

The Political and Economic Development of the Middle East and North Africa (MENA) Countries

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Pietro Masci

Outline

1. Institutions, Policy and Politics - Methodology
2. The Mena Region
3. Geography
4. History
5. Culture and Religion- Islam
6. Society
7. The European Union and the Middle East
8. The USA and the Middle East
9. Performance: Ultimate Goals: GDP; GDP per capita; Human Development; Inequality
10. Intermediate Variables: TFP; Resources (e.g., Oil); FDI; Exports; Tourism
11. Entrepreneurship and Finance: the Process of Development
12. Institutions and Economic Development
13. Policies and Politics

1. Institutions, Policy and Politics - Methodology

Institutions Policy and Politics

▮ Institutions

By institutions we mean rules – rules of the game- of structural social interaction (both formal and informal) – they shape incentives in human exchange (be it economic, political or social), i.e., [structures](#) or [mechanisms](#) of [social order](#) that govern the [behavior](#) of a set of [individuals](#) within a given community. Institutions are identified with a [social purpose](#), and with the principles and values , e.g., individual freedom, personal responsibility- of a given society transcending individuals and intentions by mediating the rules that govern living behavior. Language, money, law, systems of weights and measures, table manners, and firms (and other organizations) are thus all institutions

Politics

Practice and theory of influencing other people. More narrowly, it refers to achieving and exercising positions of [governance](#) — organized control over a human community, particularly a [state](#). Furthermore, politics is the study or practice of the distribution of power and resources within a given community as well as the interrelationship(s) between communities.

▮ Policies

Public policy is the principled guide to action taken by the administrative [executive branches](#) of the [state](#) with regard to a class of issues in a manner consistent with [law](#).

Methodology

Main tools for institutional and policy analysis:

- Literature Review;
- Statistics and Econometrics;
- Cost-Benefit Analysis (CBA);
- Case Study;
- Ex-ante and Ex-post Evaluation.

Evaluation: Outcome and Impact

- **Impact evaluation** assesses the changes that can be attributed to a particular intervention, such as a project, program or policy, both the intended ones, as well as ideally the unintended ones.
- In contrast to **outcome evaluation or monitoring**, **impact evaluation** examines whether targets have been achieved.
- **Impact evaluation** is structured to answer the question: *how would outcomes such as participants' well-being have changed if the intervention had not been undertaken?*
- This involves counterfactual analysis, that is, **a comparison between what actually happened and what would have happened in the absence of the intervention.**
- Impact evaluations seek to answer **cause-and-effect questions**. In other words, they look for the changes in outcome that are directly attributable to a program/policy.

Causal Questions

- Example A: Is affirmative action in favor of minorities a policy educationally beneficial to students?
- Example B: Did the war in Iraq help or harm world peace in the long run?
- A causal question involves the relationship between two theoretical concepts: **a cause and an effect.**
 - Cause => Effect?
 - Or, $X \Rightarrow Y$?

Centrality of Causality in Social Science

- The primary aim of all sciences (from Aristotle to modern genetics).
- Understanding of causal relationships leads to accurate predictions of the future.
- It provides the scientific basis for policy intervention.
- It advances our theoretical knowledge of the world.

Evaluation Research

□ Definition

Evaluation research, policy or program evaluation, refers to the kind of applied social research that attempts to evaluate the effectiveness of Government interventions, social programs or policies.

□ Key to all evaluation research is causal inference: evaluating effectiveness of programs and policies

□ In high demand by policy makers.

Motivation of Evaluation

- Empirical questions are difficult to answer in the social sciences and in public policy.
- Involve **cause-effect relationships** like:
 - Does school decentralization result in improved education quality?
 - Does a year of training result in higher incomes? And, more importantly, what type of training results in higher increases in income?
 - Do conditional cash transfers result in improved health and education among children?

Motivation of Evaluation

Answering the questions of cause-effect is important because:

- They help answer policy concerns

Do the programs reduce poverty? Can they reduce poverty more rapidly with the same resources?

- They deal with the problems faced by decision-makers

- They highlight the theoretical considerations in the social sciences

How can we answer these questions?: Impact Evaluation

A policy or program's **impact** is the **difference** between:

1. Results that policy or program participants obtain after some time in the program;

and

2. The results that **those same participants** would have obtained at the same time had they not participated in the program.

Impact Evaluation

□ We take the difference between

What happened (with the program) and

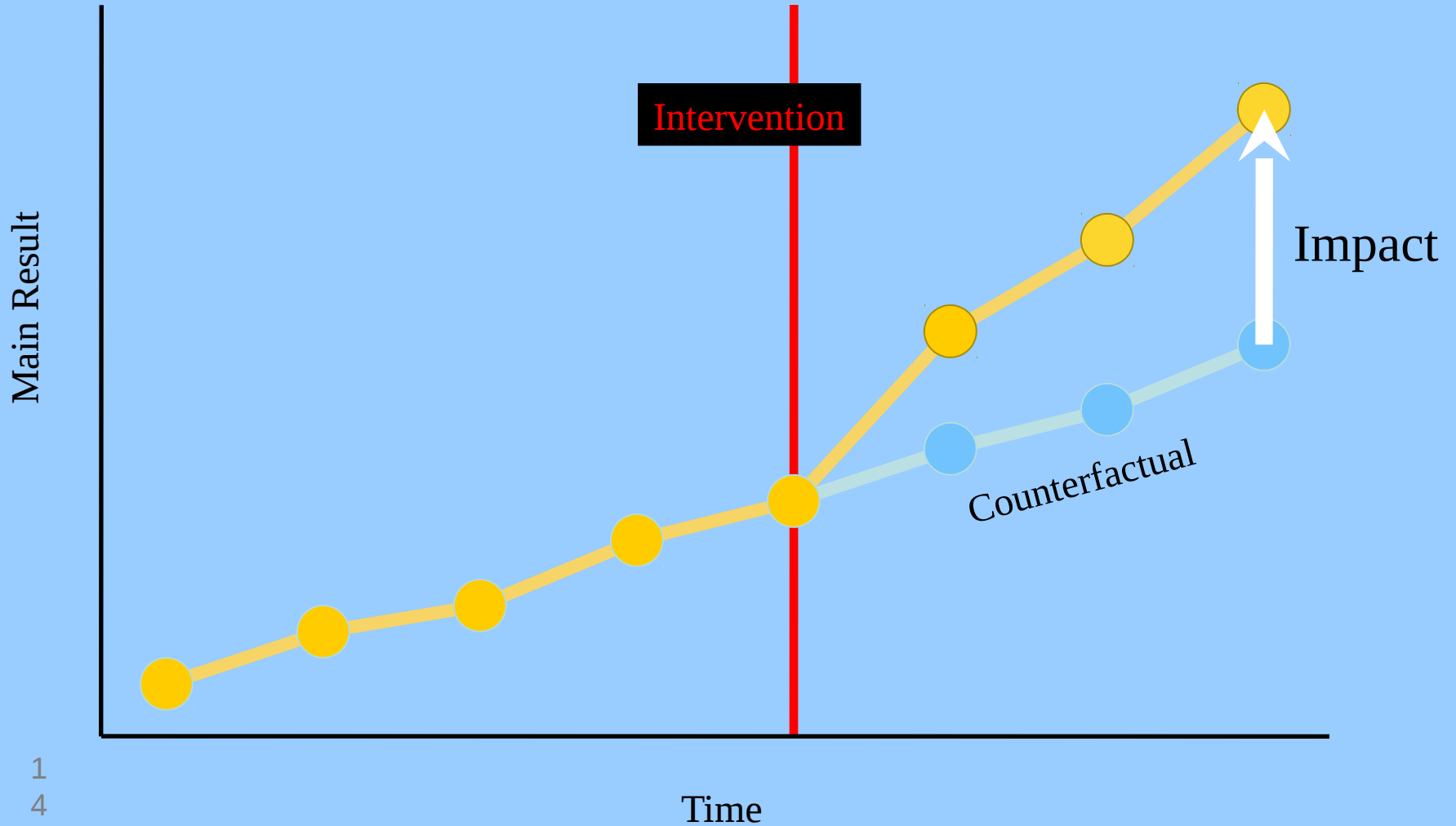
= What would have happened (without the program)

