Asymmetric Impact of Economic, And Structural Factors on the Development of the Non-Oil Export Sector in GCC Economies 1992-2022: Structural Reform Priorities to Sustainable Economic Growth

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ABSTRACT: The current study empirically investigates to explore the links between economic and structural variables of non-oil export industry development in GCC economies. The research spans the years 1992 to 2022. It is understandable to wonder why some oil-producing countries have been able to diversify and build their economy while others have not. We postulate that disparities in the diversification and development patterns of oil producers are related to differences in their economic and structural characteristics. Divergence in diversification and development trends may result from such discrepancies. We measure the role of economic and structural elements to test this idea. The findings indicate that economic and structural factors play a critical role in the process of diversification and development. Countries have the higher-quality infrastructure, in particular. The findings imply that GCC authorities should improve robust macroeconomic conditions to support their non-oil export sector and boost institutional quality drivers to accelerate non-oil export sector development in their nations. The empirical findings can assist GCC policymakers in better designing the economic policies required to accomplish the GCC countries' comprehensive and sustainable economic development. Asymmetric mechanisms in non-oil export responses to economic and structural factor changes are likely to differ across economic sectors in GCC countries. A sectoral examination of this link could provide further information and supplement our analysis. New capital and infrastructure must be accommodated to support domestic and export manufacturing.

KEYWORDS: Panel Econometric Models, Non-oil Exports Sector, GCC Economies, Economic diversification, Economic Indicators, Structural Indicators

JEL Classification Code: C54, B22, E52, E61, F41

1- INTRODUCTION

The members of the Gulf Cooperation Council GCC face a difficult problem in refocusing growth paradigms in order to diversify their economies.1 However, doing so will minimize their dependency on hydrocarbons, empower the private sector to drive growth, and provide people with the skills needed to enter the high-value-added jobs created by those economies. Finding ways to build non-oil tradable sectors that will support long-term private-sector employment is a major task. Currently, however, the majority of GCC export and fiscal earnings come from oil and gas sales, which have an impact on economies through government spending, particularly public investment. The vast sums invested thus far have not resulted in marketable sectors other than oil and oil-derived products. These provide limited export diversification and little connection to the rest of the economy. Furthermore, the region's countries cannot continue to rely on their public sectors to absorb their own nationals who are just joining the labor market.

Despite minor disparities in hydrocarbon (oil and gas) dependence and economic diversification, GCC member nations and certain surrounding countries comprise the world's most hydrocarbon-centered economic region. GCC countries have witnessed beneficial macroeconomic developments in recent years as a result of high oil prices. Real GDP growth has been robust, with non-

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oil GDP outpacing oil GDP. Inflationary pressure has resulted from dynamic economic development, albeit this varies across GCC member states and may not be fully reflected in CPI numbers. Given the long-standing ties to the US dollar, monetary policy has little room to resist inflationary pressure. Fiscal policy is particularly essential under these exchange rate regimes.

Because of their reliance on oil export revenues, the GCC countries are classified as rentier economies. In particular, oil revenues account for more than 40% of overall government revenues in the GCC states. Countries with substantial natural resources tend to grow more slowly than resource-poor countries (Sachs & Warner, 2001). Despite being an important source of government revenue, over-reliance on natural resource rents has negative consequences and can have a substantial impact on economic growth (Shadab, 2020). Corden (1984) coined the phrase "Dutch Disease," claiming that nations that focus primarily on natural resource exports suffer from a lack of development in other sectors such as manufacturing. Due to their substantial reliance on natural resources, the Gulf Cooperation Council (GCC) countries are acknowledged as a key example of rentier economies (Shadab, 2021). The six GCC countries obtain the majority of their economic revenues from natural resources, primarily oil and gas (Mim & Ali, 2020)

In this study, we hypothesize that disparities in economic and structural factors can result in differences in the diversification routes of oil producers' income sources. Infrastructure, human development, macroeconomic stability, and the strength of its monetary reserves are examples of economic and structural elements. Differences in these elements may explain the influence of economic and structural factors in the development of these countries' non-oil export sectors. Furthermore, some countries with identical baseline features may converge toward the same amount of diversification, but diversification routes in other countries may diverge. To test this hypothesis, we first look at whether the diversification efforts of oil-producing countries are convergent across time. Then, we look at whether individual countries' diversification routes intersect with varied In responsibilities and strategies in sustainable diversity. We also study the variables driving emerging economies' willingness to rely on more than one source of revenue in the future. However, economies experiencing poor macroeconomic conditions, such as high inflation, are more prone to slip into a low diversification risk.

