An Insight of the Economic Development Patterns in the Gulf Countries

Raluca OPRESCU

Bucharest Academy of Economic Studies, Doctoral School of International Business and Economic, raluca.oprescu@gmx.com

Abstract: This paper aims to investigate the economic development status in the Persian Gulf region and investigate the underlying base for international competitiveness. The focus is on this geographic area because it comprises the wealthiest and fastest growing economies in the world and it provides a proper framework for studying the connections between these concepts. The main objective is to compute a development diagnosis and based on its results to reveal what could be done for further advancement as they are shifting from resource-based to knowledge-based economies. The countries considered in this study are Bahrain, Qatar, Oman and UAE. The methodology is based primary on qualitative analysis. The diagnosis revealed that even though in international reports these countries tend to be described roughly in the same terms, the reality is different. Qatar and UAE are prepared to turn into knowledge-based economies despite of being in different stages of economic development. The United Arab Emirates is the only economy from the region that has reached the most advanced stage of development because of its diversified structure. The findings pinpoint that a cluster-based development is a proper path for these countries to follow in the future, while building resilience is a must. Finally, enhancing the regional coordination is yet another solution to a steady, competitive economic development in the Persian Gulf. This study has an extensive, realistic perspective and it's a contribution to the field as it uncovers the traits of the region in terms of economic upgrading.

Keywords: competitive advantage, prosperity, resilience, cluster-based development, GCC.

1 Introduction

In a world in which globalization has been poorly understood and where the challenges that nations face are various, countries need to assess well their options and make different choice concerning their development. The core concept of economic development is the wellbeing of the citizens as a measure for national wealth. The standard of living and quality of life are a mutual concern, both for policymakers and societies.

The Gulf countries have attracted the public eye due to their intensive development in the past two decades. While nowadays Europe and US struggle to keep their national economies afloat, this is a region where economic growth continues and which wasn't much affected by the turmoil started in 2008. A large part of the literature dedicated to economic development and competitiveness focuses on the US, Western Europe, Japan or CEE countries. This study tackles the Persian Gulf states, which are known for their resource-based approach towards development. This region is composed of highly diverse economies in terms of size, stage of development, geography and economic structure. Despite of heavy oil resources, these countries strive to follow conventional patterns of development where both the quantity and quality dimensions of it are balanced. However, one critical problem is that due to historical reliance on natural resources these economies are severely exposed to instability, as they are hostages to exogenous trends. In some cases, the fable oil wealth of these countries is misleading and it hides structural weaknesses of their economies. In the past two decades, the whole region started an intensive but gradual process of upgrading as they aim to become high-productivity economies with increased levels of geographical specialization. The four countries on which the research is based are members of the GCC (Gulf Countries Council) along with Kuwait and Saudi Arabia.

Development is a normative concept that aims to capture the measure of human welfare. The literature links the development of countries to concepts such as inequality, progress, poverty, average life satisfaction, economic, political and personal freedom or sustainability in the attempt to assess the evolution towards it. This study will fuse all of these aspects.

2 Literature review

The theories of economic development have a substantial spread in the literature whether they have static or dynamic approaches. The scope of economic development includes “the process and policies by which a nation improves the economic, political, and social wellbeing of its people” (Sullivan, 2003, pp. 471). Special attention is given to distinguishing different stages and patterns of economic development. Although there were previous attempts of dividing stages of development (Smith, 1937, Rostow, 1971), Michael Porter suggested four distinct stages of national competitive development: factor-driven, investment or efficiency driven, innovation-driven and wealth driven. In the past, most discussions related to national competitiveness and economic development focused mostly on the macroeconomic, political, legal, and social circumstances that underpin a successful economy. However, we can no longer perceive this issue as a duty pertaining solely to the policy-makers, the community has to play its own role. Economic development is a collaborative process involving government at multiple levels, companies, teaching and research institutions, as well as private sector organizations (Porter, 2008). While government drives economic development through top-down policy decisions, competitiveness is a bottom-up process to which individuals, institutions and firms participate.

Competitiveness research started with the seminal work on the competitiveness of nations by Porter (1990), who described national competitiveness as an outcome of a nation’s ability to innovatively achieve or maintain an advantageous position over other nations in key industrial sectors. National competitiveness is considered to involve a combination of assets and processes, where assets are either inherited (e.g. natural resources) or created (e.g. infrastructure) and processes transform assets to achieve economic benefits through sales to customers (Department of Industry, Science and Resources, 2001). The only meaningful concept of competitiveness at national level is productivity (Porter, 1990, p.6). The goal of a nation is to ensure an elevated standard of living for its citizens. The ability to do so depends on the productivity with which a nation’s labor and capital are employed. The companies within the economy must develop the necessary capabilities to compete in more and more sophisticated industry segments where productivity is high. Competitiveness remains a difficult concept and is still not precisely defined in various contexts as is shown by the definitions given above. Nevertheless, competitiveness is obviously seen as involving productivity and efficiency as means of achieving a rising quality of life and increasing the social welfare (Huggins, 2000).