= Program's IMPACT

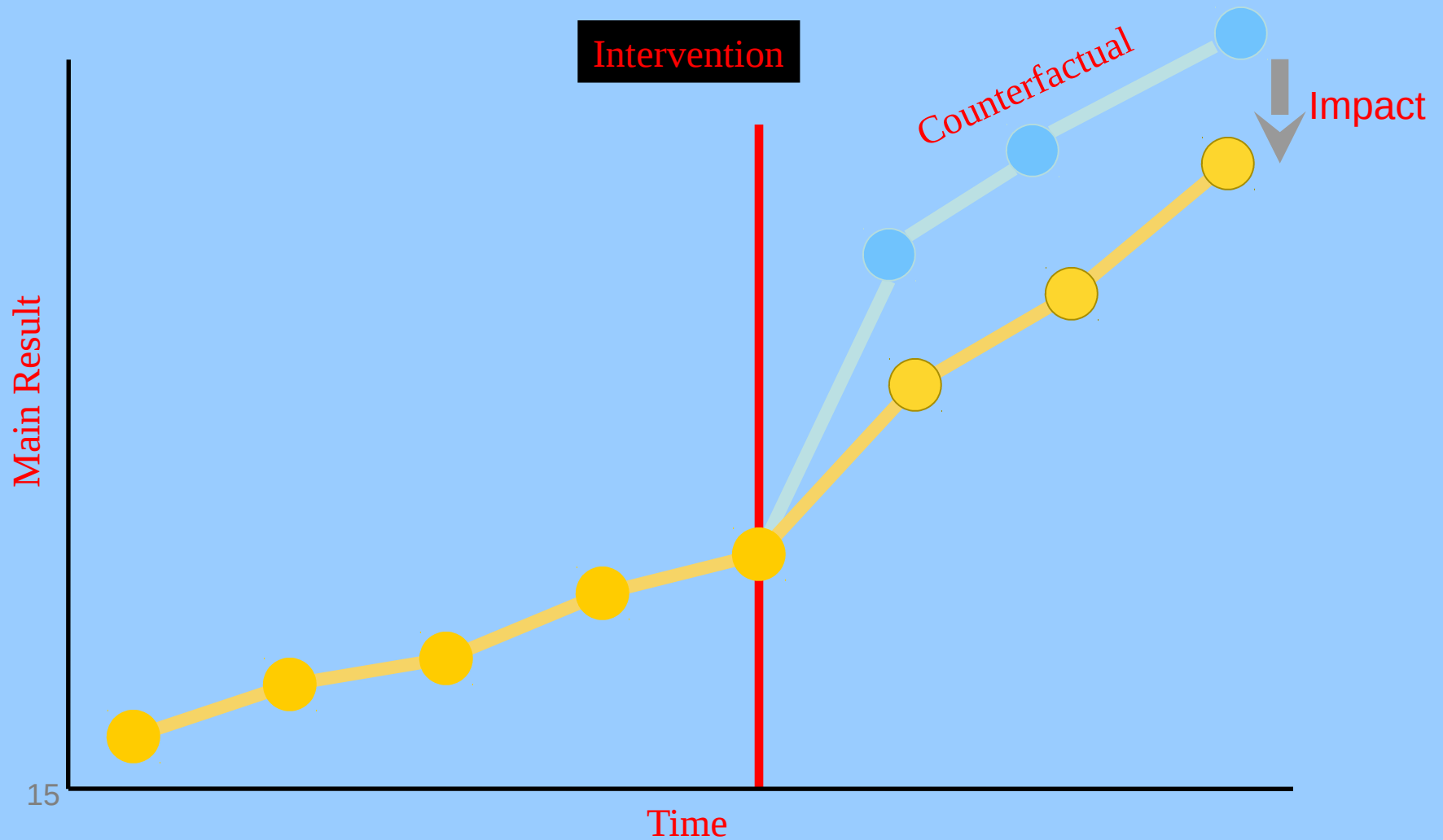
□ This last scenario is called the **counterfactual**.



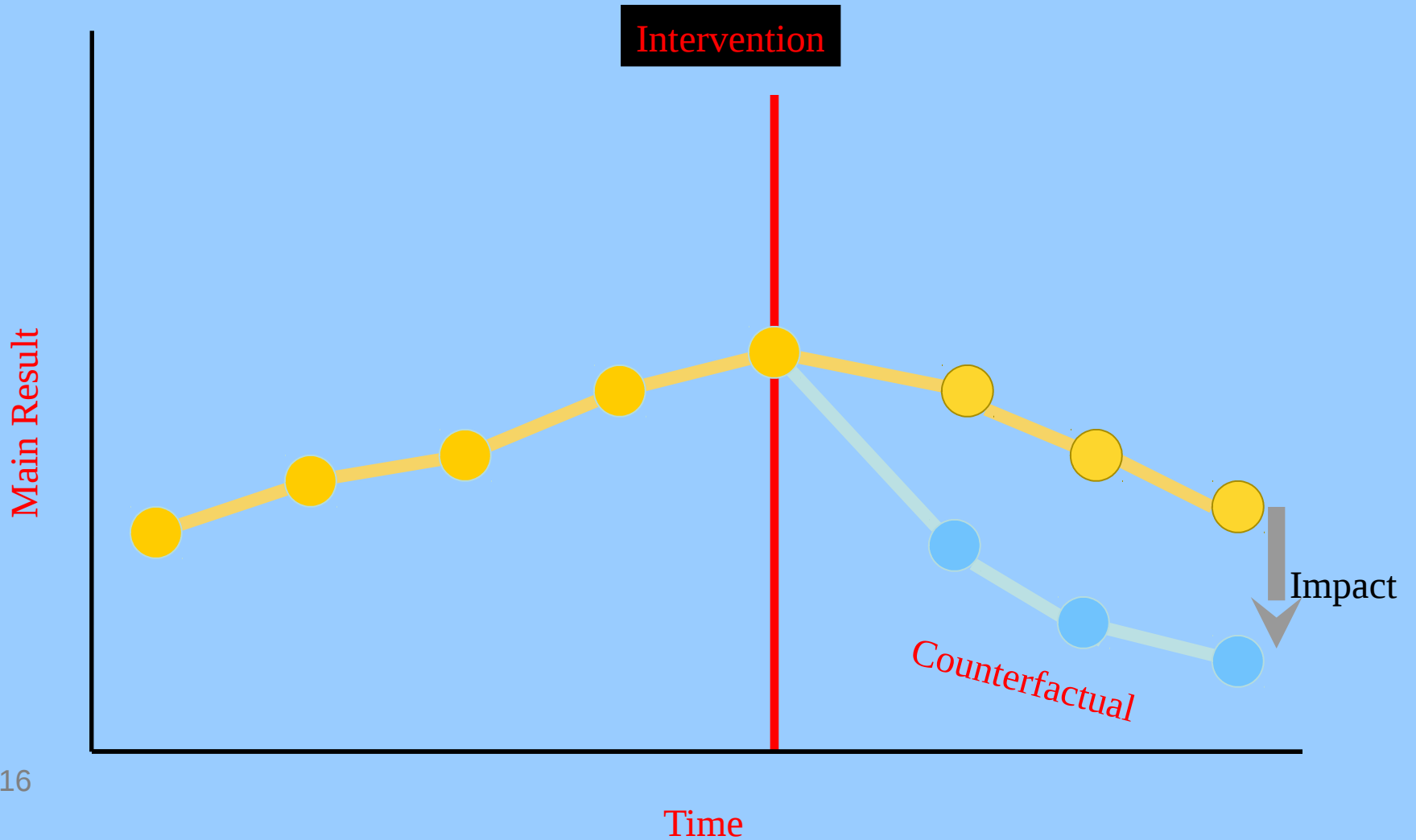
Impact: What is it?



