be used in fuel industries and to produce electricity.

Exports: Tangible goods that are sold from one entity to another in exchange for capital or resources.

Product and Export diversification: Diversifying the local economy with regard to the goods and services it produces, imports, and exports.

Economic vulnerability: The likelihood that a country’s economic development progress is hindered by the occurrence of exogenous unforeseen events, often called shocks.

Vertical diversification: Involves the targeted extension of the value chain. It typically focuses on risk mitigation and operational efficiency within a single industry, with the potential of offering more stable returns

Horizontal diversification: A growth strategy in which a company seeks to add to its existing lines new products that will appeal to its existing customers. It seeks higher growth potential than Vertical diversification but carries higher risks due to diversifying into unrelated industries.

Commodity: A good sold for production or consumption just as it was found in nature. This includes crude oil. It can also be called a primary product or a primary good

Commodity dependence: A country is considered to be commodity export dependent when more than 60 per cent of its total merchandise exports are composed of commodities.

Structural transformation: The transition of an economy from low productivity and labour-intensive economic activities to higher productivity and skill-intensive activities

Private sector: The part of the national economy that is not under direct state control.

Public sector: The part of the economy that is controlled by the state.

Stranded assets: investments, resources, or infrastructure that suffer from premature write-downs, devaluation, or conversion to liabilities due to unforeseen changes in market, regulatory, or environmental conditions

Energy transition: The shift from an energy mix based on fossil fuels that includes petrol, methane, and coal, to one that mainly consists of renewables, such as wind, solar, geothermal, hydroelectric, etc.

Fiscal balances: The government budget balance is calculated as the difference between a government's revenue (from taxes and asset sales) and its expenditures. Often expressed as a ratio of Gross Domestic Product (GDP).

Capital-intensive: An industry, business, or process that needs a lot of investment in materials, equipment, etc in order to operate.

Macroeconomic volatility: Faster-than-desired swings in the broad forces that shape an economy, such as government spending, foreign trade, and interest rates.

Price volatility: The degree of change in a stock's price over time.

Human capital: The innate qualities of people, such as knowledge, skills, and well-being, that influence economic productivity.

Foreign direct investment: A cross-border investment where an entity based in one country establishes a lasting interest and significant management influence in an enterprise in another economy.

Free zones: Economic areas where services and goods can be traded, usually with customs rates and preferential tax.

III. General Overview

Diversification of economies, specifically related to oil, has occurred mainly in high-income/highly developed nations. The energy sector, which is typically highly capital-intensive, however, remains dominated by oil across countries' economies. One issue arising from a lack of energy diversification is its negative effect on the oil market. Reliance on oil exports creates very few jobs, while oil revenue is often used to finance a large public sector. The employment patterns related to energy differ across many nations: some countries rely more heavily on foreign labor to fill private-sector jobs, especially within the tertiary and quaternary sectors as they have shifted away from heavy oil dependence, while others, that depend on oil exports, must adapt to meet the demands of a rapidly growing domestic labor force.
Over-reliance on oil exacerbates macroeconomic volatility. For example, oil prices dropped about 72%, from 112$ to 31$ per barrel, between June 2014 and January 2016. As oil prices drop, the resulting decline in fiscal revenue often leads to cuts in public spending. As a result, economic growth and expansion across the nation slows, impacting not only energy markets but also other important industry segements placing public employment under strain. The economic vulnerability caused by reliance on oil exports is exacerbated by the finite nature of oil; it is vital to begin an energy transition to renewable, more eco-friendly alternatives.
Countries that rely heavily on oil production for revenue are expected to face new challenges, such as shrinking markets. As governments shift toward more environmentally friendly policies and agendas to combat global warming, the corporate sector will also adopt these measures, supported by initiatives such as tax incentives.
The aim to reduce the use of hydrocarbons as an energy source necessitates a structural shift toward more sustainable, low-carbon models of economic development. This shift is part of what countries have agreed to in the 2015 Paris Climate Change Agreement. Greater economic diversification can stimulate economic growth, create more jobs, increase resilience to market volatility, and improve environmental outcomes, all of which are vital to support future generations. This shift also stabilizes governments as their economies become self-reliant and less dependent on foreign investment, market-driven factors, and natural causes.

Before shifting towards a more diversified energy portfolio, it is important to first understand the reasons for such overdependence on the oil sector. This overreliance on oil can result from limited agricultural land availability, exacerbated by geographical factors such as mountains, climate, or soil types. This limits nations potential to rely on crop and other natural resource exports. Additionally, trends show that developing nations are often the most oil-dependent; this stems partially from low academic literacy and limited exposure to quaternary-sector activities. This results in countries becoming dependent on oil and on foreign investment to fuel technology, innovation, and development, further exacerbating their dependence. Investing in a skilled labour force and infrastructure are crucial step to developing a stable and sustainable economy while improving the living standards of the population. These are just some of the factors that pose obstacles to the development of other markets for countries transitioning away from oil dependency.

