

Credibility of Growth and Development Measures in Rentier Economies: The Case of GCC

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Abstract

The six countries of the Gulf Cooperation Council (GCC) rely heavily on a depleting, and unstable source of income, namely crude oil and natural gas. The paper explores various imbalances resulting from such over-reliance and disputes the validity of widely used conventional measures of growth and developments for measuring growth and development in such oil based economies. The paper argues that constraints facing the GCC countries require the use of distinctive non-conventional indicators that can assess their performance towards development. Thus, it suggests some relevant indicators of development performance that are specifically practical in the case of GCC countries. It also applied a dispersion index to assess the GCC economic diversification efforts during the past four and half decades. The UAE and Saudi Arabia have achieved the best pace of success in transforming their domestic economy into more diversified ones. The paper also proposes measures associated with international indices that were introduced by world organizations and institutions. In this context, the paper presented three of these indices, the good governance index, democracy index and corruption perceptions index.

Keywords: Economic development, diversification, Rentier economies, Growth measures

1. Development Strategies fell short of achieving an Integrated Regional Economy

Pushed by the fear of repercussions of the 1979 fall of the Shah of Iran, and the subsequent outbreak of the first Gulf war between Iraq and Iran (September 1980 to August 1988), six Arab countries on the Gulf, namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates gathered to form the now well known Gulf Cooperation Council (GCC). The security concern was the real motive behind the formation of the Council in Abu Dhabi on May 25, 1981. Threats to export the revolution to other Gulf countries have been launched by forces of extremism within the Iranian revolution. Beside such threats, there was the fierce war between the two largest and powerful neighbors in the Gulf. However, similarity of customs, traditions, shared history and the need for economic collaboration had topped the list of justifications for the Council creation. During the past 35 years, the Council members have been making constant efforts in order to coordinate their economic laws, regulations and policies. The GCC countries have achieved success and accomplishment on several courses of economic cooperation, in spite of the fact that they all rely heavily, even though unevenly, on one major source of income, which is oil and gas, the matter which reduce the chances for achieving regional economic integration. Nevertheless, it is quite clear that the six countries have not yet been able to guide the development policies toward as sorted economic structures which can help them achieving an extensive diversified and integrated regional economy. Over the past three and half decades, the outcome of varied economic development efforts towards diversification of economic activity in the GCC countries, with the exception of the United Arab Emirates and to a certain extent Saudi Arabia, has been modest. Yet, in this context, it is important to note that both Oman and Bahrain are not as hydrocarbon-rich economies as the other four sisters.

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2. Adverse Features Resulting from Excessive Reliance on Rents

It goes without saying that the reliance on a depleting natural source of income, such as oil and gas, imposes great challenges and mounting pressures on the GCC members. Consequently, the following harmful features are characterizing the economies of these countries:

2.1 High Exposure to External Shocks

The GCC countries export most of their oil, crude and derivatives, to the outside world. The amounts of oil demanded and their prices are influenced by economic cycles in the main regions of consumption, and the multiple factors that affect the prices of crude. Because crude oil, which is a strategic commodity, is predominantly produced in countries that are different and distant from the main regions of oil consumption, the level of price sensitivity is even greater. On the demand side, this is due to justifiable concerns of consuming countries about the security of oil supply, and safety of pathways and chokepoints of oil transport. On the supply side, oil producing countries have their own valid concerns about growing competition from other sources of energy, renewable and non-conventional oil; potential breakthrough in alternative fuel in the transportation sector; lower energy intensity due to constant improvement in fuel efficiency, and last but not least the growing worldwide fear of hydrocarbon role in global warming and the subsequent catastrophe of climate change. Accordingly, the main source of income of the GCC countries becomes vulnerable to nonstop external shocks.

2.2 High Ratio of Expats and Remittances

The GCC countries are relying heavily on foreign labor to keep their economies running. Expats account for major but varied shares of GCC labor markets. The rapid increase of foreign labor has resulted in lack of demographic balance in most of GCC nations where citizens have turned into a minority in their own country. In this respect, the UAE tops the list by having 88.4 percent expats of the total population (estimates of 2011). Similar ratio had been estimated for Qatar, while it was 67.9 percent in Kuwait, 55.2 percent in Bahrain, and nearly 30 percent for each Saudi Arabia and the Sultanate of Oman. In 2014, the World Bank estimated the remittance flows from the GCC countries at \$102 billion. The largest part of these remittances goes to South Asian nations of India, Bangladesh, the Philippines, Pakistan and Sri Lanka. Remittance outflow from Saudi Arabia has been the world second largest after the United States (\$36.9 billion). The UAE ranked six with \$19.3 billion and Kuwait was the seventh with \$18.1 billion during that year.² Such outflow is likely to reduce the circulation of income in domestic economy and may have some negative impact on growth and development.³

2.3 Symptoms of "Dutch disease"

The term "Dutch disease" has been extensively used in the literature of economics, since it was used by the British well known magazine, *The Economist* in 1977, to describe the situation experienced by the economy of the Netherlands, after the seventies' exploitation of rich natural gas fields that were discovered since the early sixties. The Netherlands has used the enormous returns that have been generated from gas exports to raise its current spending and investment. The result of such generous spending was an unprecedented rise in the exchange rate of the local currency that weakened the competitiveness of Dutch exports vis-à-vis other goods in outside markets. Consequently, the importance of production activities has been reduced, leading to further focus on speculative activities on non-tradable assets. Following the observation of such a phenomenon, multi empirical studies on many other resource-rich countries found similar impact as a result of their dependence on exports of natural resource. In a thesis for his doctorate at Johns Hopkins University, a researcher experimenting the impact of oil price shocks on the growth of manufacturing activities in a group of countries during the period from 1977 to 2004, found that the impact in the oil-exporting countries are up to four times higher than in the other countries. Despite the absence of applied studies that confirm an outbreak of Dutch disease symptoms in the Gulf Cooperation Council (GCC), part of these symptoms is

² The World Bank Brief: Migration and Remittances Data, September 24, 2015.

³ According to a study by Khalid A. Alkhatlan titled "The Nexus between Remittance Outflows and Growth: A Study of Saudi Arabia," published in the *Economic Modeling* 33 (2013): 695-700, evidence of the time series data on Saudi Arabia suggests that remittance outflows affect economic growth in the short term but do not seem to play any significant role in the long term.

clearly evident in these countries incapability to achieve robust diversification of their economies as well as the spread of speculative activity in non-tradable assets.⁴