How to Evaluate Impact?



How to Evaluate Impact?



Counterfactual

- The *counterfactual* represents the state of the world that program/policy participants would have experienced in the absence of the program/policy
- **Problem**: The counterfactual cannot be observed
- **Solution**: We have to “replicate” or “build” the counterfactual.

How to Study the Counterfactual?

Random Experiments

Advantage of Random Experiments

Because members of the groups (treatment and control) do not differ systematically at the outset of the experiment, any difference that subsequently arises between **them can be attributed to the program/policy/intervention rather than to other factors.**

Example:

The effect of multimedia education for children with asthma. A control group of pediatric patients with asthma was given standard asthma educational resources, while the experimental group of pediatric patients with asthma was given standard resources plus multimedia resources. **The study found a reduction in daily symptoms**, in emergency room visits, in school days missed, and in days of limited activity in the group given multimedia education resources.

[Krishna, S., Balas, E. A., Francisco, B. D., & König, P. \(2006\). Effective and sustainable multimedia education for children with asthma: A randomized controlled trial. *Children's Health Care*, 35\(1\), 75-90.](#)

Steps in Conducting a Random Experiment

1. Design the study carefully
2. Randomly assign people to treatment or control
3. Collect baseline data.
4. Verify that assignment looks random
5. Monitor process so that integrity of experiment is not compromised

Randomization: Start with simple case

- Take a sample of program applicants
- *Randomly* assign them to either:
 - **Treatment Group** –is offered treatment.
 - **Control Group** -not allowed to receive treatment

Randomization

□ Steps to generate random numbers:

To generate random numbers, enter your choices below (using integer values):

□ How many sets of numbers do you want to generate?

□ How many numbers per set?

□ Number range (e.g., 1-50): From: To:

□ Do you wish each number in a set to remain unique?

□ Do you wish to sort the numbers that are generated?

□ How do you wish to view your random numbers?

<http://www.randomizer.org/form.htm>

Historical Analysis

- One of the cardinal sins of historical analysis is reductionism—reducing causes or motives or effects to a single one. One way to analyze historical events is chronologically:
- **Causes** : immediate and underlying causes.
 - **Underlying causes** are usually factors, trends, conditions. They go well back in time from the event itself. For example, economic rivalry and the slavery issue were underlying causes of the American Civil War.
 - **Immediate causes** are often themselves events. These precipitate the main event. For example, the attack on Fort Sumter was one of the immediate causes of the American Civil War.
 - The principal difference between the two is that underlying causes explain why an event happened, but they don't explain why the event happened *just then*. Why this year and not the previous year? Why do we date the Protestant Reformation to 1517 and not 1515 or 1520? To explain the timing, you need the immediate causes. To explain the entire event, you need both the underlying and the immediate causes.
- **Course**
 - This is the heart of narrative. Here it's more a matter of scope than of kind. What was the course of the American Civil War? This could be restricted to a narrative of major battles, or it could be as broad as considering the role Europe had to play in the event. The scope is going to be dictated by your thesis and that's another topic.
- **Consequences: immediate and long-term consequences.**
 - War again provides an unusually clear example. Immediate consequences would include the terms of the peace treaty and identifying who won and who lost. Long-term consequences would include the impact of victory for the winner, and the impact of defeat for the loser. To take the American Civil War once again, the end of slavery was in fact not a consequence of the Union's victory, for the slaves were freed before the end of the war. A long-term consequence of the loss for the Confederacy was economic depression that lasted for several decades.

2. The MENA Region

Where Continents Meet

- The Middle East is not a geographical region, like Africa, Asia, or Europe.
- Geographically, it denotes an area in which Africa, Asia, and Europe interconnect.



Soft and Shifting Boundaries

- There are no natural borders that delineate the boundaries of the Middle East.
- Egypt, Iran, Sudan, Turkey, North Africa are disputed parts of the region.

