

Economic Development in the Middle East: Diversification, Fiscal Resilience, and Inclusive Growth under Energy Transition

Author: Kong Fanhua | Affiliation: Quanli Junior High School, Yishui County, Shandong Province

Corresponding email: lung85548@gmail.com

Abstract

Purpose: This paper examines the economic development trajectory of the Middle East through the interacting lenses of hydrocarbon dependence, diversification strategy, fiscal-financial resilience, and inclusive labor-market transformation.

Design/methodology/approach: The study employs a comparative institutional and macro-financial analysis using publicly available evidence from the International Monetary Fund, World Bank, International Energy Agency, International Labour Organization, UN Trade and Development, and established academic literature on resource dependence, structural transformation, and development finance.

Findings: The analysis shows that the Middle East is not a single development model. High-income Gulf economies are converting hydrocarbon rents into state-led investment platforms, infrastructure, logistics, tourism, financial services, and selected industrial sectors. By contrast, oil-importing and conflict-affected economies face tighter fiscal space, higher exposure to commodity shocks, and weaker job creation. Across the region, the main binding constraint is shifting from physical capital accumulation to productivity, tradable-sector capability, human capital matching, and private-sector employment creation.

Practical implications: The paper argues that sustainable development requires fiscal frameworks that separate cyclical hydrocarbon revenues from long-run investment capacity, deeper local capital markets, better governance of state-owned and sovereign investment vehicles, and labor-market institutions that expand youth and female participation in productive private employment.

Originality/value: The paper contributes a JEMFER-oriented framework that links resource-rent political economy, financial resilience, and inclusive structural transformation in a region central to both emerging-market finance and the global energy transition.

Keywords: Middle East; economic development; diversification; sovereign wealth funds; energy transition; fiscal resilience; inclusive growth; emerging markets

JEL classifications: O11; O13; O14; O16; J21; Q43; F21

1. Introduction

The Middle East occupies a paradoxical position in global economic development. It contains some of the world's highest-income economies, some of the lowest-cost hydrocarbon resources, and several of the largest sovereign investment institutions. At the same time, the region includes economies affected by conflict, institutional fragility, debt stress, labor-market segmentation, and limited private-sector employment creation. Treating the region as a homogeneous "oil economy" therefore obscures the development challenges that matter most for policy, finance, and academic analysis.

This paper advances a comparative development framework for the Middle East. The central argument is that the region's long-run development prospects depend less on whether oil and gas disappear from the

growth model and more on whether hydrocarbon rents, financial assets, and public investment capacity can be transformed into productivity-enhancing private capabilities. In resource-rich economies, diversification is not merely a sectoral target; it is an institutional transition from rent distribution to capability accumulation. In oil-importing or fiscally constrained economies, development depends on macroeconomic stabilization, tradable services, remittances, skills formation, and investment climate reform.

The relevance of this topic has increased in the 2020s. Global energy markets are becoming more volatile, clean-energy investment is scaling up, and new technologies are reshaping trade, finance, and labor demand. At the same time, recent regional shocks have highlighted the exposure of Middle Eastern economies to oil-price swings, transportation disruptions, tourism volatility, and risk-premium changes. The World Bank's April 2026 regional update notes that conflict, energy-route disruptions, and heightened uncertainty weakened the region's growth outlook, while the IMF's April 2026 update similarly stresses the differentiated effect of shocks across oil exporters and importers (International Monetary Fund [IMF], 2026; World Bank, 2026a).

For JEMFER's focus on emerging markets, the Middle East is particularly important because it combines the core themes of development finance: resource dependence, state-led capital allocation, foreign direct investment, sovereign wealth management, financial-market deepening, youth employment, and transition risk. These features make the region an instructive setting for understanding how emerging economies can convert balance-sheet strength into broad-based economic development.

The study addresses three research questions. First, what are the principal development models currently visible across Middle Eastern economies? Second, how do hydrocarbon dependence, fiscal buffers, and investment capacity shape diversification outcomes? Third, what policy and institutional constraints limit inclusive and sustainable growth? The paper does not estimate a causal econometric model. Instead, it offers a structured comparative analysis using publicly available macroeconomic, financial, energy, investment, and labor-market evidence.

1.1 Contribution and Scope

The paper makes three contributions. First, it separates the Middle East into development types rather than treating it as a single oil-dependent bloc. Second, it integrates fiscal-financial resilience with structural transformation, arguing that sovereign wealth funds and public investment vehicles should be evaluated not only by asset accumulation but also by their ability to crowd in private productivity. Third, it links energy transition to development strategy. In the Middle East, energy transition is not simply a demand-risk story; it also creates investment opportunities in renewables, grids, low-emissions fuels, critical minerals processing, and energy-intensive manufacturing where low-cost energy and capital are available.