Export diversification remains a persistent challenge for oil-exporting countries, as some oil and gas account for over 75% of total exports. Therefore, delegates must address not only oil and energy dependency but also other economic factors that contribute to this overreliance.

IV. Major Issues

1. **Fostering private and quaternary sector growth**
   The development of a growing private and quaternary sector is crucial to diversifying economies. By investing in local economies, states can become more self-sufficient, supporting more sustainable growth, while becoming less reliant on oil, a non-renewable and finite resource. This transition will require actions that promote the growth of the private sector, include incentive systems for entities, and provide sufficient funding to support projects that move towards economic growth, thereby reducing vulnerability to oil price volatility.

2. **Challenges related to infrastructure and workforce**
   Economic diversification comes with challenges regarding an already operating workforce and oil-dependent infrastructure. Improving the structure of a country's energy portfolio requires innovation and development to boost economic productivity and sustainability. Several key challenges related to this transition include its very capital-intensive nature, which poses difficulties for states that lack sufficient working capital. Additionally, the current oil-sector infrastructure is not easily adaptable to support other industries. Many states trying to move away from oil dependency lack specialized industrial zones, limiting foreign direct investment by corporations, which could facilitate this transition. Finally, another challenge many countries face is limited electrical capacity, which prevents the

shift towards more renewable energy sources, such as highly capital- and electricity-intensive installations.

Workforce-related challenges:

The local workforce mainly relies on manual labor, with most employees lacking high school or university diplomas. If a shift to renewable energy occurs, it could reduce manual labor jobs, forcing people to seek employment in the tertiary and secondary sectors, potentially causing high unemployment and an economic downturn. The public sector offers more job security, benefits, and career advancement opportunities than the private sector, especially for individuals who did not complete the westernized qualifications. In some regions, cultural beliefs and religions lead to limited participation by women in the workforce, further constraining the available human capital. Finally, in most oil-dependent countries, many issues surrounding education programs, funding, and research opportunities lead to young, talented individuals leaving the country in pursuit of more opportunities abroad, also known as the “brain drain”.

Frameworks and regulations

Economic diversification is constrained by institutional frameworks and regulations that are reactive to oil price volatility, rather than proactive in developing other local sectors. Issues such as the vagueness of labour regulations and tax incentives can discourage Foreign Direct Investment. Most regulations often favor state-owned enterprises, which is an obstacle for small and medium-sized enterprises, and resource-rich countries lack the institutional strength, expertise, and resources needed to monitor non-oil regulations effectively.

3. **Geopolitical tensions**

   Many oil-dependent countries face geopolitical challenges when trying to transition. For example, in a region of high tension, Foreign Direct Investment is deterred due to political and regional instability. Uncertainty arising from geopolitical conflicts increases the corporation's operational costs. Further delays in resource transport due to regional tensions affect infrastructure, increasing the corporation's costs. Any conflicts in the region's immediate surroundings disrupt trade and supply chains, increasing challenges for exports. Foreign Direct Investment and business expansion into regions with geopolitical tensions become a liability to the firm, threatening operations, leading to unpredictability, and posing unnecessary risk to businesses.

V. Major Parties Involved and Their Views

Iraq: Iraq is heavily dependent on oil, which makes up over 90% of government revenues. This dependence on oil resources has shaped the country's economic landscape for decades, offering both opportunities and challenges. The country's vast oil reserves have provided significant revenue, its reliance on a single sector makes its economy vulnerable to fluctuating oil prices, geopolitical instability, and environmental agendas. In recent years, economic diversification has become increasingly urgent. This need is emphasised by Iraq's political instability, the aftermath of conflict, and the constantly changing dynamics of its economic base. The wealth generated from oil revenues has not translated into broad-based economic development or improved living standards for the population. Despite Iraq's wealth of natural resources, the country faces economic challenges, including widespread poverty, unemployment, and underdeveloped infrastructure. The government has recognised the need for economic diversification.

GCC Countries (Saudi Arabia, the United Arab Emirates, Qatar, Kuwait, Bahrain, and Oman): Over 60% of GCC governments are dependent on oil. Further challenges, such as volatile global markets, decreasing market confidence, inflation, and global energy transitions, make GCC progress towards economic diversification imperative. In recent progress towards economic diversification has been made:

Bahrain: Expansion into non-oil sectors such as financial, tourism, and services has provided a base for steady economic growth. As the first GCC nation to move away from oil dependence, Bahrain is the region's most diversified economy and leading financial center.