Additional competitiveness factors had recently been considered and investigated by the scientific community. Empirical studies have confirmed that knowledge and intellectual capital, innovation, social capital and entrepreneurship are key drivers for economic expansion and renewal. The emergence of new perspectives in creating competitive advantages at the national level emphasizes the role of local factors in the economic development of a country through industrial clusters, innovation networks or competence centers (OECD, 2003, p.10). Adding value in the knowledge economy is inextricably linked to radical change in both societal assumptions and business models. Allocating resources to education, health and social services or communication infrastructure should no longer be based on costs but on the potential for value creation. As the global economy has become more complex, it has become evident that to compete and maintain a strong position on global markets it is essential to boost the human capital endowments of the labor force, whose members must have access to new knowledge, be constantly trained in new processes and in the operation of the latest technologies.

A large part of the literature links competition to the process of development. Markets play a very important role in this perspective but they are not enough to acknowledge a strong correlation between them. Enterprise and innovation are the stimuli to self-transformation and they depend on more than market institutions (Metcafe & Ramlogan, 2005, p. 271). Economic upgrading is an evolutionary process as the economies pass through the stages of development out of which arises measurable economic growth. Economies rarely achieve a semi-stationary growth in which all activities increase pari passu. A balanced development entails a diversified economy, which is able to permanently shape itself on the international environment.

3 Problem statement

Given the possibility of a new economic downturn, the future is expected to bring important changes to the world's economy and to the landscape of major industries especially to those in the energy sector. These circumstances should determine the Gulf countries to speed up the process of shifting from oil-led growth to productivity and innovation-based development. This region has to lay solid economic foundations and reduce the vulnerability caused by their trade profiles. The Gulf economics are exposed to sharp declines in oil prices caused by demand drops as the global economy is heading towards more turbulence. Action upon this matter should be taken therefore core competencies and competitive advantages gained from oil and gas industries need to be transferred into other industries. Uncovering the present status of economic development and identifying both strengths and weaknesses of their competitiveness is the first step towards finding a proper approach for further expansion.

The paper aims to answer the following two questions: How well developed are the Gulf countries and do they compete in the same way in the global economy? Based on their present traits, what type of economic development is the most appropriate pattern that they should follow? In order to answer them, it is necessary to benchmark their performance against each other and to observe the differences and similarities.

4 Methodology

This study follows a deductive approach based on exploratory data research. The purpose is to first provide a development and competitiveness diagnosis and further to identify an appropriate development path that Gulf countries could follow. Combining both quantitative and qualitative methods, the analysis uses a pool of four countries (Bahrain, Qatar, Oman and UAE) and a set of development indicators (e.g. GCI, Quality of Life Index, Economic Freedom, HDI) for evaluation. The paper examines the trade profiles of these countries and compiles a competitiveness assessment. Based on the findings, the implications are discussed and potential solutions are suggested. The selection of these countries was carried out in a way to ensure a relative homogeneous comparison in terms of size, location and economic performance. However, the main constraint that led to the choice of these four was data availability.

4.1. General outlook of the economies

A brief description of the scrutinized countries is provided in this section. The reason for choosing this set of indicators is because they complete one another and together they offer an aggregated image of development. The United Nations uses them in their studies as well as other international institutions.

Table 1 Economic development indicators (2010)

Indicator	Bahrain	Qatar	Oman	UAE
GDP/capita (PPP)	$40,300	$179,000	$25,500	$49,600
Real Growth rate	4.1%	16.3%	4.2%	3.2%
Trade-to-GDP ratio	155	93.5	109.9	172.7
Investment rate	26.7%	36.5%	29.1%	22.3%
FDI inward* ($ mil)				
- Stocks	15 154	31 428	15 196	76 175
- Flows	156	5 534	2 045	3 948
Life expectancy (years)	78.1	75.7	74.2	76.5
Literacy rate	86.5%	89%	81.4%	77.9%
Urban population	89%	96%	73%	84%
Education expenditures of GDP	2.9%	3.3%	3.9%	1.2%
Unemployment rate	15%	0.5%	15%	2.4%
Inflation rate (CPI)	2%	-2.4%	3.2%	0.9%

Source: Data compiled from https://www.cia.gov/library/publications/the-world-factbook/

*World Investment Report 2011, UNCTAD

All four countries are part of the high-income category but the economic development indicators show a mixed image of their economies. The discrepancies in the GDP/capita are not surprising since they are caused by the uneven number of inhabitants but a truly striking fact is that these states have quite different attainment levels. At first glance, Qatar seems to be the leader of the region in term of economic performance. In 2010, while the developed countries around the globe were struggling due to the economic turmoil, Qatar had not only the fastest growing economy in the region but in the world. Moreover, this country had the lowest unemployment rate, considerable FDI inflows and deflation. The United Arab Emirates is the Gulf's leader in terms of the foreign direct investment stocks but its low literacy rate is quite a drawback. Oman and Bahrain seem to have a similar performance although there are differences regarding the urbanization and the life expectancy. These two states are severely affected by very high unemployment rates. Compared to the other three countries, Oman allocates the highest amount of GDP to the education sector, which suggests that it is more interested in raising the quality of the labor force than its neighbors. One common trait is that government revenues in all four countries continue to be largely dependent on the oil industry. However, these countries are looking for new sources of income and they are constantly striving to upgrade their economies and address the issues that constrain their long-term growth and development.