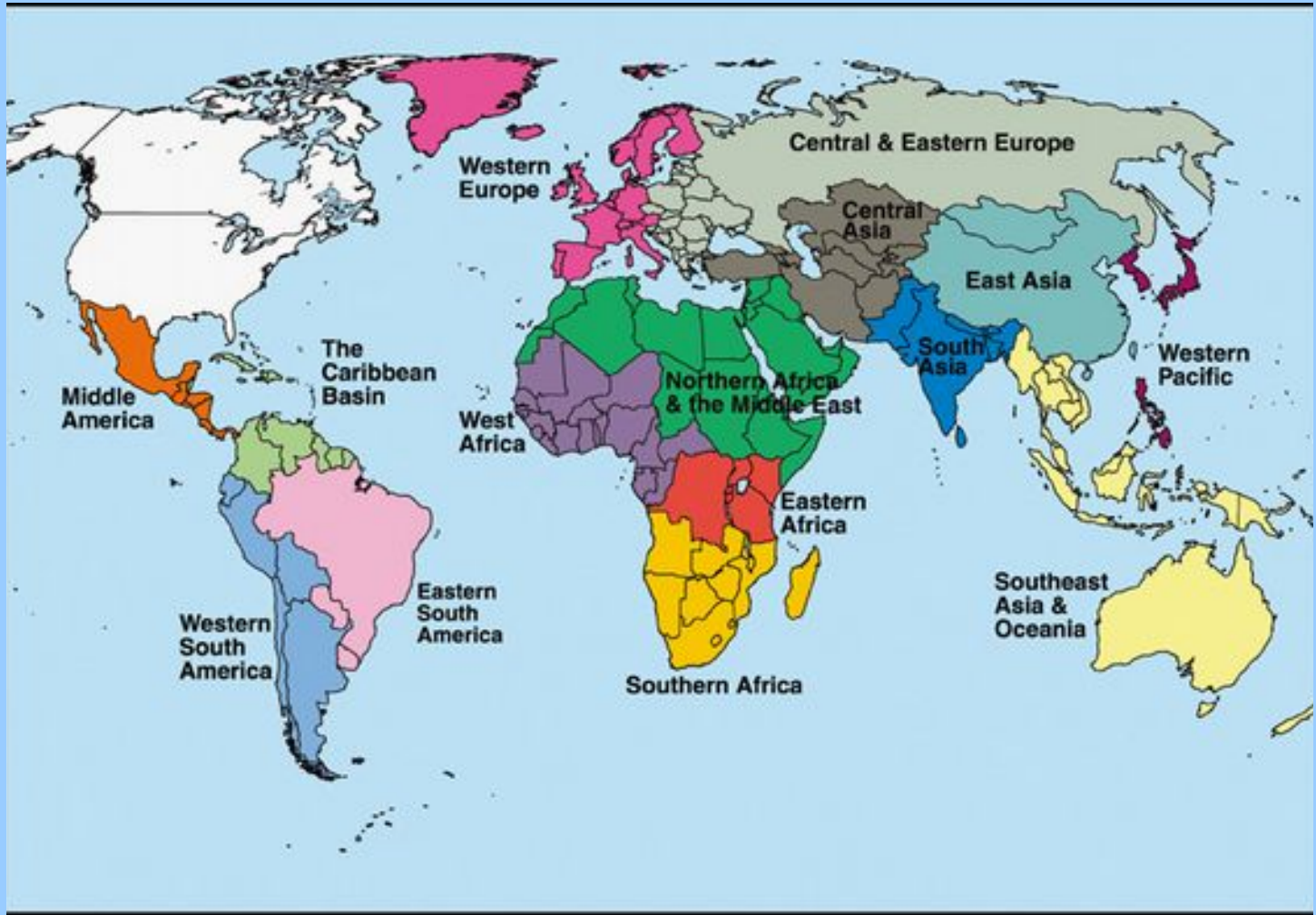


The Middle East

- In fact the boundaries of the Middle East are political, and they have been shifting overtime.
- Islam is the common thread that joins Middle Eastern Countries together



Middle East? or Near East?
or Southwest Asia? or....?



The MENA Region

The term is used by the World Bank and covers an extensive region and several countries extending from Morocco to Iran, including the majority of both the Middle Eastern and Maghreb countries. The term is roughly synonymous with the term the Greater Middle East (which is also taken to include Afghanistan).

The population of the MENA region at its least extent is about 381 million people, about 6% of the total world population. At its greatest extent, its population is roughly 523 million.

The MENA Region



Classification of MENA Countries

The diversity of the MENA region could be segmented in many different ways. Two of the most notable defining characteristics among MENA countries are the availability of oil resources and the size of their native populations. MENA countries can be classified in three main groups according to Population and Hydrocarbon Resources:

Resource-rich, labor-abundant countries are producers and exporters of oil and gas and have large native populations, which represent almost the totality of their residents. This group of countries includes **Algeria, Iraq, Syria, and Yemen.**

Resource-rich, labor-importing countries are producers and exporters of oil and gas and have large shares of foreign or expatriate residents, who represent a significant percentage of the total population, even the majority in some cases. This group of countries comprises the Gulf Cooperation Council (GCC) members (**Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates**) and **Libya.**

Resource-poor countries are small producers or importers of oil and gas. These countries include **Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Tunisia, and the Palestinian Authority.**

Source: Adapted from World Bank (2007)