This study adds to the body of knowledge on resource-rich countries' diversification. By focusing on the export diversification patterns of oil producers and analyzing the long-term importance of economic and structural factors in diversifying income streams for GCC countries. Such analyses are uncommon, but they can provide important insights into the Kinetics or dynamics of the linkages between resource abundance, diversity, and economic development. Diversification is important in the early phases of development, according to several previous research (Imbs and Wacziarg, 2003; Cadot et al., 2010; Gylfason and Wijkman, 2015). Most studies of the relationship between natural resource endowment and development, however, concentrate on the resource curse.

The remainder of this work is structured as follows. Section 2 addresses the GCC countries' developing non-oil exports.

Section 3 summarizes the analysis and our findings. We begin by investigating the heterogeneity in the development of non-oil exports in the Gulf Cooperation Council countries, both individually and as a group. Then, we use islands of unity and cointegration tests to examine the data for economic and structural aspects. We also investigate whether non-oil export development differs among different converging GCCs and give a number of robustness checks. Section 4 investigates the links between the study variables and the groups employed. Section 5 comes to a close. Finally, considering the GCC's importance in global energy markets as the world's largest oil exporter, this study may be valuable to policymakers, practitioners, and scholars beyond the GCC. Any shifts in its Sustaining Economic Growth, and hence its oil and non-oil breakdown, will have an impact on global energy markets and economic activity. Furthermore, increased economic diversification is likely to increase local content and import substitution, with ramifications for nations that export goods and services to the GCC. Furthermore, boosting economic diversification necessitates global collaboration, particularly through the influx of foreign direct investment to localize cutting-edge technology and knowledge, which will open up investment opportunities in the GCC for global investo
Investors.

2- LITERATURE REVIEW

2-1 Economic diversification in GCC economies:

Economic diversification is a critical aspect in achieving not just economic but also energy and environmental sustainability, as well as strengthening and achieving sustainable economic growth. Economic diversification allows governments to attract investments, create jobs, and so stimulate growth and prosperity since a competitive economy can efficiently manage resources, drive innovation, establish a favorable business climate, and provide high-value products and services. Furthermore, economic diversification enables countries to broaden their production and export bases, reducing reliance on a single industry

or sector and, as a result, increasing resilience to commodity price variations and global market shocks. (Suranovic, S., 2010), (Anyaehie, M.C., 2015), (Krugman, P.R., 2015), (Mania, E., 2019), (Xu, Z., 2020), (Beutel, J., 2021), and (Hasanov, F., 2022). Economic diversification means reducing heavy dependence on the oil sector by developing a non-oil economy, non-oil exports, and non-oil revenue sources. By implication, it also means reducing the leading role of the public sector in the GCC economies by promoting the growth of the private sector. (ESCWA 2001: vii).

The political developments altering the Gulf Cooperation Council region highlight the importance of establishing more inclusive political and economic avenues to political stability and renewed growth. Exports, particularly non-oil exports, will be critical in creating the robust and inclusive economic model that the region requires to safeguard its future, particularly in Gulf Cooperation Council members. The primary goal of this research is to experimentally identify the relationship between economic, structural, and non-oil export development in the Gulf Cooperation Council (GCC) economies. Given that GCC non-oil exports generate strong average returns, they offer potential to improve the efficiency of internationally diverse GDP. This study's thesis is timely and significant since it examines the critical

Economic diversity is a critical aspect in achieving not only economic sustainability but also energy and environmental sustainability, as well as economic growth sustainability. Economic diversification attracts investments, creates jobs, and fosters growth and prosperity because a competitive economy can efficiently allocate resources, encourage innovation, create a favorable business environment, and generate high-value products and services (see, for example, [Z, 2003,V,2016, D,2018, M2020]). At the same time, economic diversification enables countries to broaden their production and export bases, reducing reliance on a single industry or sector and increasing resilience to commodity price fluctuations and market shocks [S, 2010, M.C, 2015, P.R, 2019, LI.Y, 2020, J, 2021, Javid,M,2022].

