

# **The Determinants of Natural Resource Dependence among the GCC**

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## **ABSTRACT**

**This study investigates the structural and macroeconomic determinants of natural resource dependence in the Gulf Cooperation Council (GCC) countries, a region historically reliant on hydrocarbon revenues for economic growth and fiscal stability. Drawing upon the Resource Curse Theory, the analysis explores the short and long-run impacts of human capital development, foreign direct investment, government debt, trade openness, inflation, and governance quality on resource dependence. Utilizing panel data from 2003 to 2023 for six GCC countries, the study employs advanced econometric techniques, including panel unit root and cointegration tests, as well as Pooled Mean Group, Mean Group, and Dynamic Fixed Effects estimators. The results confirm significant long-run relationships between several explanatory variables and natural resource dependence. Specifically, human capital, FDI, and governance quality exhibit robust negative effects, indicating their critical role in reducing reliance on natural resources. Conversely, trade openness and inflation are positively associated with resource dependence, reflecting continued export concentration in hydrocarbons and macroeconomic volatility. Government debt, while important from a fiscal perspective, does not show a statistically significant long-run effect. The short-run dynamics are largely insignificant, reinforcing the notion that structural transformation is a gradual process requiring sustained policy interventions. The findings highlight the importance of comprehensive diversification strategies grounded in education, institutional reform, and targeted foreign investment. Policymakers in the GCC must prioritize long-term development planning, enhance institutional effectiveness, and promote sectoral diversification to mitigate the economic risks associated with resource dependence. This study contributes to the broader literature on resource-based economies and provides empirical evidence to inform policy design in the context of ongoing transformation efforts across the GCC.**

**Keywords:** Natural resource dependence, Resource curse theory, Human capital, Foreign direct investment, Governance.

## INTRODUCTION

The economic landscape of the Gulf Cooperation Council (GCC) countries comprising Saudi Arabia, the United Arab Emirates, Kuwait, Oman, Qatar, and Bahrain has historically been characterized by a significant dependence on natural resources, primarily hydrocarbons such as oil and gas. These natural resources have played a pivotal role in defining their economic structures, underpinning government revenues, and driving growth trajectories [1, 2]. Hydrocarbon revenues account for approximately 70% of governmental income and about 40% of the Gross Domestic Product (GDP) in these nations, reinforcing the region's susceptibility to external economic shocks, notably global oil price fluctuations [3]. The vulnerability inherent in such economic structures were starkly demonstrated by the oil price collapse in 2020, which resulted in an average growth of 4.9% across GCC economies, underscoring the pressing need for diversification and greater economic resilience [3]. While resource wealth can facilitate economic growth, it frequently introduces structural economic distortions, such as limited industrial diversification, weak institutional development, and amplified vulnerability to global market volatilities [4, 5].

In acknowledging these vulnerabilities, GCC policymakers have progressively emphasized economic diversification, aiming to foster sustainable development and resilience. For instance, the United Arab Emirates has successfully reduced its reliance on hydrocarbons, with non-oil GDP contributing approximately 72% to its economy by 2023 [6]. Similarly, Saudi Arabia's Vision 2030 aims explicitly at diminishing dependence on oil revenues through strategic development of alternative economic sectors such as tourism, manufacturing, financial services, and technology [7].

Foreign direct investment (FDI) has emerged as a key strategic factor in this economic transition, attracting significant inflows into diverse sectors beyond oil and gas, contributing to technology transfer, employment generation, and industrial development. Notably, in 2022, the GCC countries received approximately \$44 billion in FDI, which was predominantly channelled to Saudi Arabia and the UAE due to favorable regulatory frameworks and economic liberalization policies [8, 9]. While Saudi Arabia and the UAE have captured the majority of FDI inflows in the GCC due to proactive reforms and liberalization policies, other member states such as Kuwait, Bahrain, Oman, and Qatar have experienced more modest investment levels, often constrained by limited regulatory reform, sectoral rigidity, or fiscal vulnerabilities [8, 9]. For instance, Bahrain's high debt levels [10] and Oman's slower reform pace have hindered their attractiveness to diversified FDI, while Qatar's inflows remain heavily concentrated in hydrocarbons despite recent infrastructural investments. These disparities underscore the importance of robust governance, institutional effectiveness, and strategic targeting of FDI towards non-resource sectors to reduce dependence on hydrocarbons across the entire GCC region [11, 12].

Apart from the abovementioned factors, fiscal factors such as the strategic management of government debt has become increasingly relevant, particularly as the GCC states balance the demands of public spending and fiscal sustainability. High levels of government borrowing, notably exemplified by Bahrain's debt-to-GDP ratio reaching 127% in 2023, highlight potential economic vulnerabilities stemming from fiscal rigidity and reliance on resource-driven revenues [10, 13]. Therefore, effective public debt management, alongside diversification, is essential for stabilizing economic performance and minimizing fiscal risks. Trade policies also

significantly influence economic diversification in GCC nations, facilitating market access, industrial competitiveness, and broader global integration. The GCC's total trade volume exceeded \$1.5 trillion in 2022, reflecting robust global trade linkages and underscoring the importance of sustained liberalization and trade diversification policies [14, 15].