2.4 Resource Curse

Over the past three decades, various applied economic studies have emphasized a number of adverse social, economic and political effects which are caused by the reliance on a rentier source of income. The term "resource curse" has been commonly used to describe these undesirable consequences, including a slowdown in economic growth, institutional weaknesses, widespread corruption and absence of governance, lack of transparency and accountability, and the proliferation of violent conflicts. In this context, Robinson's et al (2006) study found that resources-rich countries such as Algeria, Ecuador, Mexico, Nigeria, Saudi Arabia, Venezuela, and Zambia were unable to avoid the consequences of resource curse.⁵ Even as the value of resources exploitation provides governments with several development options, successful adoption and implementation of some of these opportunities depends largely on the quality of existing institutions. When a country is missing competent institutions, as is the case with most oil-exporting countries, incorrect policies along with groups of interest would prevail and direct the national income towards further unjustified distribution of rents, irrational current spending and non-feasible investment which would affect economic growth negatively. Oti and Gelb (2001) noticed that the abundance of natural resources increases the likelihood of having authoritarian regimes rather than systems with the intention of reform and development. This is mainly due to the availability of resource rent which calms down unsatisfied majority towards inequality of the wealth distribution and thus weakens the possibility of a reasonable redistribution of assets. They also found that rentier states, while suffering from the repercussions of the Dutch disease, tend to adopt protectionist trade policies, rather than providing export subsidies.⁶ In this context, Michael Ross' papers (2000 and 2001) also confirmed that the rentier states tend to be less democratic and more exposed to political conflicts. Ross's empirical tests found out that the state's dependency on oil exports makes it less democratic. However, in his subsequent book (2012) he has advocated that Latin American countries pose a unique exception to this rule.⁷ On the other hand, Elbadawi study (2012) emphasized what has been indicated in earlier literature that the resource curse occurs in resources' rich nations because of the weakness of their political governance which is mainly due to the absence of transparency and democracy. He also concluded that the most destructive shortcomings within the governance aspects is the lack of accountability on the size and nature of rents and the nonexistence of comprehensive competent institutions to control the distribution of rents and to manage the risks associated with their fluctuation.

Many studies have also shown that the resource-rich countries are more vulnerable to extensive fiscal and administrative corruption. The abundance of rents, according to these studies, leads to the spread of rent-seeking phenomenon, and although this in itself is not a sort of corruption, however, individuals who spend most of their time and effort in competition to build their rent-based wealth imply that they are not participating in productive activity and thus deprive the society of their skills and labor. Their act involves the sharing proceeds rather than generation of income. Rent also provides governments with ample opportunities and motivations to buy loyalties in order to reinforce their power. Governments can also use rent to prevent the formation of social pressure groups that are effective and independent of state's control. The term "white elephants" is also used in literature to refer to costly but fruitless mega-projects built by some resource-rich countries to show-off rather than to serve development objectives.

⁴Kareem, Ismail (2010) "The Dutch disease: Theory and evidence from oil-exporting countries and its structural and fiscal implications", Ph.D. dissertation, the Johns Hopkins University.

⁵Robinson, James A., Ragnar Torvik and Thierry Verdier (2006) "The Political Foundations of the Resource Curse," *Journal of Development Economics*.

⁶Auty, Richard, and Alan Gelb (2001), "Political Economy of Resource-Abundant States", in Auty, R. M., ed. *Resource Abundance and Economic Development*, Oxford University Press.

⁷Michael L. Ross, Michael L., (2000) "Does Resource Wealth Cause Authoritarian Rule?", World Bank. (2001), "Does Oil Hinder Democracy?", *World Politics*, 53 (April 2001). (2012) "The Oil Curse: How Petroleum Wealth Shapes the Development of Nations, Princeton University Press.

Although nearly half of oil revenues obtained by OPEC countries, following the first oil price shock of the 1970s, have been invested domestically, no real economic leap has been achieved by any of them. This is not necessarily due to low economic return on investment but rather, as some studies indicate, due to the tendency of oil-rich governments to invest in projects of high political payoff, but without solid economic purposes.⁸

Yet, even though that "resource curse" has hit many resource-rich countries, the success of countries like Norway and Botswana in avoiding the curse could represent a departure from this phenomenon. Other studies show that such possibility depends, to a large extent, on the competency of existing institutions, the quality of economic policies and the effectiveness of management.⁹

3. Major Differences among the GCC Rentier Economies

Within this context, the present paper looks at the fundamental differences between the GCC rentier states which may have led to the noteworthy variation in their development performance, measured by their ability to diversify the economic activity. A number of economic studies have emphasized the importance of diversification to reduce the heavy dependence of resource-rich countries on rentier income and subsequently to avoid the "resource curse."¹⁰The following are some of the main differences between the GCC countries which deserve attention.

3.1 Different Degree of Dependency on Natural Resource

The hydrocarbon dependency of GCC countries can be reflected by the share of the market value of its oil and gas production in GDP, in public revenues and the share of oil and gas exports in total exports. On average, hydrocarbon accounts for nearly 50% of GDP (with the exception of Bahrain and UAE where the shares between 2000 and 2015 were below 30% and 40% respectively), 80% of public revenues and about 70% of export revenues. However, the hydrocarbon GDP dependency appears to be highest in Kuwait, Qatar and Saudi Arabia and lower in the UAE and Bahrain pointing to more diversified activities.¹¹ It should be noted that Bahrain has been endowed with limited hydrocarbon resources and thus expanded into manufacturing and banking services since the early 1970s, while UAE, and Dubai in particular, has managed to expand into more diversified service activities than any other GCC member. During the period 2000 – 2015, sector analysis shows that the services sector had a clear contribution to the real GDP growth, representing almost half of total growth, and at least three-quarters of non-oil growth. However, the data reveals a discrepancy in the contribution of services among the GCC countries. Prior to the financial crunch of 2008, financial services grew at an accelerated pace in Bahrain, Kuwait, Qatar and UAE. On the other hand, government services grew in all GCC countries, but the pace has been higher in Bahrain and UAE. The construction business has witnessed a boom in UAE and recorded significant growth in both Qatar and Oman. The growth of tourism activities was also strong in a number of GCC countries, but again UAE was in the lead. Even so, in terms of number of visitors, Saudi Arabia was ahead, especially to the Muslims two holy sites, followed by the UAE, which has become an important tourist destination and attract regional and international visitors. As for the other activities, manufacturing, and hydrocarbons-especially the export-oriented and energy-intensive industries have witnessed noticeable expansion in Saudi Arabia, Bahrain, UAE, and to some extent, Qatar.¹²

3.2 Dissimilarity of Fiscal Vulnerability

Sharp fluctuations in oil prices during the past four decades have led to great interests in estimating the fiscal break-even price of crude oil (the price at which public revenues is exactly equal to the public expenses) in oil economies. The diverse fiscal break-even price of oil in the GCC countries indicates the relative differences in their fiscal policies and the dissimilar degree of their vulnerability to fluctuations in oil markets.

⁸ Torvik, Ragnar (2009) "Why do some resource abundant countries succeed while others do not?", *Oxford Review of Economic Policy* Volume 25, Issue 2, Summer 2009.

⁹Larsen, Erling (2004) "Escaping the Resource Curse and the Dutch Disease? When and Why Norway Caught up with and Forged ahead of Its Neighbors, Discussion Papers No. 377, Statistics Norway. Acemoglu, Daron and James Robinson (2012) *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*, Crown Business.

¹⁰Auty, Richard. (1994) "Industrial Policy Reform in Six Large Newly Industrializing Countries: The Resource Curse Thesis", *World Development* 22.1, January. Collier, P. (2000) "Doing Well Out of War: An Economic Perspective", in M. Berdal and D. Malone (eds), *Greed and Grievance: Economic Agendas in Civil Wars*, Boulder: Lynne Reiner.