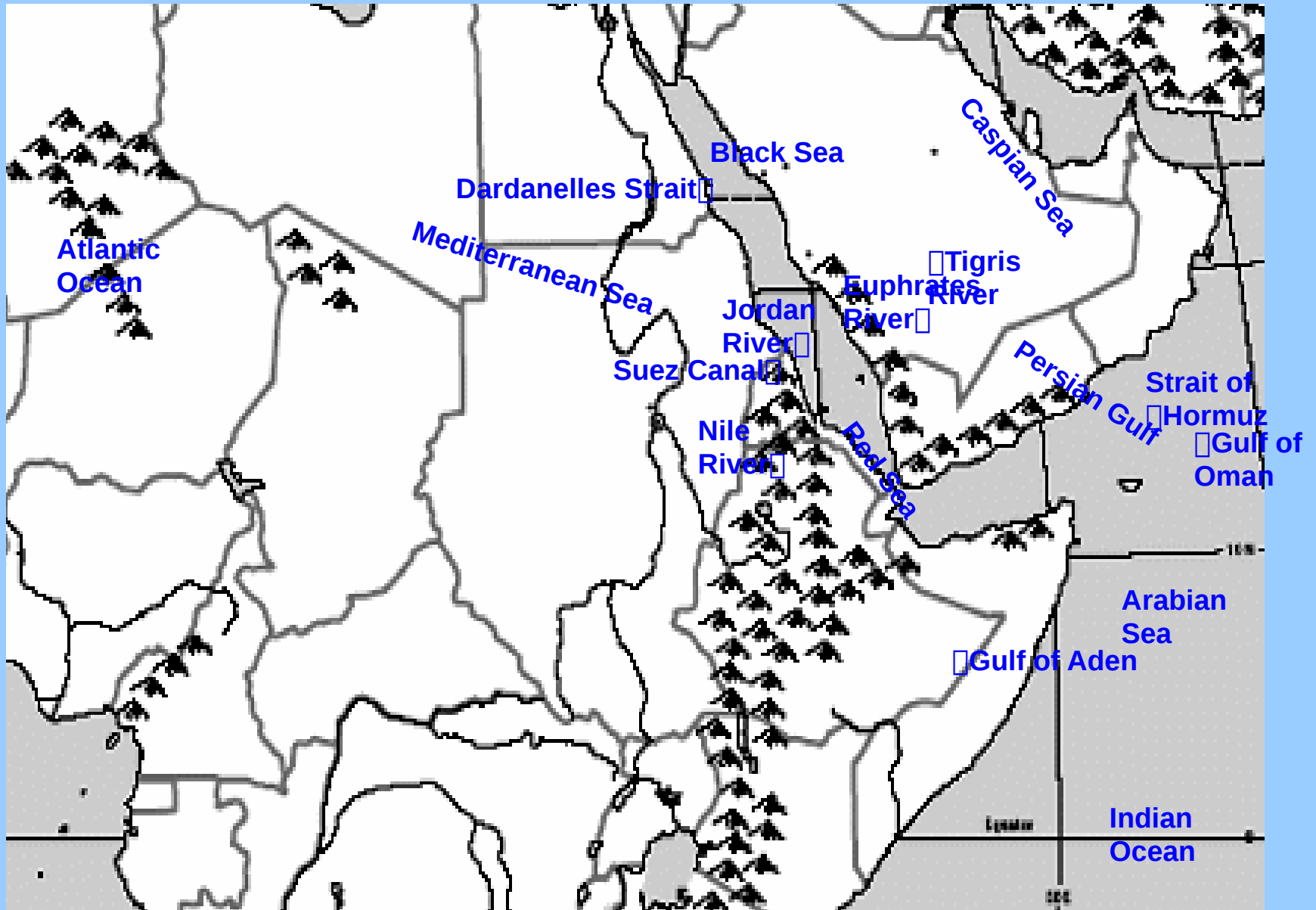
Classification of MENA Countries

Classification MENA Countries							
MENA	MENA Low Income	MENA Middle Income	MENA High Income	Gulf Co-operation Council (GCC)	Non Co-operation Council (Non-GCC)	Mediterranean	non-Mediterranean
Albania						Albania	
Algeria		<i>Algeria</i>			<i>Algeria</i>	Algeria	
Bahrain			<i>Bahrain</i>	<i>Bahrain</i>			Bahrain
Cyprus						Cyprus	
Djibouti	<i>Djibouti</i>						Djibouti
Egypt		<i>Egypt</i>			<i>Egypt</i>	Egypt	
Greece						Greece	
Iran		<i>Iran</i>			<i>Iran</i>		Iran
Iraq		<i>Iraq</i>					Iraq
Jordan		<i>Jordan</i>			<i>Jordan</i>	Jordan	
Kuwait			<i>Kuwait</i>	<i>Kuwait</i>			Kuwait
Israel			<i>Israel</i>		<i>Israel</i>	Israel	
Lebanon		<i>Lebanon</i>				Lebanon	
Libya			<i>Lybia</i>			Libya	
Malta						Malta	
Morocco		<i>Morocco</i>			<i>Morocco</i>	Morocco	
Oman		<i>Palestine</i>	<i>Oman</i>	<i>Oman</i>			Oman
Palestine						Palestine	
Qatar			<i>Qatar</i>	<i>Qatar</i>			Qatar
Saudi Arabia			<i>Saudi Arabia</i>	<i>Saudi Arabia</i>			Saudi Arabia
Sudan	<i>Sudan</i>						Sudan
Syria		<i>Syria</i>			<i>Syria</i>	Syria	
Tunisia		<i>Tunisia</i>			<i>Tunisia</i>	Tunisia	
Turkey		<i>Turkey</i>				Turkey	
United Arab Emirates			<i>United Arab Emirates</i>	<i>United Arab Emirates</i>			United Arab Emirates
Yemen	<i>Yemen</i>						Yemen

3. The Geography of The Mena Region

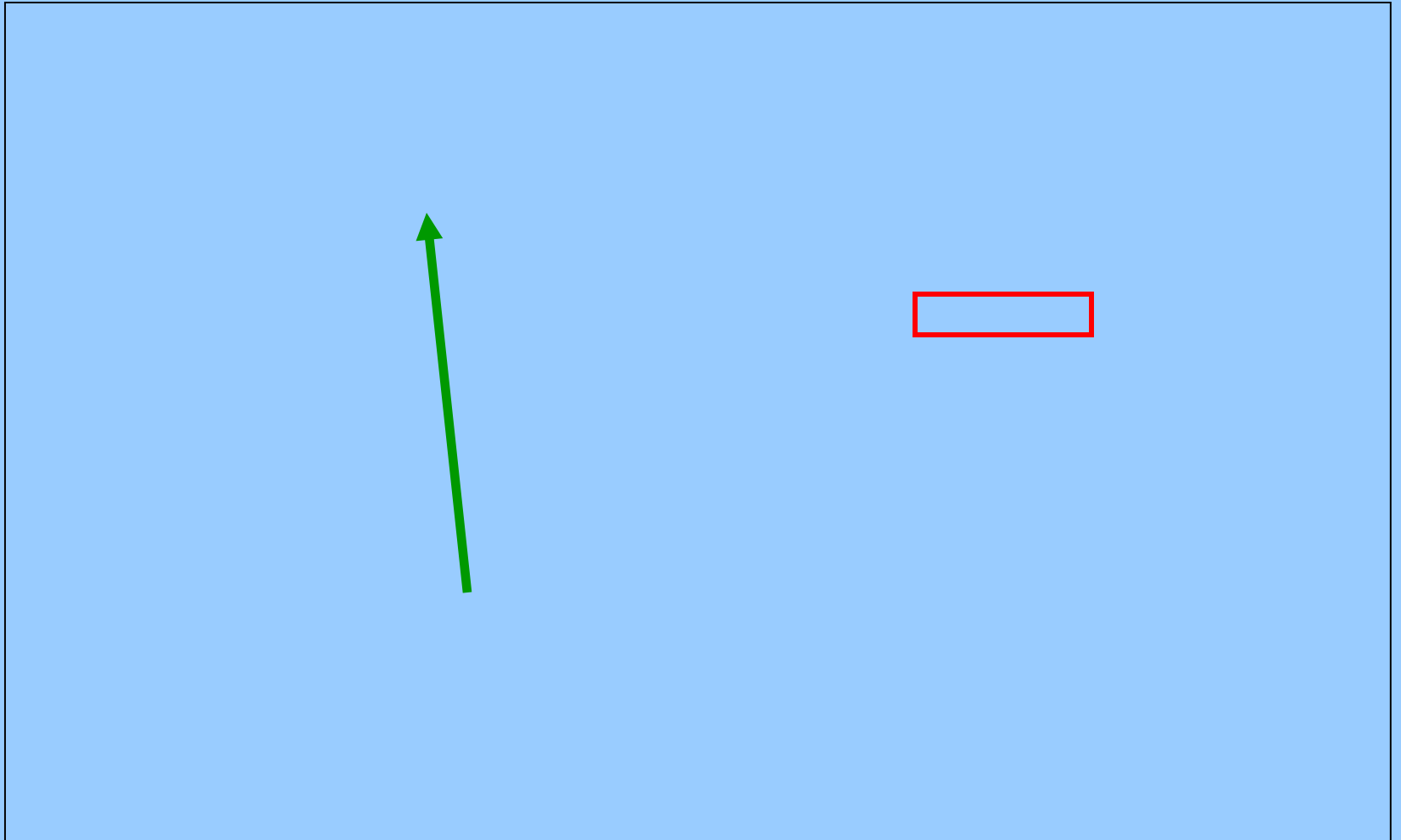
Thanks to Susan M. Pojer
Horace Greeley HS
Chappaqua, NY

Bodies of Water



The Mighty Nile River:

“Longest River in the World”




Egypt: *The “Gift of the Nile”*

**Nile
Delta**

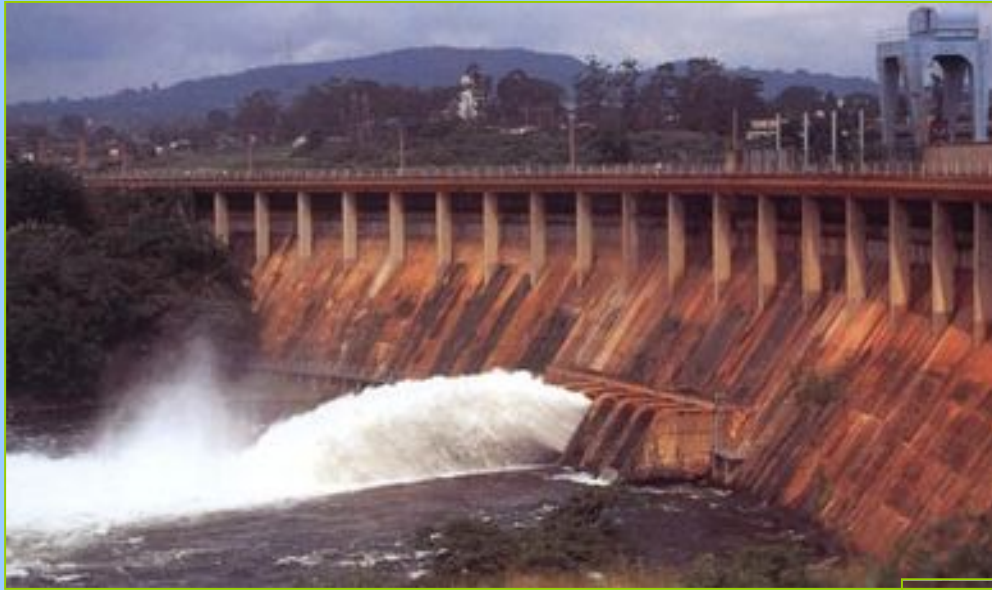


**Annual Nile
Flooding**



**95% of the
Egyptian people
live on 5% of the
land!**

Aswan High Dam, Egypt



The High Dam was constructed between 1960 and 1970, following the Egyptian revolution of 1952. It was key to control floods, provide water for irrigation and generate hydroelectric power. It was pivotal to Egypt's [economy and culture of Egypt.](#)