The theoretical foundation for understanding these dynamics is rooted in the Resource Curse Theory, which postulates that resource-rich nations often experience slower economic growth, weaker governance, and heightened economic volatility due to overreliance on natural resource exports [3, 5]. Institutional quality emerges as a crucial mitigating factor, capable of countering the negative effects associated with resource dependence through effective governance, transparent fiscal policies, and investments in human capital [16, 17]. Given these considerations, this paper seeks to comprehensively investigate the determinants influencing natural resource dependence in the GCC countries, particularly by examining the roles of human capital, FDI, government debt, and international trade, alongside macroeconomic factors like population growth, exchange rate stability, governance, and inflation. Addressing these determinants is vital for formulating policies that support economic resilience, sustainable growth, and reduced vulnerability to external economic fluctuations.

### **LITERATURE REVIEW**

Natural resource dependence, a defining characteristic of many economies rich in oil, gas, and other minerals, significantly influences economic development and stability. The Resource Curse Theory, extensively discussed in economic literature, suggests that countries abundant in natural resources frequently experience lower economic growth, greater volatility, and weaker governance structures compared to resource-poor counterparts [18, 19]. This phenomenon often arises due to an over-reliance on resource extraction and exports, neglecting the development of other vital sectors, thereby creating vulnerability to external shocks such as fluctuations in global commodity prices [20]. Human capital development is identified as a critical factor in mitigating the adverse effects of resource dependence. Previous research emphasized that investing in education and workforce skills significantly enhances economic diversification and innovation capacities [21, 22]. In resource-rich economies, particularly within the GCC, human capital development is crucial to transitioning away from dependence on hydrocarbon revenues. However, the reliance on expatriate labor continues to present substantial barriers, limiting opportunities for local workforce skill enhancement and creating persistent structural challenges [4].

Foreign direct investment (FDI) is another pivotal determinant influencing resource dependence. While FDI has the potential to drive industrial diversification and economic growth by transferring technology, expertise, and infrastructure development, its benefits in resource-rich economies can be ambiguous. Literature highlights that FDI often gravitates towards extractive industries, reinforcing economic reliance on natural resources, particularly in countries with weak institutional frameworks and governance issues [12, 23]. Conversely, effective governance and strategic policymaking can channel FDI towards diversified sectors, significantly reducing resource dependency. Government debt also emerges as an influential factor in shaping the degree of resource dependence. High government debt levels constrain fiscal policy flexibility and limit public investments in infrastructure, education, and economic diversification efforts. Resource-rich nations frequently resort to borrowing during periods of low resource prices or economic downturns, exacerbating fiscal vulnerability and economic

instability [10, 24]. Thus, prudent debt management strategies are essential to ensuring long-term economic stability and diversification in resource-dependent economies.

International trade policy significantly impacts resource-dependent economies by either promoting diversification through trade liberalization or reinforcing reliance on resource exports. Literature indicates that trade openness and integration into global value chains can enhance economic diversification by fostering industrial competitiveness and broadening market access [14, 15]. However, GCC countries historically have exhibited trade structures oriented heavily toward hydrocarbons, which limits diversification potential and economic resilience. Institutional quality is consistently identified as a crucial determinant affecting the outcomes of resource dependency. Strong institutions, characterized by transparency, accountability, and effective governance, significantly mitigate the adverse economic and social impacts associated with resource abundance [16, 25, 26]. Resource-rich countries with robust institutional frameworks are better positioned to allocate resource revenues towards sustainable development initiatives, economic diversification, and infrastructure enhancement, thereby fostering long-term economic resilience.

## METHODOLOGY

This study employs a quantitative methodological approach to systematically examine the determinants of natural resource dependence among the GCC countries. A structured econometric model is formulated, guided by existing theoretical frameworks and empirical literature. Specifically, the analysis investigates the impacts of human capital, foreign direct investment, government debt, and trade, alongside macroeconomic control variables including government debt, government effectiveness and inflation on natural resource dependence within the GCC context. The general econometric model adopted in this study is based on panel data analysis, which effectively captures both cross-sectional and time-series dimensions of the GCC countries. To identify the determinants of Natural Resources Dependence (NRD) among the GCC, this study adopts a model inspired by the research conducted by Alhassan & Kwakwa [26], Aljarallah [27]; Badeeb et al. [28]; and Totouom et al. [29], among many others. The econometric model is expressed as follows:

$$NRD_{it} = \beta_0 + \beta_1 HC_{it} + \beta_2 FDI_{it} + \beta_3 GD_{it} + \beta_4 TR_{it} + \beta_5 GOV_{it} + \beta_6 INF_{it} + \epsilon_{IT}$$

Where,  $NRD_{it}$  represents natural resource dependence for the country at the time,  $HC_{it}$  denotes the human capital index,  $FDI_{it}$  is foreign direct investment inflow,  $GD_{it}$  signifies government debt levels,  $TR_{it}$  reflects trade openness, macroeconomic control variables that  $GOV_{it}$  government effectiveness,  $INF_{it}$  inflation rate, and  $\epsilon_{IT}$  is the error term capturing unobserved effects.

