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Comparing the Economic Development of the Arab World with East Asia

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Compared to the economic performance of East Asian countries, the poor performance of the Arab world is remarkable.[1] Since 1980, the bulk of the Arab economies has experienced a less than one percent yearly average growth of real GDP per capita. It has also displayed one of the world's highest income inequality and unemployment rates, the lowest rates of investment of all regions, and the highest rate of armed conflict.[2] The developmental comparative with East Asia's impressive economic results in the last three decades is often discussed in terms of how these successful economies managed to question and outmaneuver the neoliberal recipe. East Asian performance is said to offer an alternative to the existing model;[3] the very emergence of this model has broadened the scope of thinking about developmental policies and the necessity for some degree of dirigisme.

The performance of the Arab world is often contrasted to this triumphal story,[4] but it is doubtful that the comparison is useful. This is not because the course of history is incapable of replication or because all comparisons are useless. It is rather that the Arab world and East Asia represent two cases of diametrically divergent social and historical processes. These regions were integrated with the global economy via two different modes of capital accumulation. East Asia was linked to the global economy through market

[1] In the context of this paper, East Asian countries are Hong Kong, South Korea, Taiwan, Singapore, Indonesia, Malaysia, and Thailand. Arab countries are those of the Arab League.
[2] United Nations Economic and Social Commission for Western Asia, *Survey of Economic Developments in the ESCWA Region 2007-2008* (Geneva: UN-ESCWA, 2008).
[3] Justin Lifu Yin, "New Structural Economics: A Framework for Rethinking Development," World Bank Research Observer, World Bank Group 26, 2 (August 2011): 193-221.
[4] Ibrahim Elbadawi, "Reviving Growth in the Arab World," World Bank, July 2004, http://siteresources.worldbank.org/DEC/Resources/Arab_growth_revised_July_22_2004.pdf.

expansion or the commodity realization route, while accumulation in the Arab world occurred through encroachment and dislocation, which resulted from control over oil.[5] These modes of integration contain the kernel of the entire developmental experience of the two regions.

Reaping the benefits of globalization thus depends on the mode of integration with the global economy, which in turn depends on a particular set of social, macro, trade, and financial policies. Judging by the performance record so far, the policies of the Arab region have been inadequate for capturing gains from the global trading system. A brief comparison with the more successful East Asia illustrates the point.

- East Asian countries, by relying on an industrial mode of development that requires healthier and more educated people, emphasized investment in health and education and made the promotion of knowledge and research and development central to their policies, as opposed to being a residual outcome of fiscal balancing.[6] In contrast, commerce, or buying from abroad and selling at home, makes up the bulk of value added activity in the Arab world.
- East Asia directed investment into high productivity plants and equipment as opposed to the unreliable FIRE activities (finance, insurance, and real estate) that came to characterize the economies of the Arab world.
- East Asia also selectively protected nascent industries, particularly those producing science-related value added products. The region subsidized industry and promoted trade protocols with other nations for the purpose of promoting exports, as opposed to the Arab world, which relied on primary exports with little value added.
- Employment generation became the key link to poverty alleviation in East Asia, whereas employment in the Arab world is a patronage process that creates the necessary balance to sustain political regimes. Unemployment in the Arab world became endemic when powerful merchants, who were more interested in importing and selling than producing, shrank industrialization from the 1980s onward.

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[5] Rosa Luxemburg, "The Accumulation of Capital," *Rare Masterpieces of Philosophy and Science*, ed. W. Stark (London: Routledge and Kegan Paul, 1951) (first published 1913), http://www.marxists.org/archive/luxemburg/1913/accumulation-capital/index.htm.

[6] It should be remembered, however, that investment in education is more a stabilization measure to keep young people off the street than to link them with the demands of industry.

- East Asia deepened financial intermediation under the auspices of the state and screened foreign direct investment (FDI) to ensure that it was related to market- and efficiency-seeking investment as opposed to the resource-seeking FDI of the Arab world. Such raw material-seeking FDI correlates with environmental degradation and civil strife.[7]

The immediate lessons to be drawn from the path of East Asia's development appear to be that macro policies in the Arab world need to be revamped to provide for more productive investment (plants and equipment), stronger public/private partnerships, more integrative social policies within the framework of the state, and a shift in policy that makes poverty alleviation central.

However, unlike East Asia, the Arab world is a region in which conflict and institutional fragility weaken the security that would underwrite long term investment. Hence stronger security arrangements and institutional reforms allowing for transparency, accountability, and broader participation from the citizenry assume the form of immediate policy measures capable of reversing the damning trend in the Arab world.

Moreover, unlike many other developing regions, the Arab world is a place of excess saving and as such could use money-capital in the deployment of real resources. In view of their underdevelopment, Arab countries exhibit ample absorptive capacity, and the injection of capital would translate into higher levels of output. Dissimilar to East Asia, however, the Arab world is a region that is poorly integrated in terms of policy coordination, intra-regional trade—which is only approximately ten percent of its global trade—intra-regional resource transfers, and infrastructure. The Arab rent grab mode thwarts regional integration. For the rentier states, wealth does not expand via integration with the rest of the Arab world, whereas integration in East Asia, partly based on industrial production sharing, is a cornerstone of development.[8] One would thus assume that stronger Arab integration would allow for the retention of financial and human resources, such as the retention of professionals—that is, the opposite of the brain drain.

