Introduction to Economic Development

**Economic Development**
Definition: Growth *plus* Change

- Growth: a long-term and sustained increase in the level of per capita real income
- Change: an overall improvement in institutions and organizations that support growth

Approach:

- Market orientation: large private sector, but small public sector; resource allocations decisions are primary made by a dominant private sector (capitalism)
- Government intervention: large public sector, but small private sector; resource allocations decisions are primary made by a dominate public sector (fascism)

**Period of Study: Post World War II**

- 1950s: era of independence and nation building; beginning of military conflict
- 1960s: decade of growth and land reform, nationalism
- 1970s: oil boom, modernization and urbanization, and military expansion
- 1980s: economic decline, rise of fundamentalism
- 1990s: budget deficit and debt, politico-economic instability

**Factors Affecting Economic Development**

**Question:** Do the standard economic theory (i.e., capitalism) apply to the economies of the ME & NA?

**Answer:** No necessarily because of the influence of non-economic institutions and factors

- Religion-- In many countries (e.g., Saudi Arabia, Iran, Israel) religion is enshrined in the constitution to manage cultural, social, economic, and political affairs. The predominant religion of the region, Islam
  - Encourages mutually beneficial trade and profit making
  - Require charity payments to help the poor and needy
  - Prohibits interest-taking (*usury*; *riba*) as exploitation of one person by another
  - Regulates family laws namely marriage finances (*dowry*) and inheritance distribution between male and female family members

- Oil-- Revenues from exportation of crude petroleum have helped the oil producing countries of the region to develop their infrastructure and educate labor force, but resulted in
  - Greater personal and regional income disparity both
  - Rapid urbanization
  - Agricultural decline
- Military expansion and modernization
- Insufficient industrial development and diversification

- **Market size and Traditional Markets**
  - Large (e.g., Turkey, Iran, Egypt)
  - Medium (e.g., Morocco, Saudi Arabia, Syria)
  - Small (Bahrain, Cyprus, Qatar)

- Bazaar (in Persian) or souk (in Arabic) economies where affluent merchants influence social, economic, and political decision making

- **Conflict and War**
  - Built-in territorial dispute between newly independent nations (e.g., Iraq, Kuwait)
  - Creation of the state of Israel resulting in five Arab-Israeli wars
  - Rise of nationalism and fundamentalism (e.g., Egypt)
  - Anti-state uprising and revolutionary change (e.g., Iran)
  - Inter-state war (e.g., Iran-Iraq, Iraq-Kuwait)
  - Aspirations for democracy and freedom