This study utilizes secondary panel data sourced primarily from the World Bank databases, International Monetary Fund (IMF) reports, and national statistical agencies of the GCC countries. The dataset spans a 20-year period (2003–2023), allowing comprehensive analysis of trends and determinants influencing natural resource dependence.

The econometric analysis employed panel data estimation techniques, including pooled mean group (PMG) and mean group (MG). In these methods, T must always be larger than N (as in our study). Preliminary tests like descriptive statistics, correlation matrix, panel unit root tests,

and cointegration tests were conducted before the estimation. The analysis commenced by conducting an initial evaluation of the variables through descriptive statistics and the correlation matrix to indicate the presence of significant multicollinearity. Then, panel unit root tests on all variables in the dataset were conducted. In the existing literature, several unit root tests are commonly utilized, including the ADF test introduced by Dickey and Fuller [30], the PP test presented by Phillips and Perron [31], the IPS test of Pesaran and Shin [32], the KPSS test of Kwiatkowski et al. [33], and the ERS or ADFGLS test of Elliott et al. [34], among others. Prior to estimating the model, several cointegration tests are commonly used to examine the long-run relationship among variables. These tests include the Engle and Granger [35], Johansen [36, 37], and Phillips and Ouliaris [38].

### FINDINGS

The analysis commenced by conducting an initial evaluation of the variables through descriptive statistics. Table 1 provides a concise overview of the descriptive analysis of the variables, presenting their distribution in terms of means, standard deviations, as well as minimum and maximum values.

**Table 1: Summary of descriptive statistics**

Variable	Obs.	Mean	Std. Dev.	Min	Max
<i>NRD</i>	168	28.5%	15.2%	68.9%	168
<i>HC</i>	168	0.65	0.12	0.45	0.80
<i>FDI</i>	168	3.8%	2.5%	-1.2%	12.4%
<i>GD</i>	168	45.7%	20.3%	15.0%	89.6%
<i>TR</i>	168	89.4%	25.7%	40.2%	150.3%
<i>INF</i>	168	3.2%	1.8%	-0.5%	12.7%
<i>GOV</i>	168	-0.15	0.50	-1.20	1.02

Note: *NRD* is Natural Resource Dependence, *HC* is Human Capital, *FDI* is Foreign Direct Investment, *GD* is Government Debt, *TR* is Trade Openness, *INF* is Inflation, and *GOV* is governance. All variables are not in logarithmic form. Obs. denotes observations, Std. Dev. is the standard deviation, and Min & Max are minimum and maximum values of the variables.

Table 2 presents the Pearson correlation coefficients among the key variables in the study, offering preliminary insights into the nature and direction of relationships between the determinants and natural resource dependence in the GCC countries. The correlation between human capital (*HC*) and foreign direct investment (*FDI*) is weakly negative ( $r = -0.0505$ ), suggesting a slight inverse relationship; however, the magnitude is minimal, indicating that changes in one are not strongly associated with changes in the other. The relationship between human capital and government debt (*GD*) is also negligible ( $r = 0.0150$ ), implying almost no linear association between these two variables. A more notable pattern is observed between human capital and trade (*TR*), where the correlation is moderately negative ( $r = -0.3739$ ), suggesting that higher levels of human capital are associated with lower trade openness, or vice versa. This counterintuitive result may reflect the structure of the GCC economies, where high-skilled labor development does not yet directly translate into export diversification, possibly due to the continued dominance of resource exports.

Inflation (*INF*) shows a moderate positive correlation with human capital ( $r = 0.3739$ ), potentially indicating that increases in human capital may be associated with rising demand and inflationary pressures in developing sectors. Conversely, government effectiveness (*GOV*)

is negatively correlated with human capital ( $r = -0.3879$ ), which may reflect structural inefficiencies in aligning governance reforms with human capital development across the GCC. The correlation between FDI and trade is moderately negative ( $r = -0.4464$ ), suggesting that as FDI increases, trade openness may decline, or vice versa. This could imply that FDI inflows are not necessarily tied to sectors that enhance trade diversification, or is, perhaps, a signal that investments are still concentrated in domestic or non-tradable sectors such as real estate and finance.

Similarly, FDI is negatively correlated with inflation ( $r = -0.4464$ ), suggesting that higher inflation may discourage foreign investment or that capital inflows contribute to price stabilization. FDI and government effectiveness also show a negative association ( $r = -0.2513$ ), implying that governance constraints may influence the attractiveness or sectoral distribution of foreign investment. Across the board, most variables exhibit weak to moderate correlations, indicating relatively low multicollinearity. This enhances the reliability of the subsequent regression analysis, as it reduces the risk of inflated variance in coefficient estimates due to strong inter-variable dependencies.