The geographic scope of "Middle East" is deliberately transparent. Official institutions use different regional definitions: the IMF often reports MENAP or Middle East and Central Asia groupings; the World Bank reports MENAAP or MENA; UNCTAD frequently classifies much of the Middle East as West Asia. This paper uses "Middle East" as a substantive economic category centered on GCC economies and selected non-GCC economies whose development paths are materially linked to regional energy, capital, labor, and trade flows. When presenting figures from official sources, the paper preserves the source's own geographic definition.

2. Literature Review

2.1 Resource Dependence, Rentier Institutions, and Development

The literature on resource-dependent development has long debated whether natural-resource wealth is a blessing, a curse, or an institutional amplifier. Early resource-curse arguments emphasize Dutch disease,

revenue volatility, rent seeking, and the crowding out of tradable sectors (Auty, 1993; Sachs & Warner, 2001; van der Ploeg, 2011). In this view, hydrocarbon wealth can weaken incentives for taxation, private-sector competitiveness, and institutional accountability if public finance relies heavily on external resource rents rather than broad domestic production.

Middle Eastern development has also been studied through the rentier-state framework. Beblawi (1987) and later scholarship emphasize the role of external rents in shaping state capacity, fiscal distribution, public-sector employment, and expectations around subsidies. This framework remains useful, but it requires updating. Contemporary Gulf economies are not merely rent distributors; they increasingly operate as investor states that deploy sovereign capital into domestic infrastructure, global assets, technology, logistics, tourism, and industrial policy. The question is therefore whether state-led investment can create competitive private capabilities rather than permanent dependence on public spending.

2.2 Diversification and Structural Transformation

Diversification in hydrocarbon economies has typically been evaluated through non-oil GDP, non-oil exports, private-sector employment, and the sophistication of domestic production. IMF studies on the GCC argue that diversification is essential to reduce exposure to volatile oil revenues, generate private-sector jobs, and prepare for a long-run future in which hydrocarbon revenues become less reliable (Callen et al., 2014; Cherif & Hasanov, 2014). However, diversification is difficult because profitable non-oil tradables must compete with imported labor, high public-sector wage expectations, and the scale advantages of established global producers.

A key lesson from the broader structural-transformation literature is that growth requires movement toward higher-productivity activities. Rodrik's (2016) work on premature deindustrialization cautions that developing economies may no longer be able to rely on manufacturing-led employment growth at the same scale as earlier industrializers. For the Middle East, this implies that diversification strategies must combine manufacturing, tradable services, logistics, finance, digital platforms, and tourism rather than assume a single industrial route.

2.3 Finance, Sovereign Wealth, and Investment Allocation

The Middle East is unusual among emerging-market regions because several economies possess large sovereign balance sheets. Sovereign wealth funds and state-owned investment vehicles can stabilize fiscal cycles, diversify national wealth, and support strategic sectors. Yet financial strength does not automatically produce development. The development effect depends on governance, project selection, commercial discipline, crowding-in of private investment, and the ability to link capital expenditure with human capital and technology absorption.

This distinction matters for JEMFER because it shifts attention from funding availability to allocation quality. The presence of abundant public capital can reduce financing constraints, but it can also sustain low-productivity activities if investment discipline is weak. In non-GCC Middle Eastern economies, the opposite problem often dominates: high financing costs, external vulnerabilities, weaker investor confidence, and limited fiscal space constrain development spending. The region therefore combines both capital-abundant and capital-constrained development models.

2.4 Inclusive Growth and Labor-Market Transformation

A final strand of literature concerns labor-market inclusion. Middle Eastern economies face a demographic and employment challenge. Oil-rich economies must increase productive private employment for nationals while managing reliance on expatriate labor. Oil-importing and conflict-affected economies must create

sufficient jobs for young populations under tighter fiscal conditions. The ILO's 2026 youth employment evidence shows that the Arab States and Northern Africa continued to record the world's highest youth unemployment rates in 2025, underscoring that macroeconomic growth alone does not guarantee labor-market absorption (International Labour Organization [ILO], 2026).

Inclusive development therefore requires more than GDP growth. It requires education-to-work transitions, female labor-force participation, private-sector wage formation, entrepreneurship, and financial access. For the Middle East, the success of diversification should be judged not only by the rise of non-oil GDP but also by whether new sectors create durable employment and productivity gains for local workers.

