

The Arab Economies in a Changing World

by Marcus Noland and Howard Pack

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A Review by:

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There seems to be an ever growing fascination with the Arab world. How do the Arab economies work in an oil rich yet politically dysfunctional region is definitely an interesting question that should be given the center stage. In this perspective this book is very valuable and extremely timely for anyone who has an interest in this topic.

The book is well written and provides us with an analysis that is short yet very thorough and comprehensive. There is an extensive presentation of data and indicators covering issues ranging from productivity and income to happiness, demographics, foreign investment and political stability. Clearly the authors have taught about many issues relating to these economies in depth.

One of the main points that the authors make is as follows. Rushing to a conclusion that the future productivity growth in the Arab economies cannot be high given their Islamic legacy would be wrong. The authors argue that countries such as Egypt is not different than India and hence one must dig deeper. The authors show data for example that Islamic tradition has not lead to weaker institutions in these countries. The authors conclude that the main challenge for these countries lie in the necessity of finding jobs for an increasingly young population. Although I agree with the general statement that one cannot simply assume Islam will render these countries to be backward forever, I also find it hard to believe that these countries are like any other developing countries and with the right policy mix they will make it. When we are talking about countries that are governed by laws that allow men to have multiple wives and forbid girls to go to school and get an education, how can we compare them to other developing nations like South Korea? Thus, I think *de-facto* laws and institutions are much more important in the case of Arab countries compared to *de-jure*. I will clarify these points further during my review below.

In my review, I will try to present a brief summary of each chapter, emphasizing the lessons learned and highlighting the unresolved questions. Each chapter is set up in the following way: first the questions are laid out, then data are presented to answer those questions and finally, the data are compared to data of other groups of developing countries. The readers will gain a lot more from reading the book since every chapter has many interesting and insightful details.

Chapter 1, “Introduction” reviews the general economic data for Middle East, compare the region to other regions, clarify the sample of Arab economies that the book is going to focus on, and defines the challenges that need to be addressed. This chapter also highlights the important role of oil for the region and the fact that there is quite a bit of variation within the region when we investigate each country separately. Hence looking at averages from the region of Middle East might mask important differences. We basically learn from this chapter that as a region Middle East is an average performer. The chapter closes by asking three questions: 1) Can we identify the problems and prescribe the right policy for those? 2) Will reforms be blocked by elite? 3) Will the economy respond to policy change? I think this is a very nice introductory chapter with extensive data being presented. However, I also think that the authors are too quick to conclude fertility is dropping rapidly so for sure in the future the region will benefit from a demographic transition. Actually, I do not believe that fertility rates can drop to replacement levels in countries where you have more than 3 kids that is not just required but also forced on the women by the so-called family law. I think the aggregate data for these countries on fertility cannot be trusted since most of it is projections assuming the demographic transition. I do not think we can conclude fertility is dropping unless we have evidence from household surveys.

Chapter 2, “Growth, Productivity, and Income” is a very useful chapter that identifies a set of comparator developing countries to the Arab countries in terms of performance. For example resource-rich comparators are Botswana, Indonesia, Nigeria, and Venezuela;

normally endowed comparators are Brazil, Pakistan and Turkey; large comparators are China and India; and high-performing comparators are Taiwan and South Korea. Then, the authors compare many indicators from Arab economies that are being analyzed to these countries. The main result turns out to be these countries are not that different from their comparators on average. So, we again are faced with the pressing question that why these countries are not making it? The final part of the chapter mentions India's growth take-off under Gandhi. Indeed, I am very sympathetic to the notion that Arab countries do need a great leader. Instead they go from one bad ruler to another seems like it, on average. For example, after the collapse of the Ottoman Empire, it seems to be the case that Turkey made it due to their great leader Ataturk.

More importantly some indicators compared across countries in this chapter do not provide accurate information in my view. I wonder for example if girls are represented in the figures that shows increasing human capital accumulation. The book in fact pays a lot of attention to detail and separates out oil rich and poor countries in the analysis. I think this type of separation must also be done for the countries that are governed by the Islamic law like Saudi Arabia versus the others that are not. I think education is very important for the underdevelopment of these countries and we can only have an accurate picture from survey data, as in the case of fertility. When we are talking about countries where half of the population, i.e. women, are suppressed, it is very hard to think about development, I think. Survey data from demographic health surveys on the issues like education, population,

mother's health will be very useful in order to get a complete picture.