**Hydroelectric
Power Plant**

Suez Canal



Completed by the British in 1869

The Tigris & Euphrates

River System



Mesopotamia:

”Land Between the Two Rivers”

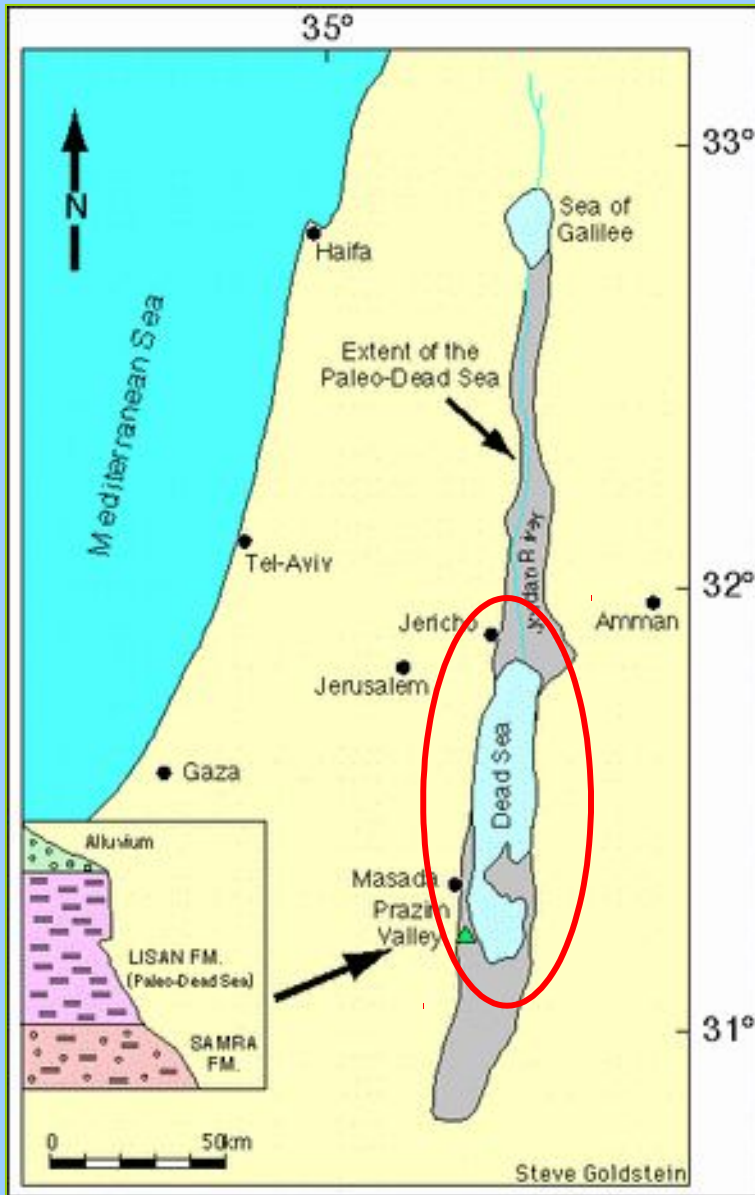


**The
Jordan River
System:**

**Israel &
Jordan--A Fight
Over
Water Rights?**

Dead Sea: Lowest Point on Earth

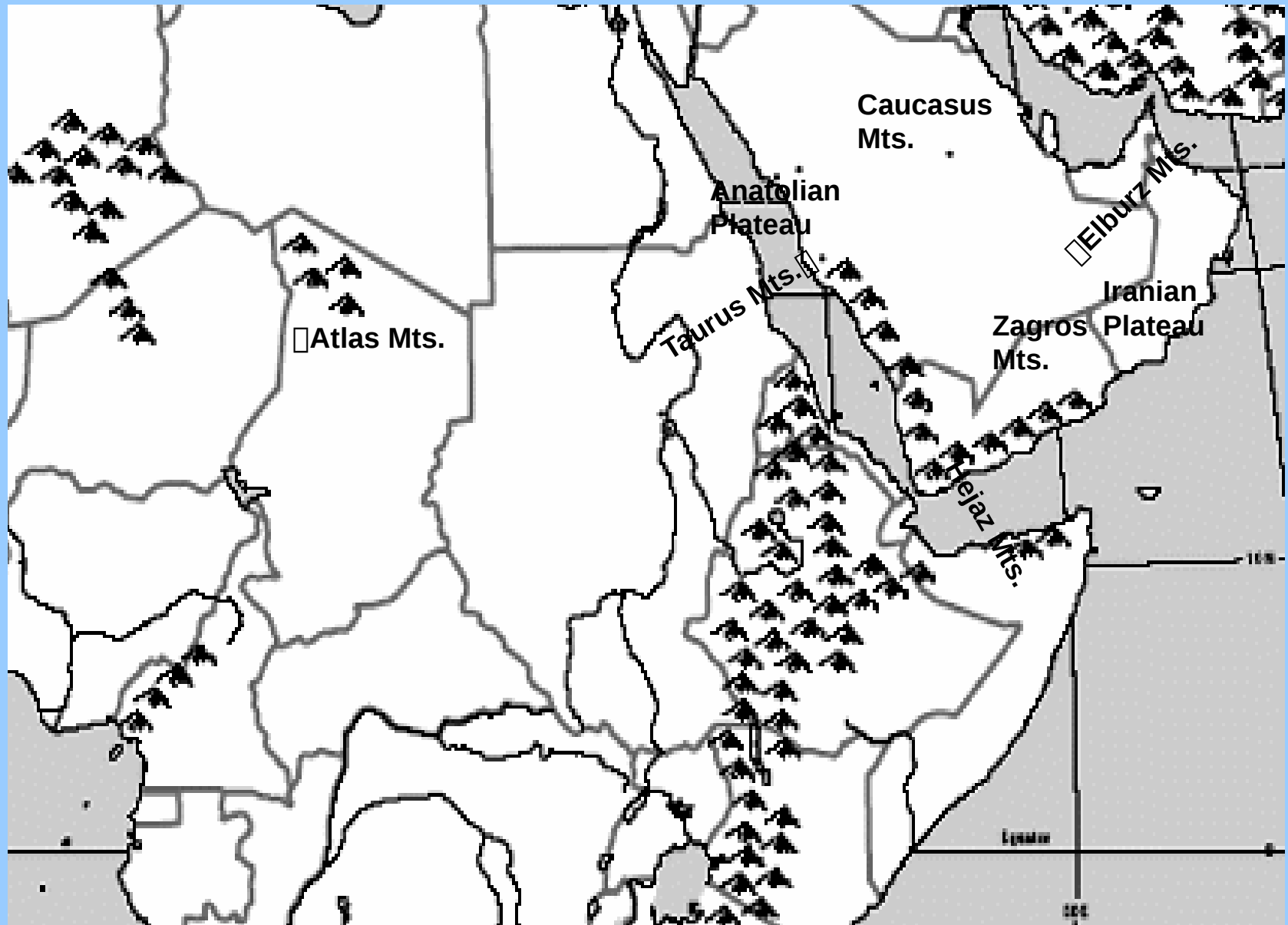
2,300' below sea level



Highest
Salt
Content
(33%)