3. Methodology and Data Framework

This study applies a comparative institutional methodology. The unit of analysis is not a single country but a set of regional development models. The approach is appropriate because Middle Eastern economies differ substantially in income level, resource endowment, fiscal space, institutional structure, labor-market composition, and exposure to geopolitical shocks.

The data framework uses three forms of evidence. First, macroeconomic and fiscal context is drawn from IMF and World Bank regional updates. Second, energy and investment-transition evidence is drawn from the International Energy Agency and UNCTAD. Third, labor-market evidence is drawn from ILO reports and global development databases. Academic literature is used to interpret the mechanisms through which resources, institutions, capital allocation, and labor markets affect development outcomes.

The paper deliberately avoids constructing unverifiable composite scores or proprietary country rankings. All numerical statements are tied to public sources. Where official sources use broader regional groupings such as MENAP, MENAAP, or West Asia, the paper identifies those groupings explicitly and does not present them as exact estimates for a narrower Middle East-only sample.

Table 1. Regional Development Typology for Middle Eastern Economies

Development type	Representative economies	Core asset base	Main development opportunity	Key constraint
Hydrocarbon-investor economies	Saudi Arabia, UAE, Qatar, Kuwait, Oman, Bahrain	Oil/gas reserves, fiscal revenues, sovereign funds, infrastructure	Convert rents into tradable capabilities, logistics, finance, tourism, industry, and technology	Oil revenue cyclicality, public-sector wage expectations, skills mismatch, expatriate-labor dependence
Energy-rich but institutionally constrained economies	Iraq, Iran, Yemen, and other resource economies where data permit	Hydrocarbon reserves and strategic geography	Reconstruction, energy-sector upgrading, infrastructure, and domestic private-sector rebuilding	Conflict, sanctions or restrictions, governance challenges, infrastructure damage, weak investor confidence
Labor-surplus and import-dependent economies	Jordan, Lebanon, Egypt and similar regional economies	Human capital, remittances, services, tourism, regional labor links	Exportable services, digital work, education, logistics, and SME development	Fiscal debt, import dependence, limited job creation, exposure to commodity and remittance shocks
Service and capital-market hubs	UAE, Bahrain, Qatar, Saudi Arabia financial centers	Financial infrastructure, logistics, real estate, aviation, business services	Regional intermediation, FDI platforms, fintech, asset management, and capital-market deepening	Concentration risk, real-estate cycles, regulatory competition, need for skilled labor

Source: Author's synthesis based on IMF, World Bank, IEA, ILO, UNCTAD, and academic literature cited in this manuscript.

The table is a conceptual typology, not a statistical ranking.

Table 2. Public Evidence Used in the Comparative Analysis

Evidence channel	Most relevant public source	Selected evidence used in the paper	Analytical implication
Short-run growth and shocks	IMF Regional Economic Outlook Update; World Bank MENAAP Economic Update	IMF reported MENAP growth expected to slow to 1.4% in 2026; World Bank reported MENAAP growth excluding Iran expected to slow from 4.0% in 2025 to 1.8% in 2026.	Regional development remains vulnerable to energy-route disruptions, commodity shocks, and confidence effects.
Energy investment	IEA World Energy Investment 2025	Global energy investment in 2025 was estimated at USD 3.3 trillion, with around USD 2.2 trillion directed to clean-energy-related areas; the Middle East was set to invest about USD 130 billion in oil and gas supply.	Energy transition pressures coexist with continued hydrocarbon investment and new opportunities in power, grids, renewables, and industrial energy use.
Foreign direct investment	UNCTAD World Investment Report 2025 and 2026 releases	UNCTAD reported West Asia FDI inflows rising from USD 78 billion in 2023 to USD 82 billion in 2024, while global FDI remained volatile and increasingly concentrated.	FDI opportunities exist but are uneven, with investment clustering around hubs and strategic sectors.
Youth employment	ILO Global Employment Trends for Youth 2026	In 2025 youth unemployment stood at 26.2% in the Arab States and 22.6% in Northern Africa; in both subregions at least one in three young people were NEET.	Job creation, skills matching, and inclusion are central constraints on long-run development quality.

Source: Compiled by author from IMF (2026), World Bank (2026a), IEA (2025), UNCTAD (2025, 2026), and ILO (2026).

Source geographies differ and are identified in the text.