Chapter 3, "Welfare, Happiness, and Discontent" is a chapter that points to a very interesting dilemma. Although the social indicators, such as life expectancy, and infant mortality have improved a lot in these countries, overall happiness indicators are lagging behind. Hence, this chapter sets stage for understanding the reasons behind this discontent, which are taken up in the subsequent chapters. One other issue that this chapter focuses on is terrorism. I think there is too much mention of this from the point of view that terrorism is linked to economic backwardness. Although the authors give the sense that they do not agree with this necessarily they do not provide an alternative. How about brain washing? If you have a religious education starting from very young age then brain washing becomes very easy using the religion and it does not matter what religion that is.

Chapter 4, "The Demographic Challenge and the Role of Globalization" identifies rightly the need for these economies to be part of the global economy. This chapter provides in-depth insight on the role of capital flows and how the region can benefit from more FDI. However, the other part of the chapter that identifies the demographic challenge again lacks a more accurate view based on survey data. The increase in female labor force participation is hard to believe when women who emigrate out of these countries into Europe or USA always complain about not being able to work and the discrimination they face in the work place. In fact similar data for some Africa countries does not hold when once look at survey data. I admire the effort in getting so much data together. However, it is very hard to

believe that Middle East is such a rosy place for women and the conditions are similar to those in Brazil, or South Korea.

Chapter 5, “Religion, Institutions, and Growth” summarizes the literature that does not find any relation between religion and growth performance. The chapter then provides extensive data on legal systems and institutions and concludes there is nothing here to show that these Arab countries have worse intuitions or religion is bad for their growth. I think, this chapter clearly makes the case that what matters is the *de-facto* institutions, not de-jure. If you are governed by sharia law, de-facto or de-jure, you will not make it. And some of these countries might be governed by this law de-facto if not de-jure. It is interesting to note that, de-jure sharia law countries are also the ones that are oil rich, like Saudi Arabia.

Chapter 6, “Economic Policies and Their Effects” summarizes the detailed arguments done so far in a nice, coherent way. Chapter 7, “Attitudes, Interest Groups, and Reform is an excellent chapter that underlines the importance of interest groups and sharia law and how these can undermine any decent policy effort. It is very convincing that how foreign business can be subject to these attitudes and laws and this can explain the low levels of FDI into the region.

Chapter 8, “Global Engagement” extends the arguments of chapter 7 and combines them with a global picture. Given the problems mentioned in chapter 7, it is hard for the Arab economies to engage fully globally. There are many examples and compelling

arguments that show that it is hard to assume foreign investment will flow even the returns are high.

Chapter 9, “Risk, Credibility, and Supply Response” continues with similar arguments, now taking up the question that what will be the response to policy if any? Given the political opposition being in religious terms, the authors argue that it is not a quarantine that economy will response to democratization or different policy actions since these may never be fully undertaken.

Chapter 10, “Authoritarianism, Uncertainty, and Prospects for Change” investigates the question that how come undemocratic regimes live so long in these Arab countries. The authors conclude that lack of political competition enables bad practices. The authors argue that introducing political competition is a challenge and they present data where the current trajectory of many of these countries show that this case is not very likely.

Chapter 11, “Conclusion” concludes saying that although these economies done not so bad so far, they have to do much more. For this there are many challenges like integrating into world economy, providing employment for young generations and so on. The authors argue that the current situation seems like a religious-social equilibrium with undemocratic regimes and lack of political competition. So it might seem it is hard to get out of this equilibrium. They go on saying that they are skeptical on this since this might just reflect the interests of a minority group who happens to be in power. How come those self-interested minority groups stay in power is of course a very hard question to answer.

Overall, I agree with the authors that these economies did achieve quite a lot and one cannot just throw the towel saying they are doomed due to their Islamic legacy. Indeed the authors provide a convincing case to dig deeper into the other macroeconomic reasons of lagging behind. I still think that given the central role of human capital accumulation and a declining population growth in economic development, it would be hard for the Arab economies to perform as good as the other developing countries on those dimensions where women clearly have no rights. It is also clear that it is not only about religion or macroeconomic reasons but rather the interaction of de-facto religion based institutions can make macro policies useless and hinder development.

This is an excellent book for those who are interested in the Arab economies. It is short, non-technical, and provides an extensive coverage of the topic. I recommend it enthusiastically.