¹¹ Michael Sturm, Michael et al, *The Gulf Cooperation Council countries: economic structures, recent developments, and role in the global economy*, European Central Bank, Occasional Paper Series, NO 92, JULY 2008.

¹²IMF, Middle East and Central Asia Department Report (2011) "Gulf Cooperation Council Countries Enhancing Economic Outcomes in an Uncertain Global Economy".

For example, after the recent sharp decline in oil prices, since the beginning of the second half of 2014, which had shed up to 70% of its previous levels, IMF has estimated the GCC losses from the decline of their hydrocarbon exports in 2015 at nearly \$300 billion, or 21% of their GDP. The IMF estimates that the most affected GCC countries will be Kuwait, Qatar, Oman and Saudi Arabia. In contrast UAE has approved the 2015 budget without a deficit, without imposition of new taxes, tariffs or fees and with 6.3% increase in expenditure above the 2014 budget.

The budget did not have any irregular increase in salaries, but maintained the natural growth of job opportunities.¹³ During ten years (2004-2014), oil prices have witnessed an unprecedented upwards record (with the exception of the short-term decline that has followed the intensification of the global financial crisis in late 2008 and early 2009). Large increases in GCC public expenditure have taken place due to these price rises, thereby escalating its dependence on oil revenues causing a significant increase in their fiscal break-even price levels. Table (1) shows the GCC fiscal break-even prices of oil (with the exception of Bahrain), from 2009 to 2015.

Table 1: GCC fiscal break-even prices of oil 2009 to 2015

Country	2009	2010	2011	2012	2013	2014*	2015*
Kuwait	28	47.5	39.1	49	52	52.3	53.3
Oman	61.1	66.6	77.9	79.8	89.4	101.6	107.5
Qatar	26.7	76	79	69.2	59.4	71.1	77.6
KSA	73.6	69.5	78.1	77.9	84.3	86.1	90.7
UAE	107.4	83.5	93.8	77.9	81.3	74.3	73.3

*Data of 2014 and 2015 are estimates.

Source: IMF, Middle East and Central Asia Department, Regional Economic Outlook, Statistical Appendix, May 2014

3.3 Economic Role of GCC Private Sector

Data on the distribution of GDP between the public and private sectors in the GCC countries is not perfect. Some of the difficulties arise from the existence of a relatively joint sector. However, what is certain is that the hydrocarbon industry, which is dominant in all GCC resource-rich countries, namely Saudi Arabia, UAE, Kuwait and Qatar is controlled by the government as all natural resources in GCC countries is solely owned the state. Hence, with the exception of UAE, most GDP is found in the public sector. The UAE private sector share of GDP has ranged between 62.6% in 2002 and 68.8% in 2008.¹⁴ Next to this the GDP private share in Qatar has been increasing from 31% in 2004 to 41% in 2009. This share is calculated from output distribution between government, family, and business sectors where the latter two plus the private share of output in the joint enterprise sector have represented the private sector.¹⁵ In contrast, the private shares were 28.2% and 32.7% for Saudi Arabia during the 2005 and 2009 respectively.¹⁶ For Kuwait, the private contribution in 2009 was 27%.¹⁷ Yet, the growth of private GDP share in GCC economies may not necessarily mean a transform towards a free market economy. Increase in nominal GDP contribution can occur because of changes in the price of oil. On the other hand, enhancement of private contribution to GDP requires economic reform, liberalization of laws and regulations, improvement of business climate and support of competitive environment. In this context, GCC economies cannot be classified in one box as some of them; UAE in particular, has successfully gone a quite a bit on this road.

¹³ The UAE daily Al Ittihad newspaper, Monday, October 13, 2014.

¹⁴ KAMCO Research, United Arab Emirates (UAE) Economic Brief and Outlook 2011, April 2011.

¹⁵ Qatar Statistics Authority, Qatar Economic Statistics at a Glance, 25 April 2012.

¹⁶ KAMCO Research, Saudi Arabia Economic Brief and Outlook, June 2011.

¹⁷ The Website of the National Assembly, the State of Kuwait, Research and Studies: The Role of the Private Sector in Kuwait Development Plan (2010-2014).

3.4 Diverse Business Environment

In international competitiveness indicators, UAE occupies a topping position. In recent years, UAE was successful in attracting a very large number of foreign investors where more than 150 major international companies have made UAE as their regional headquarters. In the 2015 version of the ease of doing business report issued by the World Bank, UAE has ranked first among Arab countries and 22nd worldwide. UAE was also ranked first in the Middle East and North Africa and ranked 20th worldwide in the 2015 global index of the entrepreneurship and development.

Saudi Arabia has occupied the second position among Arab countries and 49th globally in the ease of doing business index, while Qatar came third in the Arab world and 50th internationally in this indicator. However, Kuwait occupies late position in this index. A report issued by the Kuwait Financial Center indicates that establishing a business in Kuwait requires 12 official procedures in comparison to 5 in Oman and 6 in UAE. Completing these procedures in Kuwait needs also a longer period of time 31 days, compared to 7 in Oman and 8 in UAE. The entrepreneur must deal with 11 government departments in Kuwait before he can operate his business, while the counter number in other GCC countries is ranging between 4 to 7 departments. Additionally, a project in Kuwait should be registered in five different government agencies which is the largest number compared to other GCC countries. The reservation of a unique business name for the newly established firm needs one day in Kuwait and UAE, while the same process can be done over the internet in Saudi Arabia and Qatar. Further, Kuwait is the only GCC country that requires an official preview of the company's physical location, a process which takes about five days.¹⁸

Table 2: Ranking of GCC countries in the 2015 ease of doing business index

Country	Rank 2015	Score
Bahrain	53	69.00
Kuwait	86	63.11
Oman	66	66.39
Qatar	50	69.96
KSA	49	69.99
UAE	22	76.81

Source: The World Bank, Doing Business 2015: Going Beyond Efficiency, Edition 12

Along with other factors related to legislative structure, tax systems, quality of infrastructure, logistics and public services, the ease of doing business plays a major role in stimulating and attracts investors to a country or to hold them off. Between 2003 and 2013 Saudi Arabia has managed to attract 52.2% of foreign direct investments that came to the GCC region. Oil and industry has the lion's share of those investments. The UAE followed with a share of 25.4%; Qatar (8%); Bahrain (6.4%); Oman (5.7%) and dissolved Kuwait was last on the list with 2.2%. Table (3) shows the distribution of FDI inflow shares to the GCC countries between 2003 and 2013.

Table 3: Distribution of FDI inflows to GCC countries in percent 2003-2013

Country	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Average
Kuwait	2.6	0.5	0.9	0.3	0.3	0.1	0.2	0.8	1.5	7.3	9.3	2.2
Bahrain	20.3	20.2	3.8	8.1	4.1	2.8	0.5	0.4	3.0	3.5	4.0	6.4
Oman	20.7	0.4	6.2	4.5	5.5	4.6	4.3	2.8	3.0	4.0	6.6	5.7
Qatar	24.6	15.8	4.8	0.4	2.6	10.6	17.1	11.6	-0.3	1.3	0.0	8.0
UAE	1.2	19.6	40.0	35.7	30.8	21.6	7.8	13.8	29.4	36.9	42.5	25.4
KSA	30.6	43.5	44.4	50.9	56.6	60.3	69.8	70.6	63.4	46.9	37.7	52.2

Source: World Bank Data.