Exports can help to ensure economic sustainability by boosting employment, attracting investment, particularly foreign direct investment, and developing new technologies, which provide positive externalities for other sectors. All of these can contribute to an increase in economic activity, an increase in income levels, and a reduction in poverty—all of which are important components of long-term inclusive economic growth (Krugman, P.R, 2015), (Suranovic, S, 2010), and (Xu, Z.; Li, Y.; 2020). J.A. Giles, 2000. Non-oil exports are a key component of the GCC's economic diversification since they can play critical roles in long-term inclusive growth via four major avenues. First, because oil is vulnerable to international price volatility, non-oil exports will minimize total export volatility. Export diversification may reduce sensitivity to external shocks and macroeconomic volatility while also boosting economic development. Second, the GCC's economic non-oil exports will enable young people and the increasing workforce find work in the private sector. Third, increased non-oil exports will increase demand for items from other tradable and non-tradable industries, resulting in a positive spillover effect. Fourth, the literature indicates that increases in exports are primarily related to attracting foreign direct investments, which can contribute to overall productivity and efficiency growth through technology transfers and positive externalities (Agosin, M.R, 2012), (Feder, G, 1983), (Grossman, G.M.; 1995), and (Goldberg, L.S.; 1997).

Diversification of exports is regarded to be significant for mitigating the effects of the resource curse (Ghoddusi and Wirl, 2021). However, as Hausmann et al. (2010) point out, discrepancies in oil producers' export concentration levels are not always explained by factors connected to the resource curse. Similarly, Cherif and Hasanov (2016) discover that proposed diversification approaches in oil producers may not yield the intended results. This is due to the fact that the diversification of these economies is mostly determined by the initial technical gap and the importance of oil income. Furthermore, Djimeu and Omgba (2019) contend that the diversification paths of oil producers are controlled by characteristics that regulate their economies prior to an oil price or volume boom. As a result, an oil boom might impair export diversification in countries with little beginning investment.

2-2 The Role of Natural Resources Rents in the GCC Economies

According to the most recent World Bank data, Kuwait had the greatest share of total natural resource rents as a percentage of GDP (42.65%) among GCC nations in 2019. Oman and Saudi Arabia secured the second and third largest (26.67% and 24.08%), respectively, followed by Qatar (20.72%) and the UAE (16.75). In contrast, Bahrain has the least share of total GDP from natural resource rents, with only 3.79% in 2019. According to the estimations above, Kuwait has the least diverse economy of the six GCC countries, whereas Bahrain and the UAE have the most diverse economies. Nonetheless, it should be emphasized that Bahrain has fewer natural resources than the UAE, which explains the disparity.
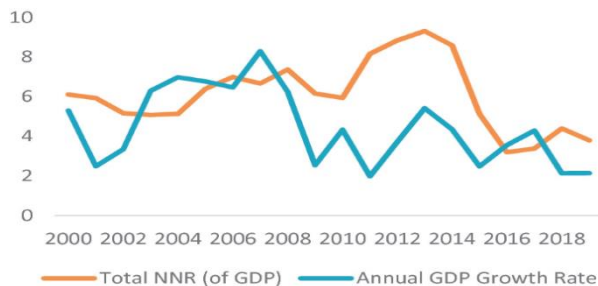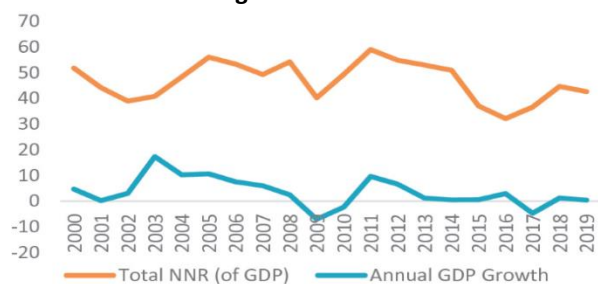
Figure 1: Bahrain
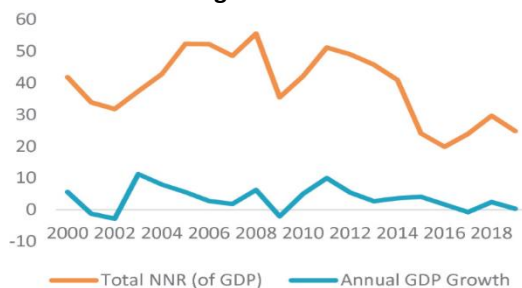
Figure 2: Kuwait