4. Comparative Analysis

4.1 Growth Volatility and the Return of Macro-Financial Risk

The Middle East's development path remains strongly shaped by macro-financial volatility. Hydrocarbon exporters benefit from commodity windfalls when prices rise, but they are also exposed to production disruptions, fiscal procyclicality, and long-run demand uncertainty. Oil importers face the opposite transmission channel: higher energy prices raise import bills, inflation, and fiscal pressures. These asymmetric effects mean that the same oil-price shock can improve headline revenue in some economies while worsening real household purchasing power and external balances in others.

Recent official updates illustrate this heterogeneity. The IMF's April 2026 update states that MENAP growth was expected to slow to 1.4 percent in 2026 under its reference scenario, with large differences between oil exporters and importers. The World Bank's April 2026 MENAAP update reports that excluding Iran, overall growth in the region was expected to slow from 4.0 percent in 2025 to 1.8 percent in 2026. These figures should not be interpreted as permanent development trends, but they emphasize the region's exposure to disruptions in energy production, shipping routes, confidence, and inflation.

For long-run development, the main lesson is that fiscal buffers and sovereign wealth are necessary but insufficient. A country can maintain a strong public balance sheet while still facing weak private productivity. Conversely, an oil-importing country can achieve development gains if it improves macro stability, exports services, deepens financial markets, and mobilizes private investment. The policy challenge is to reduce the sensitivity of welfare and investment to commodity cycles.

4.2 From Rent Distribution to Productive Diversification

GCC economies have made visible progress in building non-oil sectors, particularly logistics, aviation, ports, tourism, real estate, finance, entertainment, and selected manufacturing. These sectors can reduce headline reliance on oil GDP. However, economic diversification and development diversification are not

identical. Development diversification requires non-oil activities that generate productivity growth, export capacity, innovation, and employment opportunities for nationals and residents.

The distinction matters because several non-oil sectors remain indirectly dependent on public spending, real estate cycles, or hydrocarbon-financed demand. A construction boom can raise non-oil GDP without creating durable productivity. Similarly, tourism and entertainment can diversify revenue sources but may still depend on large infrastructure outlays and imported labor. By contrast, logistics, advanced manufacturing, finance, digital services, and professional services have greater potential to connect the region to global value chains if they build local skills and tradable capabilities.

This suggests a two-stage diversification test. The first stage asks whether non-oil sectors are growing. The second asks whether those sectors are competitive without permanent fiscal support. JEMFER-oriented research should emphasize the second test because it distinguishes balance-sheet expansion from structural transformation.

4.3 Sovereign Wealth Funds and the Investor-State Model

Sovereign wealth funds and public investment funds have become central instruments in Middle Eastern development. They perform multiple functions: fiscal stabilization, intergenerational savings, strategic domestic investment, global portfolio diversification, and industrial policy. This creates a distinctive investor-state model in which the government is not only regulator and spender but also asset allocator, developer, and long-term shareholder.

The investor-state model can accelerate development when it overcomes coordination failures, finances infrastructure, attracts global partners, and creates credible anchor demand for new sectors. It can be particularly effective where private investors hesitate because of scale, uncertainty, or missing complementary infrastructure. However, the model also carries risks. State-backed capital can crowd out private entrepreneurs, soften budget constraints, and encourage projects whose economic return is lower than their strategic or reputational appeal.

For research purposes, the relevant question is therefore not whether sovereign wealth funds are large, but whether they create productive spillovers. Evidence of spillovers would include local supplier development, technology transfer, workforce upgrading, export growth, and private co-investment. Without such spillovers, sovereign capital may increase national wealth but deliver limited structural transformation.

4.4 Energy Transition: Threat, Opportunity, and Industrial Policy

Energy transition is often framed as a long-run risk to hydrocarbon exporters. That risk is real, but the development implications are more complex. The International Energy Agency estimates that global energy investment in 2025 reached USD 3.3 trillion, with about USD 2.2 trillion directed to renewables, nuclear, grids, storage, low-emissions fuels, efficiency, and electrification. At the same time, the Middle East remains a central hydrocarbon investment region, with IEA estimates indicating approximately USD 130 billion of oil and gas supply investment in 2025.

This duality creates a strategic window. Low-cost hydrocarbons can continue to generate fiscal revenue during the transition period, while cheap solar resources, available land, capital depth, and industrial clusters can support clean power, green hydrogen experimentation, aluminum, petrochemicals, and critical-minerals processing. The development challenge is to ensure that transition-related investment creates local capability rather than simply importing equipment and expatriate expertise.