Mountains & Plateaus



Mountain Ranges in Mid-East



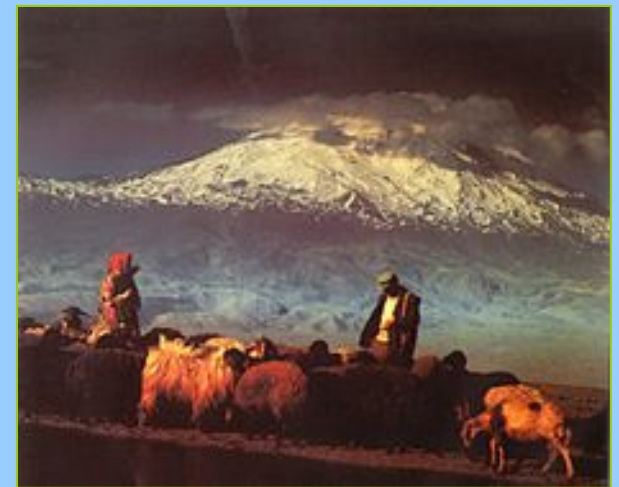
Elburz Mts., Iran



Zagros Mts., Iran

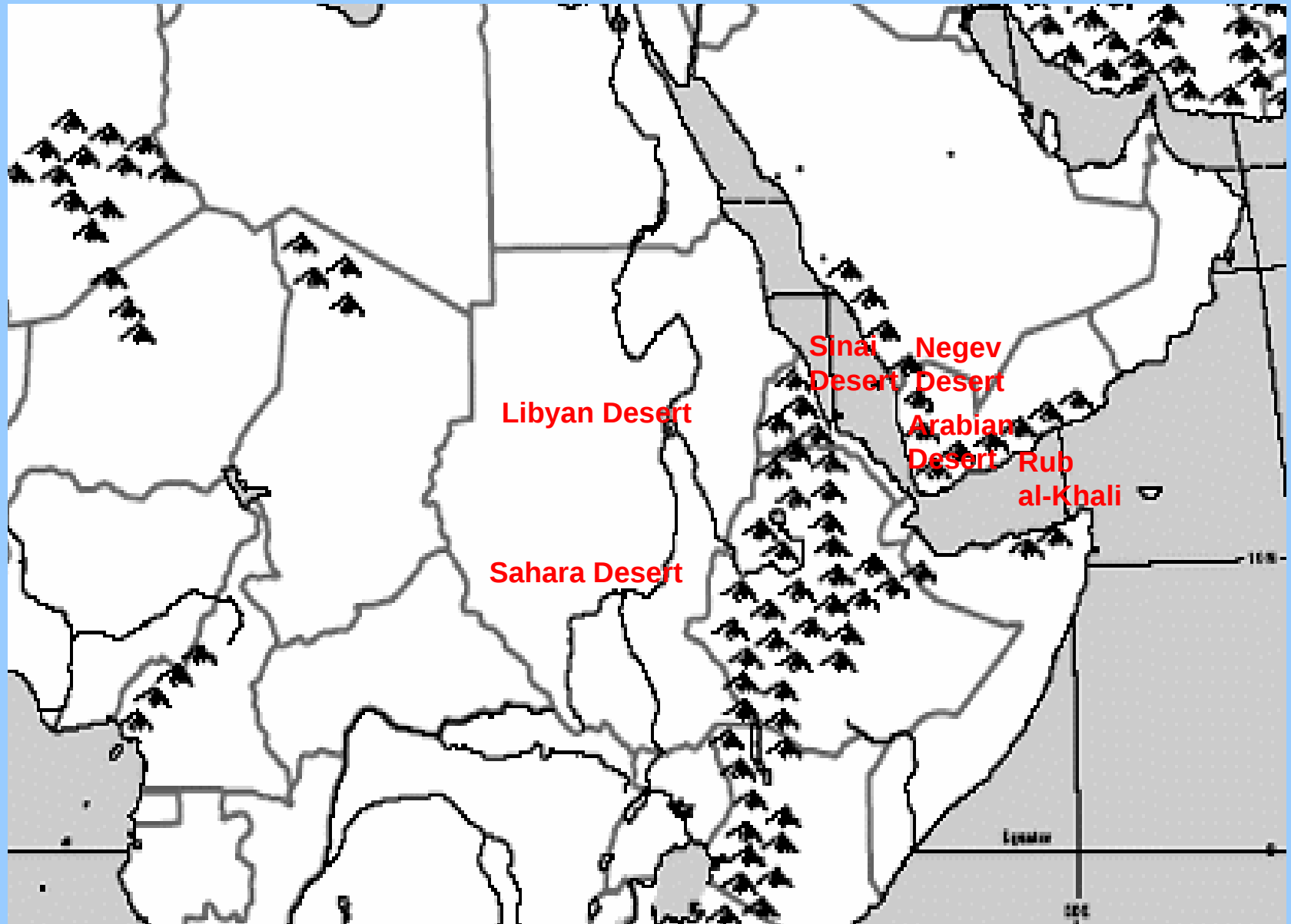


Lebanese Mts.