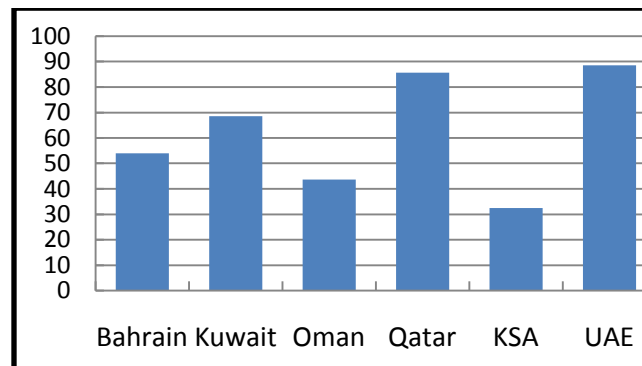
¹⁸ Kuwait: Starting business, a study report by Marmore Mena Intelligence, a subsidiary of Kuwait Financial Center, 24 March 2015.

3.5 Demographic and Labor Market Imbalances

Demographic shifts are usually slow, and population growth can be, often, estimated and projected with a reasonable level of accuracy. Yet, the case is different when it comes to the GCC bloc. This is due to the phenomenon of expat growth in a region where foreigners constitute more than 40% of its population, according to the demographic data of the latest five years.¹⁹ This has been resulted from the ample job opportunities that become available in these growing oil-rich economies. Insufficient local labor, the region proximity to neighboring low-income countries and regional political unrest led to the influx of millions of job and security seekers.

The proportion and composition of expatriate labor force in the GCC countries vary in accordance with the policies relating to employment, the need to attract diverse skills at different stages of development and the change in levels of oil income. Several local factors have helped the breadth of this phenomenon, including the mismatch between required jobs and local skills, the unwillingness of national labor to become self-employed or to work in technical or manual jobs and the weak contribution of females in national labor force in some of the GCC countries. The high estratio of expatriates of total population are found in UAE (88.5%) and Qatar (85.7%), followed by Kuwait (68.5%), Bahrain (54%), Oman (43.7)and Saudi Arabia (32.4%).²⁰ Figure 1 replicates these ratios.

Figure (1): Expats Ratios of total GCC population 2014



The high ratio of expats reflects another problem which is the predominance of foreign labor on many professions and trades in the GCC countries. In general, expats constitute the vast majority of labor in the GCC private sectors. Asian workers from the Indian sub-continent and other Asian areas dominate the GCC labor market (69.9% of total foreign labor). This group is followed by Arab labor (23.3%). Oman tops the list of Asian labor ratios at 92.4%, followed by UAE at 87.1%, Bahrain at 80.1% and Saudi Arabia at 59.3%. In Kuwait, this ratio is up to 56.4, while in Qatar which accommodate the largest ratio of Arab labor; Asian labor ratio is estimated at 45.6%.²¹ The expats community is characterized by male dominance. Male to female ratio goes up to a record high of more than five-fold in Oman, followed by Qatar and UAE at four-fold. While this ratio is up to nearly three times in Bahrain, Saudi Arabia and double in Kuwait.²² Table 4 and Figure 2 indicate these rates.

¹⁹The GCC in 2020: The Gulf and its People, The Economist Intelligence Unit Report, September 2009.

²⁰Naufal, George and Ismail Genc, Labor Migration in the GCC Countries: Past, Present and Future Middle East Institute, National University of Singapore, June 2014; similar data can be found at Madar Research and Development & Marketing Communications Consultancy Orient Planet, Dubai based establishments, April 2014.

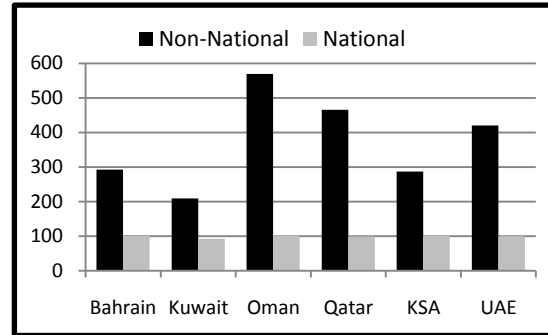
²¹Employment in the GCC: Challenges and Solutions, Ali Hussein Al-Mashhadani, the Gulf Economic Journal, Number (24), year 2012.

²²Naufal, George and Ismail Genc, Labor Migration in the GCC Countries: Past, Present and Future Middle East Institute, National University of Singapore, June 2014

Table 4: Number of Males to each 100 Females in GCC countries

Country	National	Non-National
Bahrain	101	293
Kuwait	93	209
Oman	102	569
Qatar	99	466
KSA	102	287
UAE	100	420

Figure 2: Number of Males to each 100 Females in GCC countries



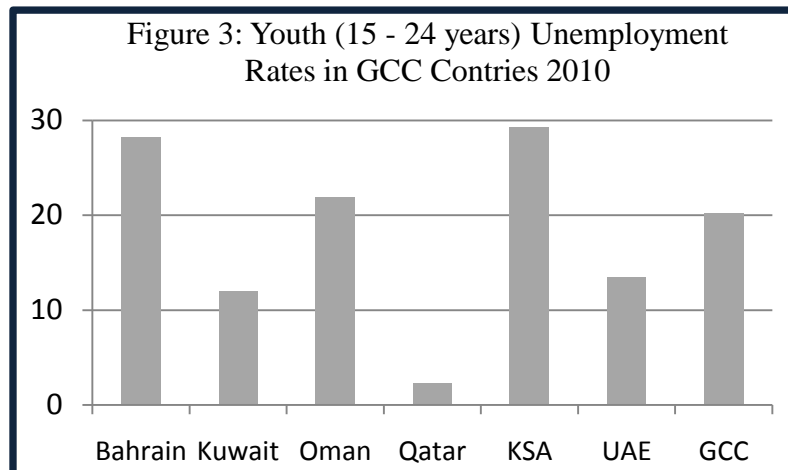
The other problem is related to the concentration of local employment in the public sector. The GCC governments while seeking to accommodate the growing numbers of graduates of colleges and universities create thousands of unnecessary jobs that lead to overstuffed public sector causing continuous decline in productivity, ineffective control of work performance and deterioration of public services. As a result of such outbreak of disguised unemployment, a previous IMF study (June 2013) ranked the Kuwaiti government sector at top in terms of a glut of national employment in the Middle East and North Africa and the Caucasus region. The widening gap between the advantages of working in the public sector versus the private sector, induce local labor preference toward the public sector jobs. Often the average wage in the public sector is much higher than those in the private sector, especially for workers with lower skills. Other benefits include less working hours, job security, rapid promotion, effortless function, lack of control over performance and more fringe benefits. These features constitute disincentives to citizens to invest in true learning or to acquire the skills required for work in the private sector. Citizens of GCC countries with more resource endowment and lower proportion of national population, such as Kuwait, Qatar and the UAE, have higher concentration ratios in the public sector. More than two-thirds of national labor in these countries is employed in the public sector.²³ According to latest official data of Kuwait, this ratio has reached a record of 83%. Such ratio is also high in the case of Saudi Arabia.²⁴ Certainly, the ability of the public sector in the GCC countries to provide real and productive employment opportunities for the growing number of graduates would be reduced over time. In light of the present recruitment policy, using the growth exponential formula based on the rate of increase in the number of government employees between 2012 and 2013, the number of Kuwaitis employed in the public sector is expected to reach 580 thousand by the year 2030, an increase of 160% compared with the current number of the public sector employees.²⁵ The ILO estimates that the GCC states need to create 3.3 million new jobs by 2020, and believes that the problem of the relatively high unemployment rates among the GCC youth- age 15 to 24 years will be aggravated in the years to come. Figure 3 shows the estimates of GCC unemployment rates among the youth segment.²⁶