Despite of being the smallest of the GCC states, Bahrain is among the most advanced economies in the Persian Gulf. Since the country became a constitutional monarchy in 2002, the government aimed for a high diversification of the economy that should reduce the dependence on oil trade. The development as a major financial center in the region has been the most far-reaching aspect of its diversification efforts. Attracting international financial institutions both onshore and offshore as well as striving to become a regional leader has led to a situation in which 30% of the GDP comes from the financial sector. However, lately a very high unemployment rate (especially among the young) signals structural problems of the overall economy and distortion of the labor market. Depletion of oil and water resources is a long-term problem that Bahrain is facing.

Oil and gas have made Qatar the highest per-capita income country in the world. The country has immense energy reserves (world's third largest natural gas reserves) and a small population. In 2010, Qatar had the world's fastest industrial production growth rate, rising 27,1% from the previous year. As part of its economic planning, major industrial and urban developments have been built around main seaports and refineries. This economy has made a lot of progress in expanding the service sector, particularly finance and tourism. Qatar's main key driver remains the industrial sector. The country deals with a large influx of expatriate workers involved in the ongoing large energy projects.

Oman does not have a comparable amount of oil resources as its neighbors but it does have consistent resources of natural gas and major investments had been made in this sector. The government seeks to develop gas-based industries, metal manufacturing and electrical power industries as well as telecommunications industries. Oman developed a plan with the goal of diminishing the oil sector's contribution to GDP to 9% by 2020. In order to sustain it, this economy has stared a process of heavy privatization and industrialization aimed to attract investments in non-oil sectors. However, due to the large state-owned energy sector that supported the economic expansion, the economy is sensitive to external shocks.

The United Arab Emirates had a distinctive economic development in the past decade compared to the other GCC states. This was caused both by having a different structure of the economy (less oil-reliant) and another policy approach. A massive construction boom, an expanding manufacturing base, and a thriving services sector are helping the UAE diversify its economy. The Emirates managed to set up a strong stock market connected with NYSE and London Stock Exchange and developed a complex financial center in Dubai. UAE invested in science parks, research institutes and universities but also in manufacturing industries. High-class tourism, retail and the real estate sectors are blossoming. A growing concern is the fact that the economy relies heavily on expatriate workers. Approximately 90% of the private sector labor force is foreign and this creates major difficulties for the nationals of UAE.

4.2 Trade profiles

In order to broaden the analysis, the following part embodies an overview of the trade patterns of Bahrain, Qatar, Oman and UAE. The four countries are all small, export-driven economies. As their profile reveals these states are specialized in primary commodities.

Table 2 Country trade profiles

Indicator	Bahrain	Qatar	Oman	UAE
Export value (mil $), of which:	15 527	44 489	29 443	194 503
- Merchandise	11 874	41 000	27 651	185 000
- Services	3 653	3 489	1 792	9 503
Import value, of which:	9 041	30 602	23 575	186 799
- Merchandise	7 300	24 922	18 020	150 000
- Services	1 741	5 680	5 555	36 799
Share in world total exports	0.11	0.12	0.05	1,48
Export breakdown by commodity groups:				
Agricultural products	0.8	0.1	3.0	2.9
Fuels and mining	82.9	93.6	73.0	40.1
Manufactures	12.3	5.5	12.5	51.0
Main trade partner	Saudi Arabia	Japan	UAE	India

Source: Data compiled from World Trade Organization (http://stat.wto.org), 2010

While all these countries currently have a trade surplus, in some cases the gap between exports and imports is almost closing. The figures show that three out of four states are rapidly becoming importoriented and service-based economies. There are clear differences in their contribution to the world trade but also in their export structure. Qatar is the most oil-dependable economy in the region while the UAE shows a balance between manufactures and energy commodities.

The exports of Bahrain exceed well the value of the imports but no high-value goods are produced and exported. Although services are far less traded than goods, this country exports roughly two and a half more services than it imports which is a singular case among the other states. The services import in UAE and Oman are as high as four times as their exports. An explanation for this situation could be that generally, the services found in these countries fall at the low end of the value adding chain and they need external suppliers that can provide them in a more enriching and efficient way. This fact signals a lock of these countries into inferior positions in the global service markets and structural weaknesses of their economy. Moreover, the lack of product diversity as they pursue their oil-related comparative advantage makes the Gulf economies unstable if their current specialization falls. During the financial crisis started in 2007 this became a real problem for Bahrain and Qatar. Due to high vulnerability to primary commodities prices on the international markets other issues should also be considered. All of them show traces of future heavy-import patterns and in the case of an oil prices drop, the prices of their exports might be rising at a much slower rate than the one of the imports.