Figure 3: KSA
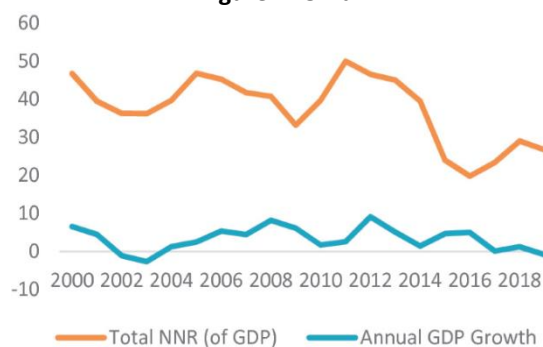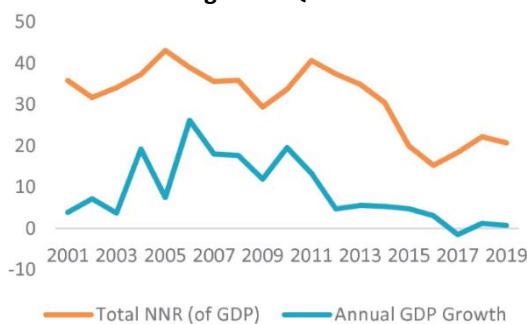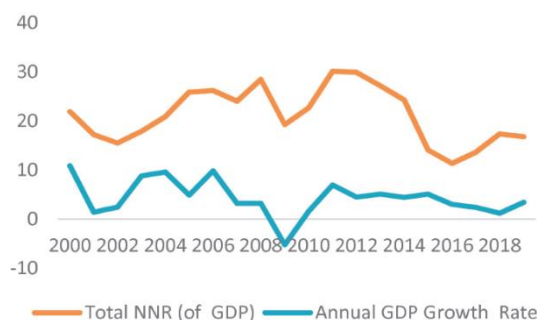

Figure 4: Oman

Figure 5: Qatar

Figure 6: AUE

Asymmetric Impact of Economic, And Structural Factors On The Development Of The Non-Oil Export Sector In GCC Economies 1992-2022: Structural Reform Priorities To Sustainable Economic Growth

Total NNR (of GDP) ——— Annual GDP Growth Rate

Figures 1,2,3,4,5 and 6 graphically depict the GCC countries' dependency on oil sectors. As the numbers show, the six Gulf countries' economic growth is arguably dependent on natural resource rents. Impressively, the oscillations in the proportion of total natural resource rents are mirrored by similar fluctuations in GDP growth rates in all GCC countries (1,2,3,4,5 and 6). This impressionistic correlation implies that non-oil industries (such as manufacturing, tourism, entertainment, transportation, sports, and communication) are not the primary drivers of economic growth in the GCC countries. Their economic contribution to the GCC countries.

3- DATA, MODEL, AND METHODS

3.1. Data:

This research focuses on the GCC countries of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Yearly informational collection consists of panel data from the World Development Indicators (WDI) World Bank database, which includes macroeconomic indicators (2019). Inflation (INFt: annual%), Economic Growth (EG: per capita GDPt in constant 2000 US dollars), and Exchange Rate (ERt: real effective exchange rate index) are the variables. An Institutional Quality Index (Lx) and International Trade Freedom (FT). These institutional characteristics are drawn from the Fraser Institute's2 (2019) database. The study spans the years 1992 to 2022. Logarithms are used to measure all variables.

3.2 Methodological Approach:

Using various econometric methods, the study investigates the relationship between the variables. To begin, determine the sequence of integration of the chosen series using unit root tests in a panel setting. Following that, the panel cointegration tests are used to determine whether there are long-term relationships between the time series. To assess the strength of the relationship between the cointegrated variables, the Fully Modified OLS and error correction term (ECT-1) approaches are used. Finally, where there is confirmation of a long-term link between the variables, the study investigates causalities using a heterogeneous panel non-causality test developed by Dumitrescu and Hurlin (2012), which takes into account the dependence and heterogeneity among the alleged countries.

3.3 Panel Cointegration Tests

Panel cointegration tests are used among the variables that have been chosen. Using cointegration techniques with panel data allows you to test for the presence of a long-term link between integrated variables. B. E. Hansen (1990). Cointegration testing using panel data can be used to increase test power. The Engle-Granger cointegration test is used in the Pedroni cointegration test. Pedroni (1999,2004) suggests several tests for the null hypothesis of no cointegration that allows for heterogeneous intercepts and trend coefficients across cross-sections; four of these tests are panel-type and focus on pooling within a single dimension, while the other three are group-type and focus on pooling between dimensions. In addition to panel statistics, group statistics consider the possibility of an extra source of variability across individual variables.