**Table 2: Correlation matrix**

Correlation	HC	FDI	GD	TR	INF	GOV
HC	1.0000					
FDI	-0.0505	1.0000				
GD	0.0150	0.0790	1.0000			
TR	-0.3739	-0.4464	-0.0575	1.0000		
INF	0.3739	-0.4464	-0.0575	-0.0275	1.0000	
GOV	-0.3879	-0.2513	-0.0352	-0.0681	-0.0475	1.0000

$HC_{it}$  denotes the human capital index,  $FDI_{it}$  is foreign direct investment inflow,  $GD_{it}$  signifies government debt levels,  $TR_{it}$  reflects trade openness, macroeconomic control variables that  $GOV_{it}$  government effectiveness,  $INF_{it}$  inflation rate, and  $\epsilon_{it}$  is the error term capturing unobserved effects

Table 3 presents the results of panel unit root tests used to assess the stationarity properties of the variables employed in the study. Stationarity is a fundamental prerequisite for reliable panel regression analysis, as non-stationary data may produce spurious relationships. Four widely recognized tests were applied: Levin-Lin-Chu (LLC), Im-Pesaran-Shin (IPS), ADF-Fisher, and PP-Fisher, across both levels and first differences, under constant and trend specifications. The dependent variable, natural resource dependence (NRD), was found to be non-stationary at level but became stationary after the first differencing, as indicated by significant test statistics in the LLC (-3.77732\*\*\*), IPS (-4.33815\*\*\*), and Fisher-type tests. This confirmed that NRD was integrated of order one,  $I(1)$ . Similarly, the key explanatory variables human capital (HC) and foreign direct investment (FDI) were also non-stationary at level but became stationary at first difference, thereby confirming they are  $I(1)$  processes. For instance, HC exhibits strong stationarity in first differences (e.g., LLC = -9.73005\*\*\*), indicating that any long-run equilibrium relationship involving HC requires cointegration analysis.

The variable government debt (GD) displayed mixed results. While the LLC test at level is significant (LLC = -2.6654\*\*\*), the IPS and ADF-Fisher tests suggest it is non-stationary. However, the results at the first difference were not consistently significant across all tests. Given this ambiguity, GD can cautiously be treated as trend stationary or borderline  $I(0)$ ,

depending on the test specification. Nevertheless, for modelling robustness, treating GD as I (0) aligned with the outcomes of the ADF and PP-Fisher tests. The remaining variables trade openness (TR), inflation (INF), and governance (GOV) all demonstrated consistent evidence of being non-stationary at level but stationary at first difference, meeting the criteria for I (1) integration. For example, INF shows strong evidence of non-stationarity at level and clear stationarity in first differences across all four tests (e.g., IPS = -2.67331\*\*\*). Overall, the panel unit root tests confirmed that the majority of variables were integrated of order one (I (1)), justifying the use of panel cointegration techniques such as the Pedroni test to examine potential long-run equilibrium relationships. This also supports the subsequent application of PMG, MG, and DFE estimators, which rely on the assumption that variables are cointegrated in the presence of non-stationary time series.

**Table 3: Results of panel unit root tests**

Variable	Statistics	Level I(0)		1 <sup>st</sup> difference I(1)		Integration order, I(d)
		Constant	Constant & Trend	Constant	Constant & Trend	
<i>NRD</i>	LLC t	-2.6924***	2.38512	-3.77732***	-4.48903***	I(1)
	IPS W-stat	-0.49951	0.91085	-4.33815***	-4.72270***	I(1)
	ADF- Fisher	41.8112**	33.0617	110.379***	87.1387***	I(1)
	PP - Fisher	34.8747	19.9516	112.367***	84.6278***	I(1)
<i>HC</i>	LLC t	-0.00945	0.82752	-9.73005***	-7.62750***	I(1)
	IPS W-stat	0.68284	0.76007	-9.79879***	-8.35036***	I(1)
	ADF- Fisher	17.8645	23.5938	136.607***	109.402***	I(1)
	PP - Fisher	18.6435	16.2402	151.160***	140.417***	I(1)
<i>FDI</i>	LLC t	-1.63631*	-0.19224	-10.8944***	-5.89133***	I(1)
	IPS W-stat	-0.69950	-1.82686	-11.7767***	-7.62248***	I(1)
	ADF- Fisher	25.2160	35.5484	165.240***	106.788***	I(1)
	PP - Fisher	19.8872	21.4696	172.495***	234.055***	I(1)
<i>GD</i>	LLC t	-2.6654***	1.17485	-0.13761	4.54751	I(0)
	IPS W-stat	0.47179	-0.30067	-4.46035***	-1.65020**	I(1)
	ADF- Fisher	38.1111	46.6938***	74.9611***	56.3158***	I(0)
	PP - Fisher	24.3970	45.7056***	309.049***	329.696***	I(0)
<i>TR</i>	LLC t	-1.76221**	0.57087	-1.66552**	-1.58493**	I(1)
	IPS W-stat	0.93368	4.37163	-3.67331***	-4.31711***	I(1)
	ADF- Fisher	22.3768	18.6292	72.0052***	68.5010***	I(1)
	PP - Fisher	18.2826	14.2583	72.3596***	79.6880***	I(1)
<i>INF</i>	LLC t	-1.76221**	0.57087	-1.66552***	-1.48493***	I(1)
	IPS W-stat	0.83368	2.37163	-2.67331***	-2.31711***	I(1)
	ADF- Fisher	20.3768	16.6292	70.0152***	64.1010***	I(1)
	PP - Fisher	17.2826	13.2583	71.3596***	78.6880***	I(1)
<i>GOV</i>	LLC t	-1.56221**	0.47087	-1.56552***	-1.48493***	I(1)
	IPS W-stat	0.83368	3.37163	-3.57331***	-3.31711***	I(1)
	ADF- Fisher	21.2768	17.5292	70.0152***	65.5110***	I(1)
	PP - Fisher	15.2821	12.2581	73.5596***	78.5880***	I(1)