²³Labor market reforms to boost employment and productivity in the Cooperation Council for the Arab States of the Gulf, IMF experts' paper, submitted to the annual meeting of finance ministers and central bank governors held in October 5, 2013 in Riyadh, the IMF publication.

²⁴Kuwait Labor Market Information Systems, Central Statistical Bureau, Kuwait, February 2014.

²⁵General Secretariat of the Supreme Council for Planning, the State of Kuwait, May 2014 estimates.

²⁶GIC Monthly Economic Review, Employment and Unemployment in the GCC, GICMER – Special Issue, Gulf Investment Corporation, September 2012.



4. Measuring Growth in the GCC Countries

Common and conventional measures of economic growth rates may not be suitable for measuring economic growth in natural resources-rich countries, such as the GCC countries. These countries do not have large scale industrial or agricultural activities, but depend only on the export of the extracted natural resource, which is an asset rather than a product. The financial proceeds from the sale of this asset is spent by and large on current expenses. Without investing a substantial part of these proceeds on the development of a substitute asset which can provide the economy with sustainable replacement of oil income after the actual or economic depletion of oil, the country will be deprived of any viable and satisfactory source of income.

In order to reflect the economic and social progress of various countries of the world, different measures have been developed and adopted. This section explores the validity of these measures for the use in the case of GCC countries.

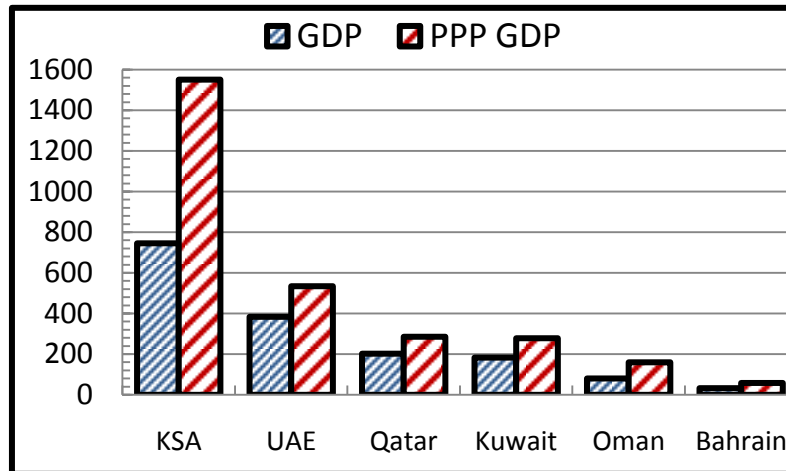
4.1 The Gross Domestic Product (GDP)

GDP, which is the world most recognized measure of growth, does not reflect the value of asset exhaustion by the extraction process of natural resources such as oil, which its production represents a drain of portion of the natural resource that cannot be replaced or compensated for within a probable time horizon. Moreover, the GDP, which is a constant measure does not reflect the true value added to the capital, and therefore it is not a measure of the development efforts. GDP also excludes important activities that have no market valuation. As a measure of an increase in output, it reflects the supply side but disregards the demand side and/or the distribution of output. It has also no concern on social impacts or the indirect consequences of production process on workers' health, leisure time, and liaison with their family and community.

As well, GDP does not distinguish between the output value of consumer goods and capital goods or the output value of necessary goods and luxury goods, and thus does not reflect the economic or the social importance of the output. Further it does not discriminate between spending one million of dollars on cutting trees in forests which aggravate the desertification problem or spending a million of dollars on land reclamation and farming. Thus GDP being a measure of mere market value of output has nothing to do with the quality of products or their importance to the economy, the society or the environment. Therefore, GDP can reflect neither economic development nor overall satisfaction of the society. Many additional measures were developed but have been derived from this aggregate measure, though more favorable in one degree or another, they include the same deficiency that surround their mother concept, the GDP. Examples of such derivatives are net domestic product, gross national income, domestic income, personal income and disposable income. Among the notable progress in this respect was the introduction of the purchasing power parity (PPP) of the gross national income, where it converts a national income measured by the national currency into US dollar using the purchasing power parity between the concerned country and the United

States. There are substantial differences between GDP values measured by this approach and non-PPP'GDP. Figure 4 shows the gross domestic product estimates in the GCC countries using both methods.

Figure 4: GDP estimates (2011) in the GCC countries Compared to their PPP- GDP (in billion of US dollars)



Source: World Bank data base.

4.2 Economic Well-Being Scale

The launch of this measure in 1972 is attributed to two economists from Yale University, William Nordhaus and James Tobin, where they attempted to introduce a substitute measure for GDP.

Their measure considers the gross national product as a starting point, and then amends its value by including an assessment of leisure time and unpaid work, and thus attempt to find a more reasonable value. The measure included a negative value to reflect the environmental damage caused by industrial production and consumption, reducing the value of the conventional gross domestic product, and getting closer to the concept of sustainable development.²⁷Zoltas has been influenced by the ideas of Nordhaus and Tobin. Therefore, in 1981he further added social elements on the top of the economic factors that were considered by them and applied his new measure to US data.²⁸A vital amendment to the GDP measures of natural-resource rich economies has been introduced by S. AlSairafi in 1988. The thought amendment takes into consideration the depletion certainty of non-renewable resources. Since production and sale of a natural resource, say crude oil, represent a liquidation of a capital asset, then its proceeds should not be looked at as the same as proceeds resulting from production and sale of a manufactured or cultivated commodity. Consequently, the market price of a barrel of crude oil does not reflect the cost of the lost barrel (i.e., the asset). Hence, he developed a formula that adds up the cost of the necessary investment needed to replace the lost portion of the exhaustible resource.²⁹

4.3 Quality of Life

A multidimensional approach to measuring the quality of life across countries has been constructed by Daniel Sluttiein 1991. The measure goes well beyond GDP which only considers the amount and the price of output. The measure includes 20 selected elements that reflect the quality of life. It was applied to 126 countries in order to rank them in accordance with a different index than output.³⁰

4.4 Sustainable Economic Welfare

The Sustainable Economic Welfare has been developed by Herman Daly and John Cobb in 1989 as a reflective index of well-being. This index was based on the economic well-being of Nordhaus and Tobin, but added to

²⁷ Nordhaus, W. D. and Tobin, J (1972). *Is Growth Obsolete?* Economic Growth, National Bureau of Economic Research, no 96, New York.