4- EMPIRICAL RESULTS

To begin, the stationarity of the variables is evaluated using panel unit root tests, specifically the LLC test, Levin, Lin test, and Chu Stat test. The LLC test finds a common unit root process, and the panel unit root tests Levin, Lin, and Chu Stat test confirm the presence of an individual unit root process in the panel data. Table 1 displays the results of the panel unit root tests for the variables used. The LLC test, Levin, Lin, and Chu Stat test findings reveal that the variables have unit roots at the individual level. The variables are stationary when the first differences are used. These findings support the possibility of variable cointegration.

4.1 Panel Unit Test Results for all Variables:

Asymmetric Impact of Economic, And Structural Factors On The Development Of The Non-Oil Export Sector In GCC Economies 1992-2022: Structural Reform Priorities To Sustainable Economic Growth

Table1. Panel Unit Test Results for all Variables:

Variables			Levin, Lin & Chu Stat
	Level	F1- difference (1ST)	F2- difference (2ST)
NOE	5.128	**-1.770****	-5.360
ING	**-2.228****	-3.459	5.221
GDP	**-2.409****	-5.490	-7.225
ER	**-2.775****	1.097	-6.739
LS	2.591	**-8.353****	4.725
FT	5.046	-1.568	**-13.853****
SG	6.618	1.097	**-6.739****

Source: Prepared by the researcher from the results of the static and stability test using E_Views[13] 2023 programming
***Significant at the 1 percent level

The following step is to determine whether the selected variables have a cointegration link. The Padroni and Kao tests are used in this case. The Padroni panel cointegration test demonstrates that five of the seven measurements (panel and group) are statistically significant, indicating a cointegration link between the variables. Table 2 shows the results of Kao's (1999) residual panel cointegration tests, and the results reject the hypothesis of no cointegration at the 1% significance level. This demonstrates a cointegration relationship between the indicators.

4.2 Kao Cointegration Test for the model:
Cointegration tests of non-oil export and economic, and structural factors on the development of it. Tables 2,3, and 4 show that a long-run relationship exists among these variables with two Cointegration relations. This implies that in the short-run there must exist some causality at least in one direction amongst these variables so that this observed long-run relationship can be established (Granger 1988 and Granger and Weiss 1983).

Table 2. Cointegration Test for the model:

	Series: INF, GDP and ER			Series: LS, FT and SG	
	T- test	Prob		T- test	prob
ADF	-4.241**	0.000	ADF	-3.961**	0.000
PP	-4.852***	0.000	PP	-5.372***	0.000

Source: Prepared by the researcher from the outputs of the E-views[13] package.

Table 3. Kao Cointegration Test for the panel model:

	Kao EG Test			Pedroni EG Test	
	T-test	Prob	HYP	Statistics	(Prob)
ADF	-2.654	0.004	Panel V-Statistic	-0.625	0.776
			Panel rho-Statistic	1.697	0.989
RV		11.51	Panel PP-Statistic	1.351	0.984
HAC		11.47	Panel ADF-Statistic	0.988	0.2041

Source: Prepared by the researcher from the outputs of the E-views[13] package.

Table4. Pedroni Residual Cointegration Tests (Null of No Cointegration)

Test	Statistic	Test	Statistic
Panel V	0.1677	Group v	2.8421
Panel ρ	0.8564	Group ρ	1.2541
Panel ADF	0.2654	Group ADF	-1.2548
Panel PP	-0.3579		

Source: Prepared by the researcher from the outputs of the E-views[13] package.

4.3 Panel Fully Modified Least Squares (FMOLS):

Asymmetric Impact of Economic, And Structural Factors On The Development Of The Non-Oil Export Sector In GCC Economies 1992-2022: Structural Reform Priorities To Sustainable Economic Growth

The findings of both panel cointegration tests indicate that the selected macroeconomic and institutional indicators have long-run correlations with non-oil export development. The panel FMOLS approach is used in the study to determine the type of linkage that occurs between the two series. Table 5 demonstrates that the bulk of the variables' estimations are positive and have statistically significant coefficients. According to the findings, a 1% rise in economic growth, institutional quality index, and foreign exchange rates improves non-oil export development in the GCC countries by 6.146%, 2.537%, and 1.793%, respectively, while decreasing BM growth by 1.4%.