The bright side is that main trade partners of these countries seem to be the emerging markets. The emergence of India and China are massive opportunities for the Gulf countries. Asia can easily become the most important market for GCC. This is partially due to the rising Asian demand for oil but also by an expanding middle class that triggers excellent trade opportunities. China and India are expected to become the region's most important economic partner by 2020[1]. The benefits could be mutual since the Gulf countries could become a base for expanding operations of multinationals in South Asia or even Africa. The opportunities are significant but the rise of developing nations means new competition and these economies need to work hard to maintain a certain edge.

4.3 Competitiveness analysis

The analysis uses the Global Competitiveness Index (GCI)[2], developed by the World Economic Forum, as a tool for benchmarking the performance of the pool countries. Additional information from the World Competitiveness Report 2010 is integrated in the inquiry in order to capture a comprehensive frame of their competitive advantages and setbacks.

Table 3 GCI 2010 and competitiveness patterns

Country	Bahrain	Qatar	Oman	UAE
Development stage	Transition Efficiency – Innovation (2-3)	Transition Factor – Efficiency (1-2)	Transition Efficiency – Innovation (2-3)	Innovation driven (3)
World rank	37	17	34	25
Basic requirements	21	13	24	8
Efficiency enhancers	33	26	48	21
Innovation and sophistication	55	23	47	27
Competitive advantages	State of cluster development FDI and technology transfer Venture capital availability	Intensity of local competition Productivity Venture capital availability	Burden of government regulation National saving rate Venture capital availability	Infrastructure Firm-level technology absorption FDI and technology transfer

[1] Economist Intelligent Unit (2011). GCC trade and investment flows: The emerging-market surge, p. 4.

[2] The GCI ranks 139 countries based on 12 pillars of competitiveness: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication and innovation.

	Productivity	FDI and technology transfer	Infrastructure	Availability of scientists
Major offsets	Female participation in labor force Hiring/firing practices Local supplier quantity Market size	Tertiary education enrollment rate Use of latest technology Value chain breadth Legal rights	Primary education enrollment rate Local availability of research and training services Female participation in labor force	Market size Primary and tertiary education enrollment rate Labor market Redundancy costs

As previously shown, these economies are quite diverse therefore it is not surprising that they are in different stages of development. However, the Global Competitiveness Report 2010 reveals a paradox. Qatar stands out as the most competitive economy among the GCC but it is in the lowest development stage compared to the neighbor countries. Its strong competitiveness rests on a high-quality institutional framework (ranked 10th globally), a stable macroeconomic environment and an efficient goods market. UAE's diversified economy is the reason why it is the only economy in the Gulf region that has reached the most advanced stage of development, the one based on innovation. It can be noticed that three out four economies are in transition stages. These are often the most difficult periods of time because in order to upgrade to a higher stage the economy has to undergo structural, deep changes.

The report shows that Bahrain's performance is severely affected by the problems on the labor market. Restrictive labor regulations, inadequately educated workforce and poor work ethic in national labor force are problematic factors for doing business. On the other hand, the government stability and foreign currency regulations aren't a problem. Bahrain scores low at the efficiency of legal framework in settling disputes and the transparency of government policymaking. Favoritism in decisions of government officials is yet another issue. Complex issues are related to a low tertiary education enrollment rate and the lack of local availability of research and training services. Overall, Bahrain has high market efficiency although the competition on the local markets is not intense. However, the buyer's sophistication is high. The labor market is somewhat mixed. While the female participation in labor force is practically inexistent and the hiring or firing practices are causing serious problems, the productivity and the redundancy costs aren't high. The financial market development is encouraging despite of a low protection of the legal rights. The technological readiness is high but the business sophistication is average, the most concerning issue is the local supplier quantity that indicates a shortage. The infrastructure is well developed but innovation is an area that lags behind. The quality of scientific research institutions and the university-industry collaboration in R&D activities is low. The companies do not spend much on research and development therefore the overall capacity for innovation is average.

Qatar is the competitiveness leader in the region, the fastest growing economy and the second wealthiest nation in the world (as previously outlined in Section 4.1). High government efficiency and excellent security are the cornerstones of the country's stable institutional framework. Qatar has a dynamic information and telecommunication infrastructure that provides reliable services for the economic sectors. Unfortunately, despite of vigorous efforts to sustain and strengthen the financial sector, it does not inspire sufficient confidence among the business community. The soundness of the banks is not highly ranked and neither is the use of latest technologies. The quality of Qatari workforce and the education system are still hurdles in the path of development.

