Growth and Structural Change

1. Measuring Production and Growth

- Gross National Product (GNP): Total market value of all final goods produced by citizens of the country.
- Gross Domestic Product (GDP): Total market value of all final goods produced within the national boundaries.
- GDP is a more accurate measure of production because GDP excludes the net property income from abroad as countries such as Kuwait and Saudi Arabia have large overseas investments. However, GNP has the advantage of excluding production of multi-national companies such as GM and Shell in the region.
- Oil price effects: frequent variations in oil prices affect the GDP/GNP figures and growth rates of the economy.
- Since depreciation allowance is often substantial, the GDP/GNP figures overestimated; hence, Net National Product = GNP – Depreciation is a more accurate measure of production.
- Inflation affects GDP/GNP figures upward since many countries (e.g., Turkey, Israel, and Iran) suffer from double-digit inflation rates. So, for measuring economic growth and actual production, we must adjust “nominal” GDP/GNP figures for price changes to find “real” GDP/GNP.
- Also, GDP/GNP figures adjusted for “purchasing power” across nations better indicate production of manufactured goods and goods produced for self-consumption.
- Economic growth is measured by the percentage increase of “real” GDP/GNP over the previous year.

2. Wealth of Nations

- Human Capital: productive labor force (education, health, nutrition, cultured)--Many highly educated and skillful members of the ME & NA labor force live outside their own countries (mostly in the West) for political, economic, social, and religious reasons (i.e., the brain drain).
- Physical Capital: housings, office buildings, and factories--the modern sector of many countries enjoy heavy investments in production of manufacturing commodities and oil products (e.g., Saudi Arabia, Turkey, and Iran).
Infrastructure: highways, railroads, airports, communications-- investment in infrastructure is inadequate even in non-oil-producing countries (Egypt, Yemen, Sudan) and traditional economies of the oil-producing nations (Iran, Iraq)

3. Agriculture and Development

- Importance: agriculture provides a supplies food and industrial raw materials (e.g., cotton) and employs labor force
- The GDP/GNP share of agriculture tends to decline overtime as the economy becomes industrialized
- The percentage of labor force in agriculture also tends to decline productivity increases by investment in land, labor, and capital, and some of the rural labor force migrate to urban areas to support industrial development
- Once a net exporter of food, the ME & NA imports large quantities of food. Most countries have neglected agriculture by insufficient investments in land, labor, and capital and massive rural-urban migration
- Land Reform in countries like Iran, Iraq, Egypt, and Syria did not resolve the problem of land concentration because it was often used as a political policy to gain support from rural population
- Due to rapid population growth, price support policies in agriculture, and slow industrial development, the GDP/GNP share of agriculture has indeed increased in countries of Algeria, Iran, and Syria

4. Industrialization and Development

- Theory of Balanced Growth: industrialization should take place by investments in supporting manufacturing industries that are linked backward and forward (e.g., cotton-textile-clothing or steel-auto-transportation). Identify an industry that have "comparative advantage," invest heavily in this "infant industry" (e.g., textile or auto) and protect it against foreign goods. Help the industry gain economies of large-scale production shown by a declining "average cost." Then, compete in regional and international markets by offering high quality and low priced products. Israel, Turkey have been successful in implementing this policy. However, persistent inefficiencies, lack of competition, and massive government intervention disabled industrialization in many countries (e.g., Iran, Egypt).

- Theory of Unbalanced Growth: Industrialization should take place by massive investments in the "leading" industries (e.g., oil). Identify an industry with a high-income elasticity of income, and then implement a "big push" strategy of investment and modernization to help it grow. In ME & NA, unbalanced
industrialization results is a dualistic economy with a modern “exporting” sector (e.g., oil and petrochemicals) and a traditional sector (e.g., handcrafts, carpets).

- Regardless of the industrialization strategy, nationalism and modernity rather than efficiency and competitiveness have motivated the process of industrial advancement (Nasser of Egypt, Shah of Iran, and Ataturk of Turkey). Instead of “infant industry” or “big push” resulting in self-sustaining industrial growth, many countries have established inefficient and dead-end industries.

- Oil-producing countries achieving “take-off” could not sustain it because of factors ranging from falling oil prices and resulting budget deficits to political and military conflict. For example, Iran experimented with both “infant industry” strategy (auto and textile) and “big push” strategy (petroleum and petrochemicals) and Saudi Arabia adopted the “big push” strategy (petroleum and petrochemicals) without full success.

- Their GDP/GNP share of services increased rapidly during the industrialization period due to the growth of imported consumer and capital goods, investment in communication systems, and increased expenditures on military expansion and modernization.

- Although rapid modernization adversely impacted the traditional economic activity (e.g., hand-knitted Persian carpets), still most economies suffer from distinct dualism (e.g., very poor vs. super rich people; modern urban areas vs. ruined villages; modern manufacturing vs. cottage industries). In addition, overnight modernization (or better said Westernization) of Islamic societies and failure of the industrialization process created conditions for looking to alternative ways of economic, social, and political management.