Table 5. Panel Fully Modified Least Squares (FMOLS)

Variables	Coefficient	S.E	T-test	Prob
		Dependent Variable = NOE_t		
ING	4.125***	1.0253	4.527	0.000
GDP	2.521***	0.2145	1.784	0.000
ER	0.247	0.2135	0.471	0.051
LS	1.428**	0.0258	5.247	0.000
FT	-0.784	0.0145	-0.241	0.074
SG	12.475***	0.0147	3.583	0.000

Source: Prepared by the researcher from the outputs of the E-views[11] package

4.4 Error correction model:

Based on the error correction model, Table 6 displays the short-term estimate and cointegration relationship. The error correction coefficient is found to be negative and significant at the 1% level, indicating the presence of a statistically significant long-term link between the development of non-oil exports and the two-set series of independent variables. The ECM coefficient shows a way for correcting for any indication imbalance. The calculated ECM coefficients are -0.795 and -0.721, indicating the rapid adjustment of any disequilibrium toward long-run equilibrium.

Table6. Error correction model:

Macroeconomic factors	ING, GDP and ER			Institutional factors	LS, FT and SG		
	Coefficient	T-test	Prob		Coefficient	T-test	prob
ECT(-1)	-0.795	-3.25	0.000	ECT(-1)	-0.721	-4.27	0.000

Source: Prepared by the researcher from the outputs of the E-views[13] package.

4-5 Asymmetry Between Small and Large economic, and structural factors, and the non-oil export sector: NARDL model:

Asymmetry in economic and structural factors influencing the development of the Non-oil Export sector now we examine whether the effects of major economic shocks on the non-oil export industry differ from the consequences of minor shocks. In this scenario, the NARDL model specification is more appropriate for capturing asymmetry in non-oil export sector movement magnitude. Non-oil export sectors are projected to respond asymmetrically to structural factor changes: big structural factor changes are associated with higher non-oil export responses, whereas modest structural factor changes affect fewer non-oil export sectors. In the case of the GCC group, fiscal and monetary policy may be important in explaining the dynamic between economic and structural factors. Because governments can cushion the oil shock via countercyclical adjustments, given the availability of fiscal space, and the strength of the monetary reserves of these countries.

Table 7 shows the results of bound testing and diagnostic tests for chosen NARDL models based on SIC, AIC, and H. The estimated F-statistics from the bound test show the presence of cointegration at the 1% level of significance in Saudi Arabia, Kuwait, Qatar, and the UAE models because all of their F-statistics are greater than the 1% upper bound critical value of 4. Cointegration is also discovered in the models of Oman at the 5% and 10% levels of significance since their F-statistics are greater than the upper bound critical values of 3 and 3.3, respectively. As a result, the models of all countries are cointegrated. Furthermore, reported F-statistics and p-values for diagnostic tests demonstrate that calculated models are econometrically robust. There is no evidence to suppose that any of the countries' models suffer from the problem of heterogeneity, serial correlation, normalcy, or incorrect functional form because none of the diagnostic test findings exhibited p-values less than 0.1 (i.e., significant even at 10%). Furthermore, the CUSUM and CUSUMsq tests validate the stability of the computed parameters in Figure 7,8.

Table7. NARDL Bound and diagnostic tests of GCC economics.

Country	F-Stat.	Hetero.	Serial Corr.	Normality	Functional Form
Qatar	3.4337 *	1.6220 (0.1487)	0.0493 (0.9520)	0.8564 (0.6517)	0.6662 (0.4227)
Saudi Arabia	11.5696 ***	1.4238 (0.2238)	1.2791 (0.2946)	1.5407 (0.4521)	0.3251 (0.2275)
The UAE	4.0715 **	0.6978 (0.6735)	1.5003 (0.2240)	2.9834 (0.2250)	0.1824 (0.8565)
Bahrain	4.9553 ***	0.4733 (0.9118)	2.0965 (0.1458)	1.0333 (0.5941)	1.4517 (0.1578)
Kuwait	5.1305 ***	1.8294 (0.1168)	0.0278 (0.9726)	1.4369 (0.4875)	0.7781 (0.4426)
Oman	5.2967 ***	0.3642 (0.9309)	1.1551 (0.3301)	1.1929 (0.5261)	0.9168 (0.3671)

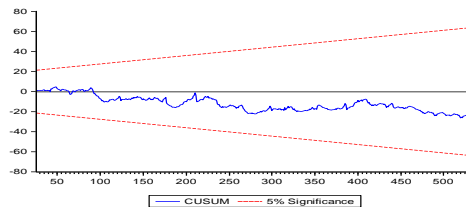|					Critical F-values
	Lower bound	Upper bound	R2	F − test	prob
At 1%	3.7451	4.6473	0.794		
At 5%	2.6517	3.6714			
At 10%	2.2688	3.3332			