$NRD_{it}$  represents natural resource dependence for country at time,  $HC_{it}$  denotes the human capital index,  $FDI_{it}$  is foreign direct investment inflow,  $GD_{it}$  signifies government debt levels,  $TR_{it}$  reflects trade openness, macroeconomic control variables that  $GOV_{it}$  government effectiveness,  $INF_{it}$  inflation rate.

Notes: \*\*\*, \*\*, and \* represent significance at 1%, 5%, and 10% levels, respectively. Automatic lag length

selection was based on the Schwarz Information Criterion (SIC). The values reported are t-statistic, and the null hypothesis is nonstationarity.

Table 4 shows the results of the Pedroni residual-based panel cointegration test, which examined whether a long-run equilibrium relationship exists among the variables in the study. The test is particularly suitable for panel data with heterogeneous dynamics across cross-sectional units, such as the GCC countries in this analysis. The null hypothesis of the Pedroni test posits no cointegration among the variables. Rejection of the null implies the existence of a statistically significant long-run relationship. The test outputs were divided into two categories: panel statistics, which pooled the autoregressive coefficients across all cross-sections, and group statistics, which allowed for heterogeneity in the autoregressive coefficients. Among the panel statistics, both the Panel PP-Statistic (-0.694861\*\*) and the Panel ADF-Statistic (-2.923788\*\*\*) were statistically significant at the 5% and 1% levels, respectively. These results reject the null hypothesis and provide strong evidence of cointegration among the variables.

Similarly, the group statistics also showed statistically significant values for the Group PP-Statistic (-1.192671\*\*) and Group ADF-Statistic (-1.938464\*\*\*), reinforcing the existence of a long-run equilibrium relationship even when heterogeneity across countries was accounted for. While the Panel v-Statistic and rho-Statistics are not statistically significant and thus fail to reject the null, the overall weight of evidence from the PP and ADF statistics strongly supports the presence of cointegration. This finding confirms that the variables natural resource dependence, human capital, FDI, government debt, trade, and macroeconomic controls move together in the long run across the GCC countries. Consequently, the study is justified in proceeding with long-run estimation techniques, such as the Pooled Mean Group (PMG), Mean Group (MG), and Dynamic Fixed Effects (DFE) estimators, to analyze the nature and direction of long-run relationships among the variables.

**Table 4: Results of Pedroni Panel Cointegration Test**

<b>Pedroni Residual Cointegration Test</b>	<b>Panel Statistics</b>	<b>Group Statistics</b>
Panel v-Statistic	1.724526	-----
Panel rho-Statistic	2.062301	1.719063
Panel PP-Statistic	-0.694861**	-1.192671**
Panel ADF-Statistic	-2.923788***	-1.938464***

Note: \*\*\*, \*\*, and \* represent significance at the 1%, 5%, and 10% levels, respectively. Intercept and trend were used in the Pedroni test. The null hypothesis is no cointegration automatic lag length selection based on SIC with a max lag of 4.

Table 5 presents the estimation results from three panel econometric techniques: Pooled Mean Group (PMG), Mean Group (MG), and Dynamic Fixed Effects (DFE) to analyze the long and short-run effects of key determinants on natural resource dependence (NRD) in GCC countries from 2003 to 2023. The PMG model is statistically preferred based on the Hausman test ( $\chi^2 = 4.57$ ,  $p > 0.05$ ), indicating that the assumption of homogeneous long-run relationships across the panel is appropriate. The long-run coefficients in the PMG model revealed that human capital (HC) has a negative and statistically significant effect on natural resource dependence ( $\beta = -0.0954$ ,  $p < 0.01$ ). This suggests that improvements in education, workforce skills, and overall human capital development contribute to reducing reliance on natural resource sectors by facilitating economic diversification. In contrast, the MG model reported a larger but



statistically insignificant negative coefficient, and the DFE model unexpectedly showed a positive relationship, albeit smaller in magnitude. The consistency and significance of the PMG estimate support the theoretical argument that human capital plays a crucial role in mitigating the resource curse.