In the case of Oman, the institutions pillar shows that this country is quite competitive with high intellectual property protection, high ethical behavior of firms with a low burden of government regulation. The overall high-quality infrastructure is yet another asset of Oman despite the lack of any railroad infrastructure. The government debt is low but the inflation is high. Health and education are the least competitive areas, with very low primary, secondary and tertiary education enrollment rates. The local availability of research and training services is very low. The goods market efficiency pillar shows a mixed performance. While the buyer sophistication is average, the competition on the local markets isn't intense. However, a business can be started in a reasonable time period and it requires a decent number of procedures. Concerning the financial market development, the ranks obtained by Oman show an average availability of financial services but a much higher affordability, doubled by the ease of access to loans low restrictions on capital flows. Assessing the business sophistication, the local supplier quantity is limited but the state of cluster development is promising and the production process sophistication. The technological readiness isn't exceptionally high and the capacity for innovation is average. While the rigidity of employment on the labor market is considerable, the female participation as labor force is extremely reduced.

Across the UAE, the access to financing seems to be a problematic factor for domestic businesses. The inadequately educated workforce, restrictive labor regulations, government bureaucracy and inflation are other issues. It should be noted though that corruption or tax regulations are not causing distortions in the business environment of UAE. Just as in Bahrain, there is almost no female participation in labor force but unlike it, the redundancy costs on the labor market are very high. The differences also consist in the fact that UAE has a low rigidity of employment as well as more transparent hiring or firing practices and a wide cooperation in labor-employer relations. Government debt is significant and the enrollment rate in both primary and tertiary education is low. Compared to the other three countries, the local availability of research and training services is highly competitive. The absorption of technology by the firms is excellent (rank 5 out of 139 countries) and it's by far the highest in the region. Despite an intense local competition, low trade barriers and burden of custom procedures, there are numerous procedures required to start a business and a long period for completing the formalities. The business environment has to face another problem, the low investor protection.

Overall, it can be stated that Gulf countries have common competitive advantages and drawbacks. The competitiveness report shows that these states excel in terms of the availability of venture capital, FDI and technology transfer and infrastructure. Their competitive positions in the world are affected by poor educational attainment and the stiffness of the labor market. The small size of their markets is yet another setback. Qatar and UAE have similar GCI profiles and best scores for the innovation sub-index. Countries that are generally highly ranked can be assumed to have a relative high readiness for the knowledge economy. Qatar tops in terms of productivity, which is the underlying foundation of a nation's wealth.

4.4 Development and prosperity diagnosis

This section focuses on various indexes that aim to depict the manifold dimension of economic development. Multiple factors interfere with the economic development of an economy including the business climate, entrepreneurship and opportunity, economic and personal freedom, governance, safety and security, access to education. Human development is a critical driver for prosperity and wellbeing. The current status of these aspects in the pool countries can be observed in Table 4.

Table 4 **Development-related ranks**

Indexes	Bahrain	Qatar	Oman	UAE
The Economic Freedom Index[3]	10 (Mostly free)	27 (Mostly free)	36 (Moderately free)	47 (Moderately free)
Ease of doing business[4]	28	50	57	40
Knowledge Economy Index[5]	49	44	66	45
FDI Potential index[6]	23	2	39	5
Human Development Index[7]	39 (Very high)	38 (Very high)	n/a	32 (Very high)
Quality of life index[8]	63	47	65	64
Gender Gap Index[9] *	n/a	117	122	103

* All the indexes belong to the 2010 rankings, except for the Gender Gap Index that is based on the 2009 results.

Bahrain is the 10th freest economy in the world according to the Economic Freedom Index 2011. The regional rankings points out that Bahrain holds the best position, followed by Qatar, Oman and UAE. The solid commitment to structural reform and the openness to international trade have enabled Bahrain to become a financial hub and the regional leader in economic freedom. Bahrain has a sophisticated financial sector that facilitates the free flow of capital and foreign investment. The major impediments of doing business in Qatar are related to restrictive labor regulations and the state involvement in the economy. Privatization still lags and some sectors are open only for domestic investors and regulations are not fully transparent. Corruption, tax issues or political instability are not an issue for this country. Restrictions on foreign investment and considerable state involvement in the economy are serious drags on the economic dynamics. The business climate in Oman is affected by the same problems as Qatar and Bahrain. Restrictive labor regulations, the lack of adequately educated as well as low access to financing are among the most problematic factors. The “Omanization” labor policy that requires private firms to meet quotas for hiring native Omani workers is causing more distortion on the labor market. Nevertheless, the poverty and unequal income distribution is higher in Qatar and UAE than in the other two states.

All four states are hereditary monarchies with limited political representation. UAE has high levels of personal freedom but this is partially due to the fact that non-Arab expatriates have a large share in the

[3] The Index of Economic Freedom comprises 10 economic measurements created by The Heritage Foundation, including: business freedom, trade freedom, monetary freedom government size/spending, fiscal freedom, property rights, investment freedom, financial freedom, freedom from corruption and labor freedom.

[4] Ease of Doing Business Index is computed by the World Bank and it compares 183 economies around the world. It has the following sub-indices: starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, closing a business.

[5] The Knowledge Economy Index elaborated by the World Bank considers 147 countries and ranks them along 4 categories of indicators grouped by theme: economic incentive regime, innovation, education and ICT.