A successful Middle Eastern energy-transition strategy would therefore integrate three layers. The first is fiscal management of hydrocarbon revenue under uncertainty. The second is domestic energy-system

upgrading, including grids, renewables, efficiency, and desalination-linked power planning. The third is export-oriented industrial development based on energy advantages, logistics, and long-term offtake relationships.

4.5 FDI, Hubs, and Regional Financial Integration

Foreign direct investment is becoming more selective globally. UNCTAD's recent World Investment Reports show that global FDI has been volatile and increasingly concentrated in a small number of economies and sectors. For the Middle East, this implies that attracting capital is not only a matter of tax incentives or large projects. It requires regulatory credibility, dispute resolution, market depth, skilled labor, data infrastructure, and linkages between foreign firms and local suppliers.

The Gulf's leading hubs have advantages in aviation, ports, real estate, finance, free zones, and professional services. These advantages can make them gateways for capital into Africa, South Asia, and the broader MENA region. Yet hub status can also generate enclave growth, where financial and logistics activities expand without deep productivity transmission to the domestic economy. The policy priority is to connect hub functions to domestic SMEs, local employment, research institutions, and capital-market development.

Regional financial integration remains partial. Cross-border banking, capital markets, digital payments, and project finance have grown, but regulatory heterogeneity and political risk still limit a unified regional investment market. Greater harmonization of listing standards, insolvency rules, data governance, and fintech regulation could support a more integrated regional capital market, especially for infrastructure, renewable energy, and SME finance.

4.6 Labor Markets, Youth Employment, and Inclusive Growth

Labor-market transformation is the decisive test of Middle Eastern development. In hydrocarbon-rich economies, citizens often prefer public-sector employment because it provides wage security and social status. In private sectors, firms have historically relied on expatriate labor because it can be more flexible and cost-effective. This creates a segmentation problem: the sectors that grow most rapidly do not automatically create the employment profile needed for national development.

In oil-importing and lower-income economies, the challenge is different but equally serious. Young people may have educational credentials without market-relevant skills, while firms face high uncertainty and limited access to finance. The ILO's 2026 evidence that youth unemployment in the Arab States and Northern Africa remains among the highest globally indicates that the region's development challenge is not a shortage of ambition but a shortage of high-quality job absorption.

The labor-market agenda has four components. First, education systems must align more closely with technical, digital, managerial, and language skills demanded by private firms. Second, female labor-force participation should be supported by transport, childcare, anti-discrimination rules, and flexible work arrangements. Third, wage and visa systems should encourage productivity rather than dependence on low-cost labor. Fourth, entrepreneurship policy should shift from incubator symbolism to access to customers, procurement, finance, and export channels.

Table 3. Development Channels, Risks, and Policy Priorities

Channel	Potential contribution to development	Main risk	Policy priority
Hydrocarbon rents	Fiscal buffers, infrastructure finance, sovereign investment capacity	Revenue volatility, rent dependence, delayed reform	Rule-based fiscal frameworks and transparent investment allocation
Sovereign wealth funds	Intergenerational savings, strategic sectors, capital-market credibility	Crowding out, weak commercial discipline, limited spillovers	Governance, performance benchmarks, private co-investment, local capability metrics
FDI and global hubs	Technology transfer, services exports, logistics, finance	Enclave growth and concentration in real estate or low-spillover sectors	Supplier linkages, legal certainty, skills, data and capital-market infrastructure
Energy transition	Renewables, grids, low-emissions fuels, critical minerals, industrial upgrading	Stranded assets and imported technology dependence	Domestic capability building and integrated industrial-energy planning
Labor-market reform	Higher productivity, youth absorption, female participation, SME growth	Skills mismatch, informality, public-private wage gaps	Education-to-work transitions, apprenticeships, childcare, targeted social protection

Source: Author's analytical synthesis.

5. Discussion: A Development Framework for the Middle East

The analysis suggests that Middle Eastern development can be understood through four interlocking transitions. The first is the transition from hydrocarbon rent distribution to productive investment. Resource-rich economies must continue to use hydrocarbon income while reducing the dependence of employment, fiscal sustainability, and household expectations on oil cycles. The second is the transition from state-led project building to private-sector capability. Public investment can create platforms, but productivity requires firms that compete, export, innovate, and employ skilled labor.

The third transition is from physical infrastructure to institutional infrastructure. Many Middle Eastern economies have made substantial investments in ports, airports, roads, cities, and tourism assets. The next development frontier is less visible: insolvency systems, competition policy, capital-market regulation, contract enforcement, data governance, vocational pathways, and research-industry linkages. These institutions determine whether capital accumulation converts into productivity growth.