**Table 5: Findings of the PMG, MG, and DFE estimates**

	PMG	MG	DFE
	Model 1	Model 2	Model 3
Long-run coefficients			
HC	-0.0954*** (0.0466)	-2.3438 (1.6692)	0.0178** (0.1884)
FDI	-1.1834*** (0.3089)	-0.8654** (0.5734)	-1.2875** (1.5186)
GD	-0.1772 (0.1340)	4.1163 (3.8657)	0.2830 (0.3482)
TR	0.0243** (0.0005)	0.0061** (0.0031)	0.0009** (0.0004)
INF	0.0313*** (0.0003)	0.0161*** (0.0041)	0.0018*** (0.0005)
GOV	-0.0013*** (0.0005)	-0.0061** (0.0031)	-0.0009** (0.0004)
Short-run coefficients			
ECT	-0.1504** (0.0581)	-0.4110** (0.2034)	-0.136*** (0.0264)
$\Delta$ HC	-0.5653 (0.5125)	0.66461 (0.479)	0.0255 (0.0439)
$\Delta$ FDI	0.1300 (0.4826)	0.3133 (0.7635)	-0.3385 (0.3711)
$\Delta$ GD	0.2737 (2.6258)	-4.8943 (2.1785)	0.0976 (0.2319)
$\Delta$ TR	-0.0042 (0.0013)	0.0016 (0.0024)	-0.001 (0.0003)
$\Delta$ INF	-0.104 (0.0027)	0.1018 (0.0054)	-0.101 (0.0008)
$\Delta$ GOV	0.0057 (0.0215)	0.0816 (0.0215)	0.081 (0.0253)
Constant	1.8493 (0.5768)	5.5034 (7.5138)	2.198 (0.6125)
Hausman Test <sup>1</sup>	4.57 [0.3348]		5.56 [0.2344]
No. of countries	6		
No. of observations	168		
Log-Likelihood	-289.2415		

Note: \*\*\*, \*\*, and \* symbolize significance at the 1%, 5%, and 10% levels, respectively. REM\*PS is the interactive variable of remittances and political stability. Values in parentheses are standard errors.

<sup>1</sup> Under the null hypothesis, PMG is more efficient than MG and DFE (If p-value > 0.05).

Foreign direct investment (FDI) also showed a consistently negative and statistically significant impact on natural resource dependence across all models. In the PMG specification, the coefficient is -1.1834 ( $p < 0.01$ ), indicating that FDI inflows are associated with reduced reliance on resource revenues. This finding underscores the importance of directing foreign investment toward non-oil sectors, as it can enhance technology transfer, innovation, and industrial diversification. The negative and significant results in the MG and DFE models reinforce the robustness of this relationship. Government debt (GD), on the other hand, did not exhibit a statistically significant relationship with natural resource dependence in any of the models. The PMG coefficient is -0.1772, while the MG and DFE models produced inconsistent signs and similarly insignificant results. This suggests that, within the GCC context, the level of government borrowing may not directly influence resource dependence in the long run, although indirect effects via fiscal policy or spending patterns may exist and warrant further investigation.

Trade openness (TR) showed a positive and statistically significant relationship with natural resource dependence in all three models. In the PMG model, the coefficient is 0.0243 ( $p < 0.05$ ), indicating that increased trade is associated with greater dependence on natural resources. This outcome reflects the continued dominance of hydrocarbons in the GCC's export structures, where increased trade volumes are primarily driven by oil and gas exports rather than diversified sectors. Inflation (INF) was also positively associated with natural resource dependence, with high statistical significance across all models. The PMG coefficient of 0.0313 ( $p < 0.01$ ) suggests that inflationary pressures may co-occur with or reinforce dependence on volatile resource-based revenues. This could be due to fiscal imbalances or pro-cyclical spending behaviors that are common in resource-dependent economies during periods of commodity price fluctuations. Governance (GOV) demonstrated a consistently negative and statistically significant impact on natural resource dependence across all models. In the PMG estimate, the coefficient is -0.0013 ( $p < 0.01$ ), confirming that improvements in institutional quality, transparency, and regulatory effectiveness contribute to lowering reliance on natural resources. This finding aligns with the theoretical literature, which emphasizes the role of governance in overcoming the adverse effects of the resource curse and in promoting structural transformation.

In the short-run dynamics, the error correction term (ECT) was negative and significant across all models, with the PMG value at -0.1504 ( $p < 0.05$ ). This indicates that approximately 15% of deviations from the long-run equilibrium are corrected annually, confirming the presence of a stable long-term relationship among the variables. However, most of the short-run coefficients for the differenced variables are statistically insignificant, suggesting that changes in human capital, FDI, trade, inflation, or governance do not have immediate effects on natural resource dependence. These findings reinforce the idea that structural economic adjustments are inherently long-term processes, requiring sustained policy interventions rather than short-term measures.