²⁸ Zoltas, Xenophon, (1981). *Economic Growth and Declining Social Welfare*. New York University Press.

²⁹ Larson, B. A. (2007). *Sustainable development research advances*. Nova Publishers.

³⁰ Slottie, D. J., (1991). *Measuring the Quality of Life across Countries*, the Review of Economics and Statistics, vol. 73, issue 4

it some dimensions of sustainability. Daly and Cobb have concluded that the attention of the authorities should be directed toward the humanitarian aspects and that government and social organizations' interest should serve the needs of smaller entities. Specifically, they called for the introduction of true reforms within the universities, the development of partially self-sufficient economies, and to adjust the measurement techniques of economic performance.³¹

4.5 Human Development Index

Since 1990, the UNDP has adopted the human development index (HDI). It is a composite statistic of life expectancy at birth, knowledge which is measured by two ratios: literacy among adults and access to primary, secondary and higher education, and income per capita which is based on GDP per capita. The index is used to rank countries into four tiers of human development. Since its inception, HDI has been recognized as significant as the output index because it reflects the development of human capital which is the objective and the basis of sustainable development. However, this index has been criticized because of the equivalent weights of the three components, the missing assessment of quality of knowledge and the adoption of the deficient GDP as one of its components.³²

4.6 National Index of Happiness

Since 1972, the fourth king of Bhutan, Jigme Singye Wang chuk had rejected GDP as the only approach to measure progress and ordered the use of a gross national happiness index(GNH) as a measure of the effectiveness of development in Bhutan. GNH reflects the Buddhist concept of happiness. It measures nine conventional and non-conventional domains: the living standards, education, health, environment, community vitality, time use, psychological well-being, good governance and cultural resilience and promotion.³³

In July 2011, the United Nations passed a resolution calling for member states to measure the level of happiness of their people using the GNH index to help guide public policy. In April 2012 the United Nations adopted a new index that reflects national happiness in a meeting chaired by the Prime Minister of Bhutan, and launched a annual index to measure the degree of happiness across countries as a true reflection of the effectiveness of economic and social development. The following table shows the ranks of the GCC countries along with the United States in the global report of happiness for 2015. It should be noted that the GCC indices depends on a poll of only locals, i.e. excluding expatriate population.³⁴

Table 5: The Ranks of the United States and GCC countries³⁵in the international happiness index of 2016

Rank	Country	Index
13	USA	7.104
28	UAE	6.573
35	Saudi Arabia	6.379
36	Qatar	6.375
41	Kuwait	6.239
42	Bahrain	6.218

Source: The World Happiness Report 2016.

5. GCC Deficiencies and Obligations

³¹Coob, J. and Daly, H. (1989). For the Common Good. Redirecting the Economy toward Community, the Environment and a Sustainable Future, Boston: Beacon Press.

³²Human Development Report 2015: Work for Human Development, UNDP.

³³ For more details on Bhutan's GNH: gnhcentrebbhutan.org/what-is-gnh/four-pillars-and-nine-domains.

³⁴ The World Happiness Report 2016 is published by the Sustainable Development Solutions Network (SDSN), a global UN initiative.

³⁵ Note that Oman was not included in the report of 2016, but in the 2015 report Oman was ranked 2nd after the UAE in the list of the GCC countries.

The previously noted constraints and challenges that are faced by the GCC countries inflict specific obligations on their governments. During decades of addiction to hydrocarbon, governments dominate economies, diminished roles of private sector and entrepreneurs, offered citizens easy, infertile, and assured jobs in disorderly public sector, provided free or heavily subsidized goods and services which in turn led to over-consumption, inefficiency and waste, and deficient education system short of aspiration and ambition. Therefore, the development performance of a GCC country must be assessed in the extent of its ability to address the needed reform of these deficiencies and disorders. The following are examples of major challenges and obligations faced by the GCC economies.

5.1 Recourse Exhaustibility

GCC excessive dependence on hydrocarbon resources involves a high degree of risk. This is not just due to the imminent depletion of reserves in the long term, but also because of the growing possibility of the economic subsidies of such resources in the medium term. This can result from a potential discovery of an alternative fuel in the transportation sector or a technological breakthrough in the same sector. Such risk represents a major constraint on GCC economies which impose obligations including:

- (A) The fair distribution of hydrocarbon resources across generations.
- (B) Diversification of economic activity to get a replacement for the hydrocarbon resources.

5.2 Vulnerability to Exogenous Variables

GCC economies are heavily linked through their hydrocarbon exports to international markets to a large number of volatile external variables that they cannot determine or control. This challenge imposes the following obligations:

- (A) Expanding into energy-intensive, import substitution and hydrocarbon downstream industries to reduce the degree of the economy total exposure (exports and imports) to international markets.
- (B) Developing diplomatic, political and economic ties with foreign nations actively promote trade links with the outside world, in order to gain more markets, and promote inward and outward investment flows to serve the economic diversification strategy.
- (C) Build up monitoring, follow-up and sophisticated extrapolation capacity capable to analyze complex variables in foreign markets and regional and international transforms in order to forecast shifts and changes before they occur so as to reduce costs of shocks and uncertainty.

5.3 Income Instability

Prior fluctuations of resource-based income due to instability of demand for oil and gas impose a number of obligations including:

- (A) Development of strategic planning capabilities that are distinguished by their creativity, flexibility and the use of multiple scenarios supported by the above mentioned extrapolation capacity.
- (B) Establishment of a fiscal stability fund managed by skilled and distinct administration that is able to benefit of the extrapolation outcome in achieving more proceeds. The fund net income should be used to maintain public budget stability.
- (C) Adoption of biased strategy towards spending on capital rather than current expenditure.
- (D) Linking public budgets to the strategic and medium term development plans and outlaw political interventions or amendments of public expenditures.

5.4 Rentier Income Dilemma

Non-rentier states receive their public revenues from varied direct and indirect taxes imposed on individuals and business units, and hence their responsibility is the redistribution of such revenues among various social segments. However, in rentier states, governments distribute the resource-based revenues. With lack of taxation, there is no redistribution of income in here. On the other hand, citizens of the rentier states feel that they are entitled for such distribution virtue of their ownership of the natural resource, and hence they are further eligible for a reduced

job duty, subsidized services and ever-increasing amount of rent.³⁶The following obligations stem from such phenomena:

- (A) Adoption of effective, disciplined and fair distribution mechanisms.
- (B) Rationalization of the concept of citizenship free entitlement.
- (C) Addressing the citizens' reluctance to work in productive activities and other domestic symptoms of the Dutch disease.