Saudi Arabia: Following more than a decade of massive investments in its non-oil economy, Vision 2030 has hit a major milestone: its non-oil economy is now larger than its oil economy. As of 2026, the non-oil sector accounts for around 56% of the economy. These efforts for economic diversification mainly targeted tourism, retail, services, and hospitality

United Arab Emirates: The UAE has launched a diversification program to reduce reliance on oil and transform its economy from more labour-intensive towards an economy based more on knowledge, technology, and skilled labour

Qatar: Qatar is a resource-rich, high-income country (HIC), with an economy based mainly on its large fossil fuel reserves. This enabled the country to rapidly develop and achieve high standards of living. However, their dependence on oil is unsustainable, especially when aiming for stability; therefore, since 2008 Qatar has made efforts to diversify its economy.

Kuwait: Following contractions in 2023 and 2024 due to regional instability, decreasing oil prices, and OPEC+ cuts, the country is moving towards economic diversification. Kuwait has invested heavily in infrastructure to support growing business needs, creating opportunities for both foreign and domestic investment.

Oman: The 11th Five-Year Development Plan (2026-2030) aims at 37.4% share of revenue growth from non-oil sectors. Oman is pursuing a multi-pronged approach to achieve economic diversification by creating a more conducive environment for private-sector investment, thereby diminishing the state's role in the economy's growth trajectory.

Nigeria: Nigeria's economy is highly dominated by the oil industry. While the sector generates high revenues, it increases economic vulnerabilities while not stimulating job growth. The Nigerian government is currently working with the Beyond Oil and Gas Alliance. Focusing on long-term sustainable growth by implementing frameworks that support investment, including new infrastructure, education that promotes more skills, implementing new social policies, and prioritising the labour market by focusing on the education and development of its youth.

Russia: Oil exports have become one of the most important sources of revenue for the country's economy, accounting for between 30 and 50 percent of total federal budget revenues in recent years. Since the invasion of Ukraine, the revenue generated through its export of fossil fuels has dropped by 19% due to sanctions and enforcement measures. Countries within the European Union have gradually decreased their reliance on Russia as the sole oil supplier, forcing Russia to market its exports at significantly reduced prices.

Venezuela: Venezuela has the world's largest oil reserves, estimated to contain around 303 billion barrels. The country's economy is almost entirely reliant on oil, as it remains the only sector capable of generating enough revenue to support it. Nowadays, 80% of Venezuelans live below the poverty line, unemployment rates are high, and the country's GDP has fallen.

Norway: Norway plays an important role in the global energy market as a country with large oil reserves in the North Sea. Norway is focused on economic diversification beyond oil, investing in R&D regarding technology, health, medicine, engineering, and sustainability. Norway is highly dependent on its oil and gas exports, accounting for around 48% of its global exports.

OPEC (Countries): These nations control around 44% of global oil production and 73% of global oil reserves. Although some of these countries are pursuing economic diversification agendas, many others remain vulnerable to market changes and price fluctuations, as limited efforts are going towards economic diversification.

VI. Relevant UN Documents and Articles

- UNFCCC DIVERSIFICATION IN OIL-DEPENDENT ECONOMIES
- UNCTAD Commodities and Development Report 2023
- UN General Assembly Resolution A/RES/78/138 (2023)
- UNCTAD Economic Development in Africa Report 2024
- UNFCCC IMPLEMENTATION OF JUST TRANSITION AND ECONOMIC DIVERSIFICATION STRATEGIES
- UNCTAD Pathways to economic diversification in commodity-dependent developing countries

VII. Questions to Consider

A. Which business sectors should replace oil to ensure stability and support an economic transition and diversification?

B. How can nations invest and prioritise the growth of the private sector? Which barriers prevent this expansion?

C. How can vocational training and labor market regulations increase the local workforce? How can the workforce be encouraged to leave more stable public sector jobs in favour of private sector jobs?

D. How can nations balance the transition away from oil exports while still supporting their economy? Which interim sources of revenue can they depend on?

E. How does the rise of renewable sources as a competitive energy source impact strategies for economic diversification in oil-dependent countries?

VIII. Conclusion

The effects of becoming overly dependent on oil exports, market prices, and demand can be observed around the world, as nations become increasingly unstable, leading to citizens experiencing a lower quality of life, unemployment, and poverty. Today, countries are moving towards a more sustainable and environmentally friendly future, prioritising economic diversification amid declining market confidence and rising political tension. Economic diversification isn't merely a means to replace revenue but also a way to shield the economy from price shocks, ensuring stable long-term growth. Therefore, it is vital to address bottlenecks and challenges that oil-dependent economies face today to be able to move forward, towards a more sustainable, diversified, and stable geopolitical environment.

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