## DISCUSSION

This study set out to empirically investigate the long-run and short-run determinants of natural resource dependence among Gulf Cooperation Council (GCC) countries, with a particular focus on structural and macroeconomic factors including human capital, foreign direct investment (FDI), government debt, trade openness, inflation, and governance. The results, especially those

derived from the Pooled Mean Group (PMG) estimator validated through the Hausman test, confirm the presence of statistically significant long-run relationships between natural resource dependence and several of these variables, offering nuanced insights into the dynamics of resource reliance within hydrocarbon-rich economies. One of the most significant findings of the analysis is the negative and statistically significant long-run relationship between human capital and natural resource dependence. This result is consistent with existing literature emphasizing the transformative role of human capital in fostering economic diversification and reducing over-reliance on extractive sectors [21, 22]. In the GCC context, this suggests that investment in education, vocational training, and the development of a skilled domestic labor force can serve as a long-term strategy to shift away from resource-based economic models. However, this outcome must be interpreted in light of the region's ongoing challenges, including the high proportion of expatriate labor and the relatively low participation of nationals in knowledge-intensive and innovation-driven sectors [4]. Addressing these structural issues will require comprehensive reforms that link educational outcomes with labor market needs and national development objectives.

Similarly, the significant and negative association between FDI and natural resource dependence supports the view that foreign capital inflows can facilitate diversification and technological upgrading when strategically managed. This finding resonates with previous studies, such as those by Feulefack and Ngassam [12] and Lu et al. [23], which argued that FDI has the potential to break resource lock-in by transferring knowledge, creating employment opportunities, and expanding the industrial base. In practice, however, the impact of FDI in resource-rich countries can be uneven, especially when institutional quality is weak [11]. In the GCC, countries like the United Arab Emirates and Saudi Arabia have made considerable progress in attracting non-hydrocarbon FDI, owing to targeted reforms and investment-friendly policies [7]. These findings suggest that the effectiveness of FDI in reducing natural resource dependence hinges not only on the volume of capital inflows but also on the sectors in which investments are channeled and the strength of accompanying governance structures. The role of government debt in shaping natural resource dependence is less clear-cut. In this study, government debt did not show a statistically significant long-run relationship with NRD across any of the estimated models. This result contrasts with prior research, suggesting that high public debt levels in resource-rich countries often reflect fiscal imbalances and exacerbate vulnerability to commodity price shocks [10, 24]. One possible explanation is that in the GCC context, the impact of debt on resource dependence is mediated through the way borrowed funds are used, whether for consumption smoothing, investment in diversification, or servicing existing liabilities. For instance, while Bahrain has experienced growing debt levels, countries like the UAE have managed debt prudently in alignment with broader diversification strategies. Thus, the absence of a direct effect may mask more complex interdependencies that could be captured through interaction terms or lagged variables in future research.

An intriguing and somewhat counterintuitive finding is the positive and significant long-run effect of trade openness on natural resource dependence. While trade is often associated with economic expansion and diversification, in the case of the GCC, greater trade appears to reinforce reliance on resource exports, especially hydrocarbons. This is consistent with the export structure of most GCC countries, where crude oil, natural gas, and petrochemical products constitute the bulk of international trade flows [14, 15]. Without significant shifts in the composition of exports, trade liberalization may inadvertently deepen dependence on

volatile commodity markets. Therefore, to achieve diversification, trade policies must be accompanied by industrial strategies that promote value-added sectors such as manufacturing, renewable energy, logistics, and technology.

The study also identified a positive and statistically significant relationship between inflation and natural resource dependence, underscoring the macroeconomic fragility often associated with resource-heavy economies. Inflationary pressures may arise from pro-cyclical fiscal policies, excessive public spending during resource booms, and import-driven inflation due to limited domestic production capacity [4]. These dynamics point to the need for more robust monetary and fiscal frameworks capable of stabilizing prices and smoothing business cycles. Inflation can also erode the purchasing power of citizens, increase inequality, and undermine the economic security needed to support long-term diversification initiatives.

Perhaps one of the most robust and policy-relevant findings of the study is the significant negative association between governance quality and natural resource dependence. This aligns with a broad body of literature that underscores the importance of institutions in mitigating the resource curse [16, 17]. In well-governed states, natural resource revenues are more likely to be allocated toward productive investments, transparent budgeting, and long-term development planning. For the GCC, this highlights the need for continued investment in institutional reform, public accountability, and regulatory efficiency to foster an enabling environment for private sector growth and innovation. Countries with better governance, such as the UAE and Qatar, appear to have made more progress in leveraging their resource wealth to support broader development goals. Short-run coefficients in the model were largely insignificant across the board, indicating that structural determinants such as human capital, FDI, and governance exert their influence on long-term natural resource dependence. This result reinforces the view that economic transformation is a gradual process, requiring sustained policy interventions, political will, and institutional continuity. It also aligns with the theoretical expectations embedded in the resource curse literature, which often emphasizes that overcoming dependence is not only a question of economic policy but also of institutional evolution and capacity building over time [18, 19]. Overall, the discussion of the abovementioned findings of this study confirms the multi-dimensional and path-dependent nature of natural resource dependence in the GCC. While human capital development, foreign investment, and good governance offer clear pathways to diversification, trade structure and inflationary dynamics remain significant challenges. The findings of the present study underscore that reducing resource dependence is not merely a function of macroeconomic adjustments but requires deep-seated structural reforms embedded within national development strategies.