[6] The Inward FDI Potential Index is developed by UNCTAD and it captures several factors expected to affect the economies' attractiveness to foreign investors. It is an average of the values of 12 variables ranging from the rate of GDP growth to the share of R&D spending. A number of 192 economies are ranked.

[7] The HDI is calculated by United Nations for 141 countries. It is a comparative measure of life expectancy, literacy, education and standards of living for countries worldwide. HDI is used to distinguish whether the country is a developed, a developing or an under-developed country, and also to measure the impact of economic policies on quality of life.

[8] The Quality of Life Index is a blend of variables that aim to quantify the livability of a nation for its average inhabitant. The index is computed by The Economist Intelligence Unit. No more than 110 countries are considered and ranked. The sub-indices include: health, education, wealth, democracy, peace and environment.

[9] The Global Gender Gap 2009 index is elaborated by the World Economic Forum, it covers 134 major and emerging economies and it aims to measure the inequality between women and men. The countries are evaluated along four main pillars including economic participation and opportunity, educational attainment, political empowerment, health and survival and it basically assesses how equitable they are dividing their resources and opportunities among their male and female populations.

population. In this state there is a low women's political participation and they do not hold the right to vote while for example in Oman this right had been given even from 1994. In UAE and Qatar women do not have the right to stand for election.

5 Findings and discussion

The Gulf countries had taken broad initiatives to increase their economic openness and expand their trade specialization. The business climate throughout the region faces resembling problems but yet there are differences in the capability to attract FDI. While the competitiveness ranks point out an overall good position, the countries still face difficulties in competing on global export markets. The region's exports are mostly oil and gas products and too little high value-added goods, technology or capital goods. However, all these four economies realized that by using their oil revenues they can build an advanced and competitive transport and IT infrastructure. These economies seem to have limited regulatory policies that are conducive to entrepreneurship and risk-taking. Moreover, the wastefulness of government spending is low, which points a judicious resource allocation.

The study found evidence that Gulf countries have already embarked on the journey to healthy development but each of them takes a specific approach, one that is suitable with their economic structure and social resources. Qatar and UAE are prepared to turn into knowledge-based economies despite of being in different stages of economic development. The United Arab Emirates is the only economy in the region that has reached the most advanced innovation-driven stage of development because of its diversified structure. All countries have high human development and income.

A shared problem of the Gulf countries is the lack of established responsive institutions and proper intellectual property rights legislation. Labor market institutions are lacking and without those it is nearly impossible to transform themselves into very competitive economies. The employment flexibility is low and there is too little focus on improving the employability. Across the whole region, the quality of the labor force is quite reduced. There is a very high unemployment in Bahrain and Oman, which indicates severe problems with labor regulations and inadequately educated labor force. Education is a key to the future competitiveness of these countries but in the present, tertiary education remains elusive to the vast majority of young people.

The four countries have generally a corruption-free business environment but a low investor protection. The technological readiness is somehow mixed. While some of the countries don't excel at information literacy, the FDI and technology transfer is considerable. UAE and Qatar are the region's leaders in terms of technology absorption. This suggests a correlation between their propensity towards the use of technology and their stage of development. A country's development is linked to its ability to be creative and innovative on its own account or through its use of technologies created elsewhere. The region's oil-driven development model has led to a volatile economic growth. The value chain breadth is low and the capacity for innovation is average. Under these circumstances, the analyzed countries need to play special attention to the determinants of competitiveness at a microeconomic level.

The development and competitiveness diagnosis uncovered that even though many times these countries tend to be described roughly in the same terms, the reality is different. Each of the four economies has its particularities and its own development pattern determined by their resources and the manner in which they create value through them. One additional aspect is worth discussing. These states are together in the GCC (Gulf Countries Council) but they don't seem to benefit from the advantages of being part in a regional organization. GCC is supposed to offer a platform for cooperation and development between the member states. The declared purpose of this political and economic union is to promote coordination between the 6 states in order to achieve unity. These countries claim to participate in a wide rage of common activities that focus on economic issues. The member states claim to formulate similar regulations in trade, finance, customs, transport, telecommunications, administration and tourism but evidence shows a different situation. Despite of an official agenda that comprises of regular consultation and development of common policies concerning the above-mentioned areas, in fact the results of more than 20 years of cooperation does not seem to be very convincing. Each country tends to act in its own way and develop by seizing the opportunities in the global markets or following trade ties with historical partners. Even though in 2009 a common market was launched and one year later Monetary Council has been set up, the union was not even able to achieve a unity in terms of fiscal and tax regulations, as there are significant variations between the member states. Moreover, the goal of establishing a common currency by 2010 failed because of obvious reasons. One example of lack of coordination and high economic vulnerability is very recent. The GCC has done too little to combat the economic downturn. These states were among the first hit due to the oil demand plunge and consequently they were the first to respond to the crisis. Instead of tackling this threatening issue in a concerted manner, their programs have been prone to disparities. Most of them were unable to set clear priorities for recovery, to tackle the falling consumption and the investor's confidence.