The fourth transition is from growth accounting to welfare and inclusion. High GDP per capita or headline non-oil GDP growth does not automatically indicate broad-based development. A more rigorous assessment should examine real wage formation, employment quality, youth transition into work, female participation, household resilience, SME productivity, and access to finance. In this sense, inclusive growth is not an optional social objective; it is a core condition for development sustainability.

5.1 Testable Propositions for Future Empirical Research

This paper's framework can be converted into empirical research in several ways. Proposition 1: hydrocarbon exporters with stronger fiscal rules and sovereign-fund governance should display lower volatility in public investment and higher continuity in diversification projects. Proposition 2: non-oil GDP growth is more developmentally meaningful when it is accompanied by growth in non-oil exports, private employment, and productivity. Proposition 3: sovereign investment generates larger development benefits when it is linked to private co-investment, local suppliers, and measurable skill formation. Proposition 4: the effect of energy-transition investment on development depends on domestic capability absorption, not simply project size.

These propositions are measurable with a combination of national accounts, fiscal data, firm-level data, public procurement records, labor-force surveys, and capital-market information. They also create a research agenda for JEMFER because they connect emerging-market finance with real-sector development outcomes.

5.2 Policy Implications

First, resource-rich governments should strengthen countercyclical fiscal institutions. Stabilization funds and medium-term expenditure rules can reduce procyclical spending and protect priority investments when commodity prices fall. The objective is not austerity but continuity: education, health, infrastructure maintenance, and productivity investments should be less exposed to oil cycles.

Second, sovereign wealth and public investment vehicles should disclose clearer development mandates and performance indicators. Financial returns are essential, but domestic development mandates should be evaluated separately through spillover metrics such as supplier creation, employment quality, export revenues, technology transfer, and private co-investment.

Third, oil-importing and fiscally constrained economies need credible macroeconomic frameworks and targeted development finance. External support should prioritize exportable services, digital infrastructure, vocational training, SME credit, and climate-resilient infrastructure. Broad subsidies should be replaced where feasible by targeted transfers that protect households without distorting investment incentives.

Fourth, regional cooperation should focus on practical financial integration. Harmonized capital-market standards, interoperable digital payments, mutual recognition for selected financial products, and shared green-finance taxonomies could mobilize regional savings for infrastructure and private-sector growth. The Middle East has substantial capital, but the region's development impact depends on whether that capital can be deployed across productive opportunities rather than concentrated in a few hubs or real-estate cycles.

6. Conclusion

The Middle East is entering a development phase in which capital abundance, resource wealth, and ambitious national strategies are no longer enough. The region's future growth will depend on whether economies can transform rents into capabilities, public investment into private productivity, and demographic pressure into inclusive employment. Hydrocarbon resources remain important, but they must increasingly serve as a bridge to diversified balance sheets, resilient fiscal systems, and competitive non-oil sectors.

This paper has argued that the region should be analyzed through differentiated development models rather than a single oil-economy lens. GCC economies are building investor-state models with large sovereign balance sheets and non-oil sectors. Oil-importing and fragile economies face tighter fiscal space and greater exposure to shocks, but they also possess human capital, services potential, and regional labor-market connections. Across these models, the binding constraints are productivity, institutional quality, labor-market inclusion, and the ability to translate investment into lasting capabilities.

For scholars and policymakers, the central research task is to measure the quality of diversification rather than its headline size. Non-oil GDP growth is valuable, but it is only one indicator. A stronger development framework should track productivity, exports, private-sector job quality, female and youth employment, SME scaling, capital-market depth, and resilience to energy and geopolitical shocks. Such an approach can better explain why some Middle Eastern economies may convert the energy transition into a development opportunity while others remain vulnerable to volatility and institutional bottlenecks.

Research Integrity, Data Availability, and Ethics Statement

Research integrity: This manuscript is drafted as an original analytical article. It uses original wording and cites external sources for data, institutional evidence, and academic concepts. The manuscript deliberately avoids unsupported proprietary estimates, unverifiable rankings, and uncited numerical claims.

Data availability: The analysis relies exclusively on publicly available secondary sources, including IMF, World Bank, IEA, ILO, UNCTAD, and published academic literature. No confidential, personal, or non-public datasets are used.

Ethics statement: The study does not involve human participants, interviews, experiments, or personal data. Formal human-subjects ethics approval is therefore not applicable.

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