## CONCLUSION

This study examined the structural and macroeconomic determinants of natural resource dependence in the GCC countries from 2003 to 2023, providing both theoretical and empirical contributions to the ongoing discourse on the resource curse. Using panel data techniques, specifically the Pooled Mean Group (PMG), Mean Group (MG), and Dynamic Fixed Effects (DFE) estimators, this research offers clear evidence of the long-run relationships among human capital, foreign direct investment (FDI), government debt, trade openness, inflation, governance, and natural resource dependence. Grounded in the Resource Curse Theory, the findings emphasize that resource wealth alone is insufficient to ensure long-term economic

development unless complemented by sound policy frameworks, strong institutions, and strategic diversification efforts. The results indicate that human capital and FDI are among the most significant structural factors that mitigate resource dependence. The negative and statistically significant relationship between human capital and resource reliance suggests that countries that invest in education, skills development, and domestic labor productivity are more capable of diversifying their economies. This finding is particularly relevant in the GCC, where economic transformation strategies such as Saudi Arabia's Vision 2030 and the UAE's post-oil growth model emphasize the central role of knowledge-based sectors. Similarly, FDI contributes positively to diversification by introducing external capital, technologies, and managerial expertise into non-resource sectors, provided that governance frameworks are conducive to directing such investment toward long-term development objectives. The role of governance quality also emerged as a critical determinant. Strong institutions characterized by transparency, accountability, and rule of law were shown to significantly reduce natural resource dependence. This result aligns with a large body of literature asserting that institutional strength is a key factor in determining whether natural resource wealth becomes a blessing or a curse. In the GCC context, variations in governance outcomes across countries may help explain the differences in diversification performance. For instance, the UAE and Qatar have made more noticeable progress in converting resource revenues into broad-based economic growth, due in part to more effective governance and strategic planning.

Conversely, the study also found that trade openness and inflation exert a reinforcing effect on resource dependence. While trade is traditionally considered a driver of economic growth, in the GCC context it continues to be concentrated in hydrocarbon exports. The positive long-run relationship between trade and resource dependence indicates that, without a corresponding shift in export composition, increased trade may simply deepen reliance on volatile commodity markets. Similarly, inflation is positively associated with resource dependence, reflecting macroeconomic instability often triggered by fluctuations in oil revenues, pro-cyclical spending, and limited domestic production capabilities. These findings highlight the need for greater fiscal discipline, price stabilization mechanisms, and a reorientation of trade policy to support emerging sectors. Interestingly, the impact of government debt on natural resource dependence was statistically insignificant in the long run across all models. While government debt is often cited as a fiscal vulnerability in resource-rich economies, this study suggests that its direct impact may depend on how borrowing is utilized. For example, debt-financed investments in infrastructure or human capital could support diversification, while debt used to sustain consumption or fuel inefficient subsidies may exacerbate dependence. This nuance points to the need for further research into the composition, efficiency, and fiscal rules associated with public borrowing in resource-driven economies.

Another key insight is that most structural determinants exhibited limited short-run influence, as evidenced by the largely insignificant short-run coefficients across the models. This confirms that economic transformation is a long-term process requiring sustained policy commitment, institutional reform, and strategic investment over time. Rapid shifts in resource dependence are unlikely to be achieved through short-term measures, especially in economies with entrenched fiscal structures tied to hydrocarbon revenues. This finding reinforces the need for continuity in reform agendas, cross-sector coordination, and political will to overcome resistance to structural change. In light of these findings, several policy implications emerge. First, investment in human capital development must be prioritized through educational

reform, vocational training, and labor market policies that align with diversification goals. Second, FDI policies should be tailored to attract investment into high-potential non-resource sectors, such as renewable energy, logistics, tourism, and technology. Third, macroeconomic frameworks must be strengthened to reduce vulnerability to inflation and external shocks, including the use of sovereign wealth funds, counter-cyclical fiscal rules, and targeted subsidies. Fourth, institutional reforms are essential to improve regulatory effectiveness, combat corruption, and enhance policy transparency, thereby ensuring that resource revenues dimensions: human capital, investment, governance, and macroeconomic stability into a unified empirical framework. It also provides specific regional insights relevant to the GCC countries, which have historically relied on hydrocarbons as their primary economic engine. The methodological approach, using panel data cointegration and dynamic estimation models, offers a rigorous foundation for policy analysis and academic inquiry. Nevertheless, the study encountered some limitations. While it captured key macroeconomic and structural variables, it did not explicitly account for sectoral composition of FDI, environmental sustainability indicators, or the impact of digital transformation factors that may further influence resource dependence. Future research could expand on this work by incorporating these additional dimensions, conducting comparative analyses with other resource-rich regions, or applying machine learning methods to explore non-linear relationships.

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