6. Better Measures of Development Performance

As was shown above, for every constraint or challenge that the GCC countries is facing, there is a set of reform obligations which these countries have to meet. To measure the effectiveness of a GCC country's policy and performance en route for development, one needs to assess the extent at which this country has been able to successfully address such constraint and to fulfill the related entitlements. This sort of assessment constitutes a preferred measure of GCC performance toward development as compared to inadequate measures similar to GDP growth. As was argued earlier, performance of resource rich nations cannot be reflected by GDP because it does not make a distinction between the use of assets to produce output and the liquidation of assets.

6.1 Diversification Index

A common index which can be applied to GCC to assess the effectiveness of their development policies is the economic diversification index. This measure is based on the reversed coefficient of Herfindahl-Hirshman index (HHI), which is widely known as a measure of market concentration. It is calculated by squaring the market share of each firm competing in a market, and then summing the resulting numbers. The HHI is also used by the US judiciary system to estimate the change in a market concentration resulting from a merger or an acquisition. The inverse of this index has been also used by the United Nations Conference on Trade and Development (UNCTAD) to measure exports diversification.³⁷

The inverted HHI is well accepted as a statistical measure of dispersion. This paper has adopted such index to assess the level of structural change achieved by the GCC economies during the period 1970– 2013. Sector output data at constant prices of 2005 which was available from the database of the UN Statistics Division has been used. The GCC diversification indices across four decades (1970 to 2013) are presented in table (6) and figure (5) below. Because structural changes require extensive periods of time to materialize, the use of decade-long data for observing the structural changes in the GCC economies is a satisfactory practice.

Table 6: Diversification Index in the GCC countries 1970 – 2013

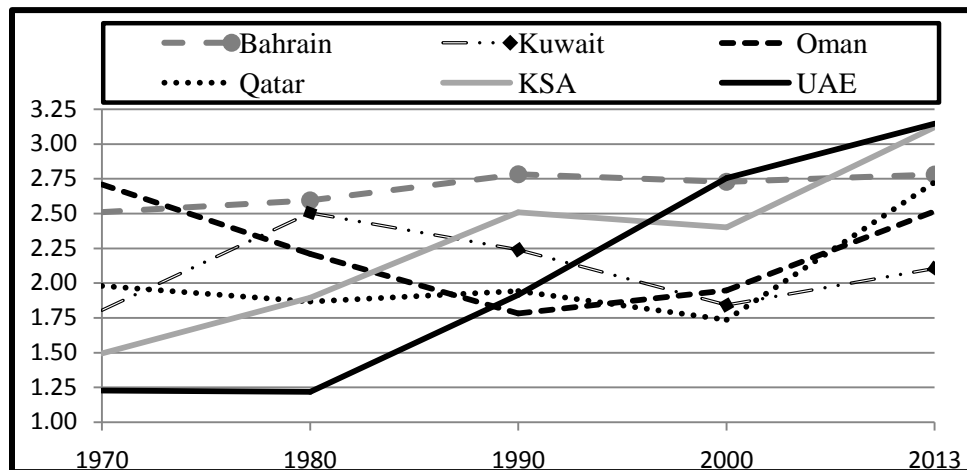
Country	1970	1980	1990	2000	2013
Bahrain	2.50756	2.59211	2.77987	2.72569	2.77788
Kuwait	1.80182	2.50258	2.23708	1.83963	2.10274
Oman	2.70808	2.20981	1.78208	1.94781	2.51624
Qatar	1.97865	1.86537	1.94239	1.73543	2.72577
KSA	1.49440	1.89413	2.50885	2.40044	3.11998
UAE	1.22605	1.21778	1.91560	2.75580	3.14585

Source: calculation of Diversification Coefficients for GCC is based on sector GDP data at constant (2005) prices, the UN Statistics Division database - National Accounts, updated December 2014.

Figure 5: Diversification Index in the GCC countries 1970 - 2013

³⁶Norway, for example, has neutralized the direct impact of rent on its citizens and its economy by directing the rent to a sovereign investment fund.

³⁷Khatib, Mamdouh, *Diversification and Growth in the Saudi Economy* (2014), the first conference of business schools in the Gulf Cooperation Council (GCC), Riyadh.



The resulting measures show that UAE and Saudi Arabia have been ahead of all other GCC economies in their attempts to diversify economic activities. In contrast, these two economies were distinguished in 1970 by having the lowest level of diversification among the Gulf countries. On the other hand, Qatar and Oman have also recorded significant improvement in their diversification endeavor over the period 2000-2013, but the pace of their performance has been less than that of the first runners. Bahrain's economy has enjoyed a relatively high but steady degree of diversity. However, Kuwait has been the top performer in diversification throughout the seventies, but it has held back during the eighties and nineties before recording some improvement during recent years (2000 - 2013).

6.2 Labor Market Reform

Among the required reforms that are imposed on GCC governments by their imbalanced labor market as previously explained are the following:

- (A) Enhancing the capacity of local labor, simultaneously, as a complement and substitute to expatriate technical labor.
- (B) Reform the schooling system to spread the culture of creativity, innovation and to boost the value of artistic and manual labor.
- (C) Create a smart and appealing work environment with the intention to attract local labor to manual and vocational occupations.
- (D) Intensify investment into high capital-intensive enterprises. Such obligations require quality measures to assess the effectiveness of public policies that are tailored to deal with the different aspects of the labor market imbalances and the following are some samples of the proposed measures:

6.2.1 The Inverse of Weighted Expatriate Labor

After allocating progressive weights for expatriate workers in proportion to skills and scarcity of specialization, the number of expats in each work segment is then multiplied by their specific weight to obtain numbers of weighted labors. Lower inverse coefficient of this weighted number indicates that policies pursued to address the issue of labor imbalances is working and effective.

6.2.2 Real Rate of Replacement

Measuring the effectiveness of the replacement of expats by local labors requires a distinction between the actual replacement and the apparent replacement where some institutions choose to employ national manpower in marginal and peripheral functions, or to hire them on papers so as to meet the minimum required ratio of national labor. Some institutions resort to reduce the ratio of their foreign workers through the transfer of some of these workers to outsourcing contractors. Thus, a coefficient of actual replacement number divided by apparent replacement number represents a key indicator for the effectiveness of the foreign labor replacement policy.

6.2.3 Capital to Labor Intensity

Constant advancement of science and technology allow for more and more replacement of labor by capital. Capital intensive projects offer more labor opportunities to nationals as they require more skilled than non-skilled labor. Therefore, a capital intensity index represents an appropriate indicator for judging the effectiveness of policies aiming to correct for the expats dominance of labor market.

6.2.4 Education and Training Efficiency

Addressing the imbalance of labor market is intrinsically linked to the reform of public education, vocational education and training systems. Hence, the following measures can weigh the effectiveness of policies related to labor market imbalances:

- (A) Quality index of education and training curricula.
- (B) Effectiveness and efficiency index of teaching techniques.
- (C) Competence index of teachers and trainers.
- (D) Degree of linkage between availability of study disciplines and the demand for specific talents and skills by labor market.