Figure 7. CUSUM:
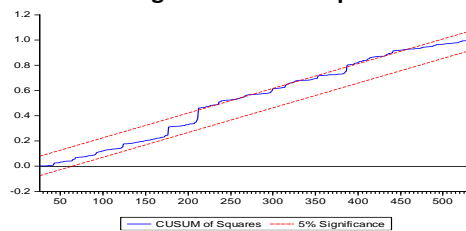

Figure 8. CUSUMsq:

Table 8 depicts the long-run economic and structural factors influencing non-oil export development in GCC countries. Increasing growth (PGDPt) boosts non-oil exports in Kuwait, Qatar, Oman, and Saudi Arabia, with each 1% increase in per capita GDP increasing non-oil export by 0.95%, 1.65%, 1.64%, and 2.76%, respectively. These countries' growth rates are increasing. Furthermore, declining growth (NGDPt) has a favorable impact on non-oil export in the UAE, Bahrain, Qatar, and Kuwait, with a 1% fall in per capita GDP reducing non-oil export by 0.63%, 2.27%, 0.95%, and 0.62%, respectively. As a result, slowing growth benefits non-oil exports in these countries. Nonetheless, we found no substantial influence of growing growth on non-oil exports in Bahrain and the UAE, and no impact of dropping growth on non-oil exports in Oman and Saudi Arabia.

Table 8. (NARDL MODEL) Long-run Estimates.

Country	Variable	Coefficient	S.E.	t-Stat.	*p*-Value
Qatar	ING	1.6179	0.6144	2.6333	0.0143
	GDP	0.9479	0.4514	2.1001	0.0460
	ER	0.7957	0.4587	1.7346	0.0951
	LS	−0.2890	0.2387	−1.2109	0.2373
	FT	1.6399	0.5150	3.1842	0.0039
	SG	−69.6971	23.1844	−3.0062	0.0059
Saudi Arabia	ING	2.1591	0.5164	4.1811	0.0002
	GDP	−0.4461	0.5847	−0.7629	0.4515
	ER	0.2245	0.1119	2.0069	0.0538
	LS	−0.1214	0.0827	−1.4679	0.1525
	FT	−3.4670	6.6869	−0.5185	0.6079
	SG	10.4717	1.7482	5.9902	0.0000
The UAE	ING	0.9350	0.5955	1.5701	0.1290
	GDP	0.6326	0.3120	2.0270	0.0534
	ER	−0.9665	0.2160	−4.4736	0.0001
	LS	−0.4605	0.1533	−3.0049	0.0060
	FT	1.0546	0.2994	3.5229	0.0017
	SG	−36.1921	5.8647	−6.1711	0.0000
Bahrain	ING	−0.9677	0.9730	−0.9946	0.3299
	GDP	2.2686	1.2710	1.7848	0.0869
	ER	0.0991	0.0891	1.1112	0.2775
	LS	0.1889	0.0537	3.5153	0.0018
	FT	4.2342	1.9152	2.2108	0.0368
	SG	−185.1240	85.0302	−2.1772	0.0395
Kuwait	ING	0.9718	0.1035	9.3890	0.0000
	GDP	0.6204	0.1820	3.4084	0.0019
	ER	−0.6929	0.0848	−8.1694	0.0000
	LS	−0.4523	0.1508	−2.9993	0.0055
	FT	1.5449	4.3430	0.3557	0.7246
	SG	−3.9674	19.8671	−0.1997	0.8431

Asymmetric Impact of Economic, And Structural Factors On The Development Of The Non-Oil Export Sector In GCC Economies 1992-2022: Structural Reform Priorities To Sustainable Economic Growth

Country	Variable	Coefficient	S.E.	t-Stat.	*p*-Value
Oman	ING	1.5928	0.4930	3.2310	0.0029
	GDP	0.2719	0.8920	0.3049	0.7625
	ER	0.2452	0.0715	3.4312	0.0017
	LS	0.0890	0.0911	0.9768	0.3362
	FT	1.7162	0.8131	2.1108	0.0430
	SG	8.1755	3.1336	2.6089	0.0139

GCC Country Outlooks:

1- Saudi Arabia:

The oil industry is predicted to decrease by 8.4% in 2023 as a result of OPEC+-agreed output cuts. Meanwhile, non-oil industries are forecast to soften the downturn, rising at 4.3% thanks to looser fiscal policy, healthy private spending, and a push for public investment. As a result, global GDP will fall by 0.5% in 2023 before recovering by 4.1% in 2024 to reflect growth in the oil and non-oil sectors.