6. Solutions

The diagnosis provided in this paper identified both strengths and weaknesses of the economies in the Persian Gulf. While the states are committed to achieving a flourishing and steady economic development, they haven't outlined a clear path that they want to follow.

Their current efforts concentrate on diminishing the oil revenues dependence. For these countries, oil is both a curse and a blessing. On one hand, the existence of rich natural resources in this region was their chance to a quick economic development. Unfortunately, the oil and gas profusion also determined a high level of vulnerability as relying on primary commodities can prove to be risky. The prices of primary commodities on the international markets are extremely volatile and sensitive to political or economic shocks. Nevertheless, in approximately 50 years the reserves are expected run dry or to be replaced with more environmental friendly energy resources. Meanwhile, the Gulf countries must be clever enough to reap the benefits of being among the largest oil producers and exporters on the globe, and carefully choose an appropriate development pattern for the future. Achieving a broader pool of competitive advantages and transferring the present ones to related industries is the key to a long-run vigorous development.

Based on the findings, at this point the second research question can be answered. Each suggestion will be further discussed and articulated. The Gulf countries should focus on the following:

- Cluster-based development;
- Building resilience;
- Enhance regional coordination.

This section elaborates on the suggestions and pinpoints the reasons behind these solutions. Support from the literature is brought to tailgate the proposals.

6.1 Cluster-based development of the Gulf countries

Cluster-based economic development is grounded on the hypothesis that a geographic region should identify a small number of industries to become the focal point for the region's development strategy. This type of development is an opportunity for the petrochemical and gas-intensive industries in this region to reach unprecedented levels of competitiveness. For this approach to be successful it requires an integrated vision of both the private and the public sectors. The oil and gas reserves belong to the states but private investors take the venture for developing business in these industries. Qatar, Saudi and the United Arab Emirates are becoming increasingly attractive locations for energy-intensive industries such as aluminum, copper, petrochemicals and steel. This fact could be the key to a broader industry diversification and non-oil specialization. Some of these industries produce raw materials for high value products such as IT components. In the present, the Gulf countries have on average only 5 percent of the total production capacity of six of the world's most energy-intensive commodities (aluminum, ethylene, polyethylene, propylene, styrene, and steel). All of them are gas-related industries and this resource is particularly cheap and abundant in Qatar and UAE.

The major benefit of the Bahrain, Oman, Qatar and UAE taking this approach is that clusters will allow larger economies of scale to be achieved by further specializing production within each firm. But there is another key aspect that needs to be considered. Clusters improve information flows within industries and they increase the level of local expertise. The foundations of competitiveness are created at the microeconomic level therefore these countries need to act upon it by boosting their firm advantages. Unleashing the region's potential can only happen if the local entrepreneurship is intensive. Clusters are catalysts for providing companies with inputs, pressure, and incentives in the most effective way. The portfolio of clusters present in a given location creates unique opportunities for new activities to emerge and for the value chain to expand. Clusters affect competitiveness in three broad ways: the presence of a cluster increases the productivity of constituent firms or industries, boosts the capacity for innovation and leads to new business formation that supports innovation and expands the cluster (Porter & Ketels & Delgado, 2007, p.47). Within a cluster, firms have more efficient access to specialized suppliers, employees, information, and training than isolated firms who have to source from other locations.

Such a development enables a deeper supply chain and it fosters inter-firm learning and cooperation. Moreover, clusters tend to strengthen social links and trigger the creation of new ideas and businesses. Clusters give companies the ability to draw together complementary skills and they lead to the development of specialized array of services (Ketels, 2003). This development option brings a variety of benefits to the local economy. Specialization in strong clusters can be a driver of regional job growth and wages. The unemployment is very high in Bahrain and Oman. Sustained growth and prosperity cannot be achieved unless there is a high employment that generates raising income. Cluster-based development can be a solution for the future for these countries but it would entail significant efforts from all the parties involved in this process. The private sector will require a willingness of individual companies to establish strategic partnerships, joint ventures, and public-private partnerships. On the part of the public sector, it will be necessary to redirect the strategies.

6.2 Building resilience

Whenever a country or a region is exposed to certain risks due to the dependence on its resources, resilience should be considered and addressed. However, the identification of potential vulnerabilities is just the starting point, as resilience is a much more broader concept as it deals with an overall transformation. Resilience was defined in several ways but it is generally comprehended as a region's ability to experience positive economic success that is socially inclusive, works within environmental limits and which can ride global economic punches. As such, resilience clearly resonates with literature on sustainability, localization and diversification, and the developing understanding of regions as intrinsically diverse entities with evolutionary and context-specific development trajectories (Hayter, 2004).

Resilience is perceived as "the capacity of a system to absorb disturbance and reorganize while undergoing change, so as to still retain essentially the same function, structure and feedbacks" (Hopkins, 2008, p. 54; Hudson, 2008). Despite the fact that GCC states are engaging in efforts to reduce the dependency of their economy on oil revenues, there is still a long way to go. Some of the countries (Bahrain and Qatar) are more exposed than others. For example, the UAE made notable progress in diversifying and expanding their economy and now solely half of its exports are accounted to oil and gas. If an economy is to develop it must be transformed from within and to achieve this it requires that its citizens be transformed, that they come to know things in relation to production, organization and consumption that they currently do not know (Metcalfe, 2001).