6.3 Repercussions of Resource Curse

The paper has referred to multiple empirical studies which established that excessive dependence of a resources-rich society on the income earned from exports of such resources would bring negative social, political and economic repercussions, termed as resource curse in the literature of economics. However, recent studies have indicated the possibility of avoiding or mitigating such repercussions. In their edited book, *Escaping the Resource Curse*, Humphreys, Sachs and Stiglitz have confirmed this possibility by means of public policy reform, and higher levels of transparency.³⁸ Acemoglu and Robinson stressed in their 2012 renowned book *"Why Nations Fail"* on this possibility through efficient and effective institutions and administration.³⁹ It is obvious that facing the repercussions of "resource curse" requires institutional reform and comprehensive legislative, and this in itself is a pivotal entitlement because it is a gateway for addressing various imbalances in the rentier societies. In light of these findings, resource-rich countries, such as those of GCC, can rely on a range of contemporary objective measures, which are provided by world organizations and some specialized institutions, in order to assess the effectiveness of their public policies in meeting the entitlements towards institutional and legislative reform. A good number of those measures is directly linked to the so called "resource curse" repercussions.

As well, the GCC countries may for mother indicators that take into consideration the particulars of their economies and societies. In what follows, three international indicators concerned with repercussions of the "resource curse" are presented.

6.3.1 Governance Index

The World Bank publishes an annual index to gauge governance at state level. The index represents a measure of the level and quality of governance. It is a composite measure of six pillars: transparency and accountability; political stability and absence of violence; government effectiveness; regulatory quality and rule of law and control of corruption. Nearly 200 countries are covered by this index which is based on 40 sources of data provided by more than 30 organizations around the world. Since 2002, this sort of data has been updated annually. The index value starts with zero when the required information is not available, and 100 for the top performer. Table (7) shows the GCC governance indices and the values of their pillars.

³⁸Humphreys, Macartan, Jeffrey D. Sachs, and Joseph E. Stiglitz (2007) *Escaping the Resource Curse*, Columbia University Press.

³⁹Acemoglu, Daron and James Robinson (2012): *Why Nations Fail*, Crown Business.

Table 7: The six pillars of the governance index in the GCC countries in 2013

Pillar/ country	Anti- corruption	Rule of law	Procedures quality	effective govt.	political stability	Accountab i-lity
Bahrain	69.38	61.61	71.29	69.86	8.53	12.32
Kuwait	53.59	63.03	50.24	52.15	52.13	28.44
Oman	60.29	66.82	67.46	60.77	62.56	19.43
Qatar	84.69	83.41	74.16	81.34	91.94	23.70
KSA	58.37	60.66	55.02	57.42	33.65	2.84
UAE	87.56	70.62	75.12	83.25	75.83	18.48

Source: International Governance indicators 2013, World Bank.

6.3.2 The Democracy Index

Since 2006, this index is published by the Economist Intelligence Unit, an independent research entity within the Economist Group. The index measures the state of democracy in 167 countries. It is based on 60 indicators under 5 different categories that measure electoral process and pluralism; functioning of government; political participation; political culture and civil liberties. The index classifies political systems into four types: full democracies, flawed democracies, hybrid regimes and authoritarian regimes. According to the 2015 index, all GCC countries were listed under the fourth category.

Table 8: GCC Index of Democracy 2015

Rank	Country	Score	Pluralism	Govt.	Participation	Culture	liberties
1	Norway	9.93	10.00	9.64	10.00	10.00	10.00
121	Kuwait	3.85	3.17	4.29	3.89	4.38	3.53
134	Qatar	3.18	0	3.93	2.22	5.63	4.12
142	Oman	3.04	0	3.93	2.78	4.38	4.12
146	Bahrain	2.79	1.25	3.21	2.78	4.38	2.35
148	UAE	2.75	0	3.57	2.22	5	2.94
160	KSA	1.93	0	2.86	2.22	3.13	1.47

Source: Democracy Index 2015, Economist website.

6.3.3 The Corruption Perceptions Index

Since 1995, the Corruption Perceptions Index (CPI) has been published by the Transparency International. It ranks countries according to their perceived levels of corruption, as determined by expert assessments and opinion surveys.

The CPI generally defines corruption as the misuse of public power for achieving a private or personal benefit. The index is usually based on the results of polls and surveys from several sources. At present, there are 175 countries covered by this index.

Table 9: GCC Corruption Perceptions Index 2015

Rank	Country	2015	2014	2013	2012
1	Denmark	91	92	91	90
22	Qatar	71	69	68	68
23	UAE	70	70	69	68
48	KSA	52	49	46	44
50	Bahrain	51	49	48	51
55	Kuwait	49	44	43	44
60	Oman	45	45	47	47

Source: Transparency International: 2015 Corruption Perceptions Index

7. Remarks and Recommendations

Conventional economic growth indicators cannot accurately mirror the progress or evolution of any economy or specifically cannot reflect changes in people standard of living or well-being. The shortcomings of such indicators have been recognized and clarified by economists, sociologists and politicians. Most of these indicators pay no attention to psychological, social or environmental costs and benefits. Further, they are not concerned with the distribution of output or income, but rather stop at the market value of output. If conventional growth indicators are unable to reasonably reflect progress in an ordinary economy, they are certainly will be incapable to assess the impact of development, which is a complex process with multidimensional phases, especially in underdeveloped but also resource-rich economies. Moreover, the most significant output in these economies involves a liquidation of assets, a phenomenon which is totally ignored by conventional indicators. Additionally, growth in these economies is linked to aggravation of a large number of imbalances. Thus, the validity of these indicators is undoubtedly questionable in all resource rich economies. The present paper has reviewed many of the major constraints that facing the GCC countries due to their over-reliance on a single, depleting, and unstable source of income. The paper also discussed various imbalances resulting from such constraints. Besides, the paper disputed the widely used conventional measures of growth and developments, and the alternative ones which have been introduced by different scholars for measuring development of human capital, well-being and happiness....etc.

The paper argued that constraints facing the GCC countries impose specific entitlements and obligations on their governments. Hence, these countries need to employ distinctive non-conventional indicators that can assess their policies and performance in the direction of these obligations. The paper proposed some relevant indicators and present few samples of development performance measures that are specifically practical in the case of GCC countries. It also applied dispersion index to assess the GCC economic diversification policies during the past four and half decades. The UAE and Saudi Arabia have achieved the best pace of success in transforming their domestic economy into more diversified ones. In 1970, these two particular economies have been among the least diversified gulf countries. In accordance with the diversification index, Bahrain's economy enjoys a high-but steady-level of diversity. Throughout the seventies, the Kuwaiti economy has been one of the best performers in term of diversification. However, during the following decades, Kuwait has lost this momentum. Only in recent years, the country starts to record some relative improvement. The paper proposed some development performance indicators that measure the effectiveness of development policies concerning two major entitlements, first is the labor market reform, and second is the institutional and legislative structure reform. The latter is addressing some repercussions of the suspected "resource curse." In the second entitlement, the paper proposes measures related to international indices that were introduced by world organizations and specialized institutions. In this context, the paper presented three of these indices, the good governance index, the democracy index and corruption perceptions index. The paper also suggests that GCC states should set and develop their own measures which take into account their special features and abnormality. The bottom line is that introduction of extraordinary performance indicators tailored to the peculiarities of the GCC countries is inevitable. This should be accompanied with strict accountability and liability procedures for those responsible for under-performance.

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