2- Qatar:

Real GDP growth is expected to decline to 2.8% in 2023 and remain at that level in the medium term. Despite a deteriorating construction industry and stricter monetary policy, non-hydrocarbon growth is expected to reach 3.6%, driven by strong visitor arrivals and significant events. An additional 14 big sporting events in 2023 will strengthen Qatar's position as a worldwide sporting powerhouse. Meanwhile, the hydrocarbon industry is expected to expand by 1.3% in 2023.

3- United Arab Emirates:

Due to decreased global activity, stagnating oil output, and tighter financial circumstances, economic activity is expected to drop to 3.4% in 2023. Oil GDP growth is estimated to be 0.7% in 2023 as a result of tighter OPEC+ production limitations, but to rebound substantially in 2024 when output quotas are loosened. Non-oil output, on the other hand, is expected to boost economic activity in 2023, rising at a 4.5% annual rate due to robust performance in tourism, real estate, construction, transportation, manufacturing, and a spike in capital spending.

4- Oman:

The Oman economy is expected to weaken in 2023, owing to OPEC+ production restrictions and sluggish global economic activity. However, the economy is expected to strengthen in the longer term as a result of increased energy production and extensive structural reforms. Overall growth is forecast to slow to 1.4% in 2023 as oil output falls, while non-oil industries are expected to underpin growth, expanding by more than 2% due to a comeback in building, renewable energy investments, and tourism.

5- Bahrain:

Growth is expected to slow to 2.8% in 2023, capped by a weak performance in the oil industry, with the non-oil sector remaining the primary engine of growth. The hydrocarbon industry is predicted to increase by 0.1% between 2023 and 2024, while non-hydrocarbon sectors are expected to rise by approximately 4%, thanks to a recovery in the tourism and service sectors, as well as the continuation of infrastructure projects.

6- Kuwait:

Economic growth is expected to slow considerably to 0.8% in 2023 as a result of lower oil output, monetary tightening, and weak global economic activity. Oil GDP growth is forecast to fall by 3.8% in 2023 as a result of tighter OPEC+ production restrictions and lower global demand, but to recover in 2024 when output quotas are lifted, bolstered by increased activity at the AlZour refinery. Private consumption and lax fiscal policy are expected to drive 5.2% growth in the non-oil economy.

5- CONCLUSION AND POLICY IMPLICATIONS:

This study examined the characteristics of long-run and short-run dynamic links between non-oil exports, three macroeconomic variables, and two institutional elements in the GCC from 2000 to 2021. Panel cointegration tests revealed evidence of cointegration among the variables studied. The long-run results of a panel FMOLS estimation show that the majority of the factors have a positive and significant impact on GCC non-oil exports. The study also discovered that the error correction

coefficient is negative and significant at the 1% level, showing a statistically significant, long-term link between non-oil exports and macroeconomic variables and institutional factors. These findings demonstrate the importance of carefully monitoring major macroeconomic components, as well as the institutional determinants described in this study. Given these findings, it is critical from the standpoint of policy implications that the GCC economies establish policies to boost income and provide the best investment climate possible in order to promote non-oil export development. While outlining investment strategies, policymakers should prudently manage macroeconomic indicators for stability and strengthen the quality of their institutions. Future research on this topic could include the Volatility Index (LXC) and Crude Oil Volatility Index (OVS) as uncertainty variables, which would aid policymakers and researchers in evaluating the impact of uncertainty components on GCC non-oil exports. The decreased oil price environment has posed substantial hurdles to GCC growth. Fiscal consolidation, which is required to address the region's deteriorating fiscal balances, may have a negative impact on GDP. According to new findings, fiscal multipliers have declined in recent years, implying that the negative impact of fiscal adjustment on growth may be less severe than previously anticipated. Fiscal multipliers for current spending are lower than those for capital investment. These findings suggest that fiscal consolidation initiatives should target reduction in current spending, enhance capital spending efficiency, and distribute fiscal consolidation measures over time in a predictable manner in order to reduce the contractionary impact. Our findings have numerous key implications for GCC governments and Qatari authorities. We believe that our empirical findings can be used to assess the efficacy of measures already in place to diversify the GCC economy away from oil and gas. The empirical findings can assist GCC policymakers in better designing the economic policies required to accomplish the GCC countries' comprehensive and sustainable economic development. Finally, we believe there is an opportunity for further research into our findings. Asymmetric mechanisms in non-oil export responses to economic and structural factor changes are likely to differ across economic sectors in GCC countries. As a result, a sectoral examination of this link could provide further information and supplement our analysis. Of course, new capital and infrastructure must be accommodated to support domestic and export manufacturing.

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