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[7] Michael Ross, "The Political Economy of the Resource Curse," *World Politics* 51 (January 1999): 297-322, http://academics.eckerd.edu/moodle_support/ecUser/EPFiles.php/moodle_20101/653/Ross__The_Political_Economy_of_the_Resource_Curse.pdf.

[8] Furthermore, the cost of transport in East Asia is minimal compared to the Arab world.

However, gauging Arab economic performance has little to do with how such factors differ between the two cases. A factorial explanation of the poor economic results of the Arab world, whether on account of the misallocation of resources or whether or not oil is a curse, adds little to understanding the problem of Arab underdevelopment. A proper explanation cannot be based on the premise that the Arab world started with more endowments than East Asia and performed miserably afterward, though this is the case. The region's underperformance has little to do with the quality of initial endowment such as capital. Rather, it has more to do with policy choices, but the question is not whether policies were demand-determined, price-determined, neoliberal, or otherwise. In short, the reason for the poor Arab developmental showing is that the citizens of the Arab world have been denied the right to make a choice and to materialize their ambitions through the state. As such, even if the Arab world enjoyed larger initial endowments, these endowments were not those of Arab citizens.

Thus, in order to analyze whether it is possible to adopt aspects of the East Asian model as a guide for development in the Arab world, one needs to delve deeper than the apparent similarities between these two regions. One needs to periodize the crucial historical moment when the two regions parted in terms of developmental success. Until 1977, real per capita income in the Arab world grew at about the same rate as that of East Asia. However, since then, East Asia's per capita income has grown at a rate that allowed it to triple by 1996, while on average per capita income in the Arab world stagnated—particularly since the early 1980s.

This retreat can not be fully attributable to oil prices or revenues, since the latter declined once and started to rise again as of the mid-1980s. Arab military defeats, compradorial ruling elites, and oil control together represent the context for the agent of development and the core reason for Arab retrogression. The state was gradually stripped of a sovereignty whose substance is citizen's security, and as a result it lost autonomy over policy. This loss further eroded sovereignty, and the subsequent failure of the state to combine security and developmental objectives constituted a failure of development.

The "East Asian miracle" is based, among other factors, on the existence of states that enjoy a certain level of autonomy in relation to imperial reach in that they have managed to guide the processes of structural transformation and economic growth in tandem with their security concerns. In other words, they industrialized and built national security simultaneously. Such an arrangement in which the state works for its citizens, which includes aiming to provide them with freedom from want, was key for the countries' economic successes.

The Arab dystopia, however, as exemplified by the recent uprisings, began with the ebbing of the Nasserite period, the successive Arab defeats from 1967 on, and the rise of the rent grab social model. The Arab state has since come to be reduced to a repressive apparatus that administers strategic resources at the behest of foreign powers.[9] Arab states are as a result integrated into the global economy via the channels of oil and conflict.

This creation of economic value in a rent grab mode of integration denies Arab development while at the same time generates more economic value to financial capital—but only for outside powers' benefit. This arrangement is accomplished by prolonging conditions of conflict, as control of oil and strategic positioning may bolster certain countries' status and their share of global wealth. For instance, invading Iraq may have cost the United States $3 trillion or more. Measured against Iraq's oil output over the next 20 years, the U.S. Iraq campaign appears foolish[10] in terms of cost to the United States, as the campaign cost much more than future oil revenues. But when the great financial crisis set in, it was the dollar that was sought after as the world reserve currency, and financial recourses never ceased to flow to the United States despite the fact that the country appeared to have lost in Iraq and that the international financial crisis started in it. The taxpaying working population in the United States did indeed incur heavy losses as a result of war funding, but at the same time U.S.-led financial capital drew enormous rents from a weakened Iraqi state, money expansion, and the loss of competition as a result of U.S. military presence in the Gulf. In short, the U.S.-led global financial elite is still ahead, and the dollar has retained its prime position.

In explaining this process, it is apt to remember the reasons given for colonialism. The Third World was colonized because the colonizers could

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[9] United Nations Economic and Social Council, "Summary of the Survey of Economic and Social Developments in the Economic and Social Commission for Western Asia Region, 2008-2009," July 2009, http://daccess-dds-ny.un.org/doc/UNDOC/GEN/N09/314/07/PDF/N0931407.pdf?OpenElement.

10 Prabhat Patnaik, "Imperialism and its Follies," IDEAS, 14 September 2011, http://www.networkideas.org/news/sep2011/news14_Imperialism.htm.

cheapen its assets, price its currency, and extract its values at will. Such processes are still at play in the postcolonial Arab world due to Western interests and the collusion of the Arab comprador class, whereas East Asian countries have been fortunate enough to operate more independently, away from such interferences. Therefore insofar as Arab economic development can be explained in relation to East Asian economic development, a point of departure would be to investigate the transfer of cheapened value, human and otherwise, from the Arab world by means of development by encroachment. One could follow up with an assessment of the power structure, which fosters the rising rate of appropriation through financialization**,** in which the Arab world is trapped and to which East Asia is less beholden.

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