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Selahmi, Basma and Liu, Chunping

Nottingham Trent University

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Institutions and the Resource Curse in GCC countries

Basma Selahmi¹ and Chunping Liu²

Abstract

This paper investigates whether natural resource revenues in the GCC countries lead to economic growth or if the resource curse is evident. Using panel data for six countries during 1996-2019, we investigate the indirect relationship in which natural resources and economic growth operate through different institutional qualities. Using two different classifications of export composition, we show that point-source resources, particularly fuel exportation, worsen the economic performance of a country. In contrast, diffuse-source resources do not follow this pattern. Nevertheless, the results also provide the threshold level of institutional, beyond which fuel wealth enhances economic growth. This result suggests that for fuel exportation to have a meaningful impact on economic growth, GCC countries must attain a certain threshold of institutional quality. The results confirm our hypothesis that institutions are decisive for the resource curse, therefore contrasting the claims of Sachs and Warner (1995, 2001) that institutions do not play a role. It therefore suggests that countries must adopt appropriate policy measures to improve their levels of institutional quality and soften the impact of a resource curse.

JEL Classification: C5, E02, N5, O4.

Keywords: institutions, Resource Curse, economic growth, natural resources.

¹ Corresponding author: basma.selahmi2018@my.ntu.ac.uk, Nottingham Trent University, 50 Shakespeare St, Nottingham NG1 4FQ, +44 (0)1158482188

² chunping.liu@ntu.ac.uk, Nottingham Trent University, 50 Shakespeare St, Nottingham NG1 4FQ, +44 (0)1158482188