The next few years are uncertain, as it is not known exactly the trend the world economy will follow. The Gulf countries need to envision a self-reliant and leaner future therefore its critical to reevaluate their position. The lessons learned from the recent crisis points out that Bahrain, Qatar, Oman and UAE should develop a high capacity to be self-sufficient in the event of economic or environmental shocks. Moreover, for further expansion and competitiveness boost they need a strong degree of international and inter-regional networking for information sharing, learning and interacting as long as hig

Resilience also implies a healthy core or supporting economy of family, neighborhood, community and civil society, strong in reciprocity, sharing and collaboration in the delivery of essential services (Jackson, 2009). These countries share the same culture therefore there is a good chance for them to benefit from mutual interaction not just in terms of economics but also on the community level. Nevertheless, the development indicators pinpoint the need to enhance the cultural emancipation as well as the political and social empowerment. Supporting networks of family, community and civil society across the region would lead to a more coherent regional economy with strong values of cooperation and collaboration.

6.3 Enhancing regional coordination

By coordinating the economic policy among neighboring countries, a nation's competitiveness and economic growth can be fostered (Porter, 2008). The findings of the paper showed that despite of a common oil-reliance, the Gulf economies have differences in terms of macroeconomic and social status. In the case of these states, a regional strategy as a powerful tool to enhance competitiveness in each of the constituent nations because they share more than a free trade zone. Although not very deep, there is a certain level of economic integration between these countries and by taking the right approach, this level could rise. A regional strategy creates gains not only from internal trade and investment but also from policy coordination to create mutual benefits to productivity in all countries through specialization and capturing externalities and spillover effects across borders. Moreover, adopting a regional strategy in the Gulf countries could be a powerful lever for speeding up the process of economic upgrading at the national level as well as a way to promote interest and investment in the region by the international community.

A strong infrastructure (both physical and informational) is a baseline requirement to establish and sustain a prosperous regional economy. The Gulf countries already have a high-quality infrastructure. Educational systems are important for fostering local talent and attracting foreign labor force. Improving education across the whole region is critical because the private sector needs skilled graduates that live up to their expectations in terms of delivering high quality labor. The development of knowledge and the development of an economy co-evolve and the competitive process is central to any understanding of this claim. A common policy for science and technology in these states may be necessary but it is not sufficient for a future innovation-based development. Innovations depend greatly on new technological knowledge but they also require knowledge of markets and organization. Independently, the four countries are weak in terms of knowledge spread in the economy but through cooperation they can eradicate this problem. The availability of statistical data is an obstacle in terms of information flows and somehow a specialized regional body could insure reliable data sources.

Regional governance is acting as a hub for localized initiatives and for connecting to upper tiers of government and business coalitions. Regional coordination of both policies and programs can enhance economic, political and social development. But in order for this to be achieved, regional institutions need to be set up and their role to be clearly outlined. On the long term, regional coordination will lead to a high social cohesion in the Gulf region.

7 Conclusions

This study focused on the economic development and competitiveness in four countries of the Gulf region. The findings revealed the fact that despite of shared traits, their economies also diverge in several aspects. While one of them (UAE) has reached the last stage of development, based on innovation, the others still struggle throughout transition phases. Their high dependence on oil-related incomes underlines a high degree of sensitivity of their economies. The value of the work arises from computing an in-depth analysis that unveiled both similarities and discrepancies of these economies and it provided a snapshot of their development status. The paper zoomed on each country's competitive advantage and discovered their setbacks. Further, the study suggested several ways for these countries to ensure a lean, self-reliant future as an attempt to reduce the exposure cause by resource dependability.

Competitive pressure is higher than ever, particularly in these times of economic uproar. The Gulf countries are aiming to reach the phase of an innovation-based economy in which new knowledge is continually generated and applied, characterized by ongoing structural and qualitative renewal. With a rising number of locations providing attractive conditions for business development, the Gulf region needs to define the unique value they are offering to companies looking to locate business activities. Strengthening political cohesion between the four countries and establishing regional institutions can promote national and regional growth. The states from the Gulf region can enhance their development by benefiting from intra-regional trade. This would allow the countries to specialize in their areas of strengths and clusters would appear. Clusters have the potential to be a key dimension of this region's value proposition. The transition to high-productivity economies definitely involves increased levels of geographical specialization. A higher degree of compatibility and integration of the local markets in the Gulf region would be more attractive for FDI, which often seek large customer bases. The region has to learn how to use the existent resources, how to enhance the competitive advantages and how to mitigate the risks. Whether these countries will act upon these issues on their own or will embrace a regional approach it is clear that the development journey still has a long way to go before successfully reaching true prosperity.

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