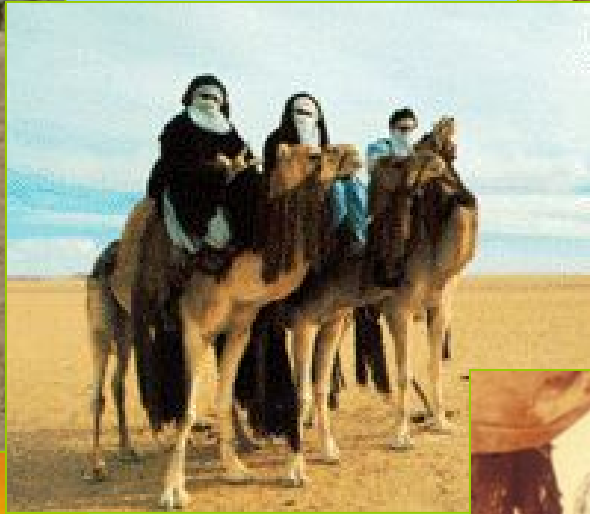


Taurus Mts., Turkey

Deserts



Desert Bedouins



Wadis – Instant Springs

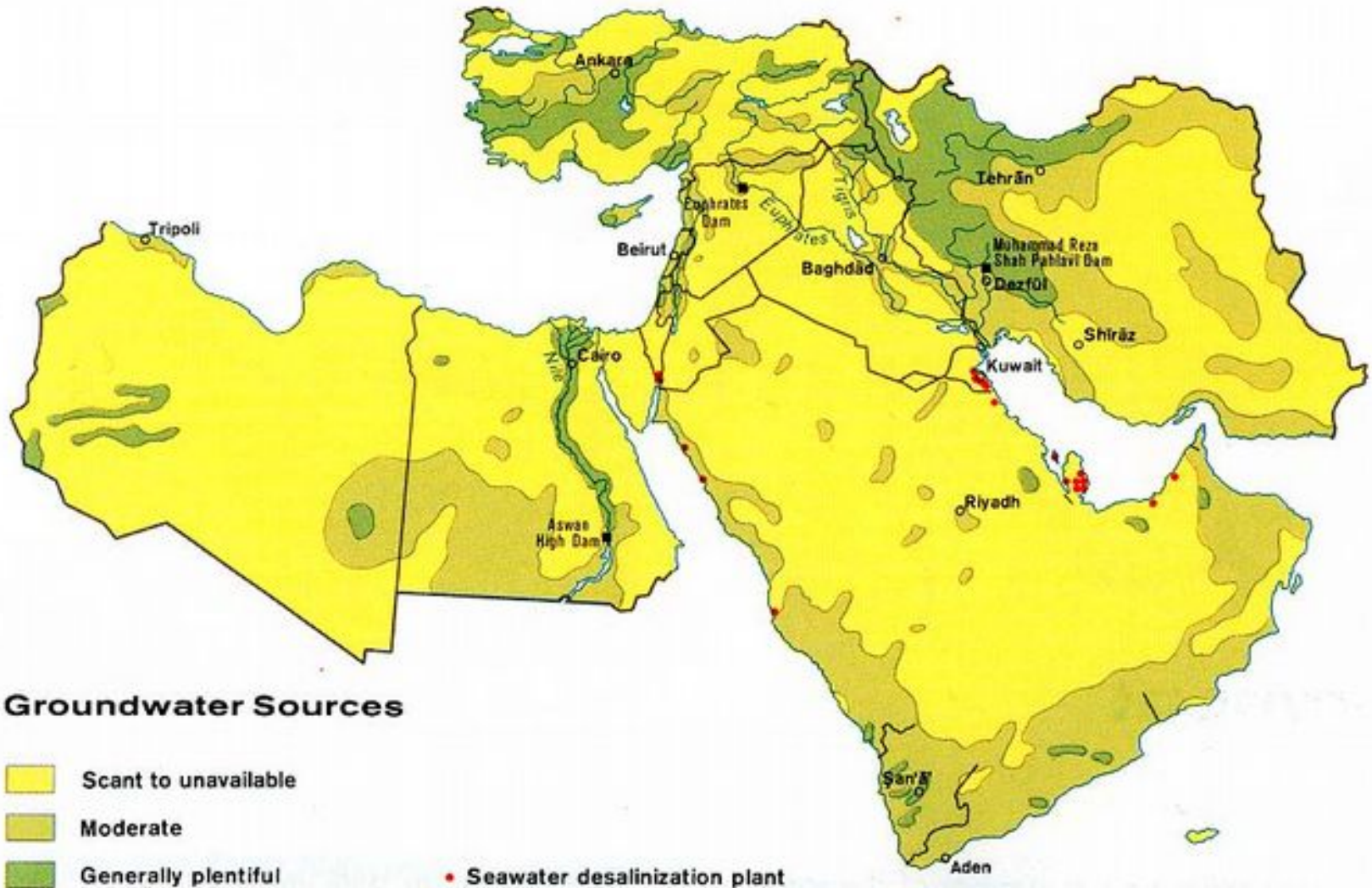
Bed or valley of a stream in regions of southwestern Asia and northern Africa that is usually dry except during the rainy season and that often forms an oasis



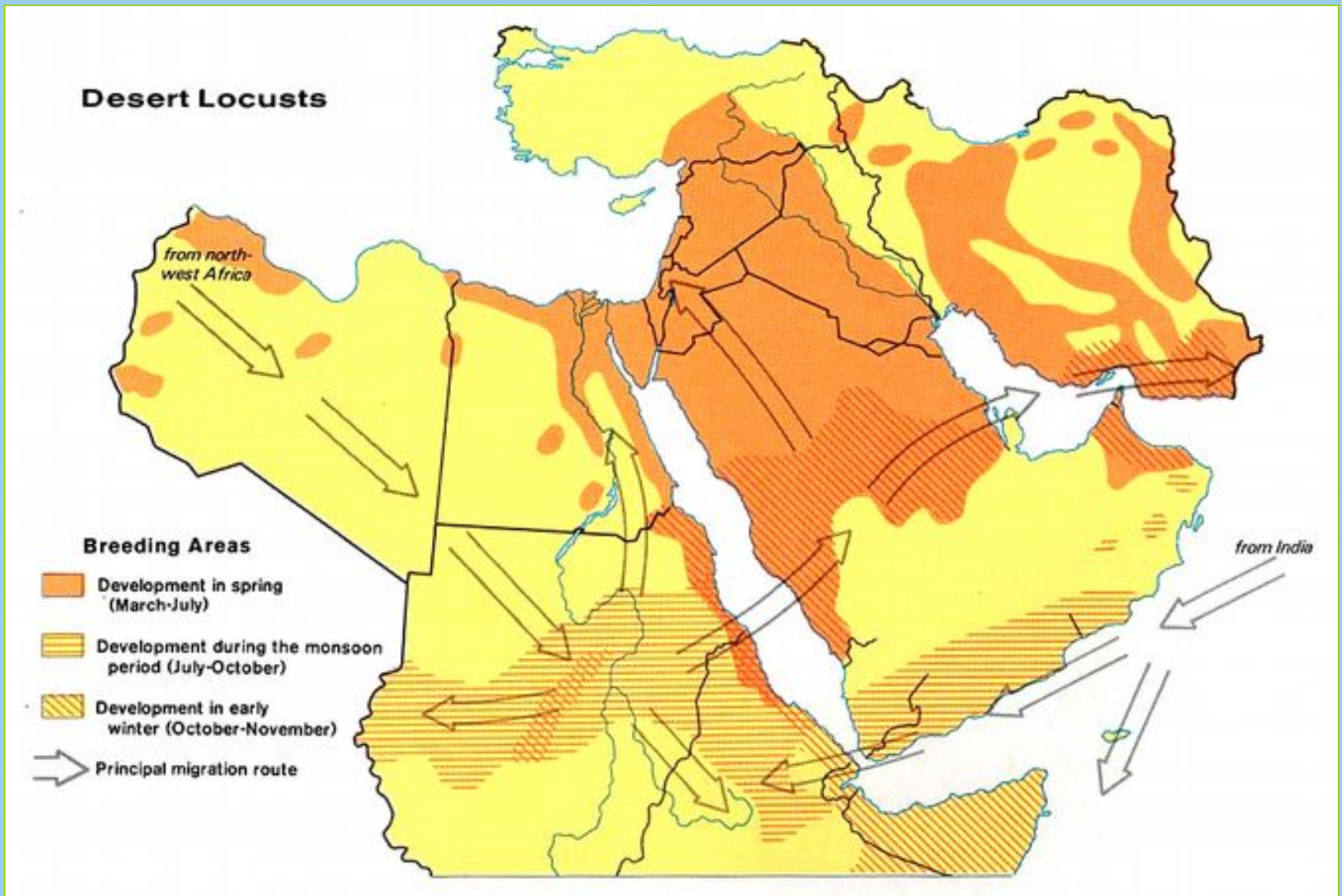
Desert Oases: Water at Premium!



Fresh Groundwater Sources



Breeding Areas of Desert Locusts



Swarms of Desert Locusts!



**Locusts Swarm the
Pyramids Complex
at Giza!**

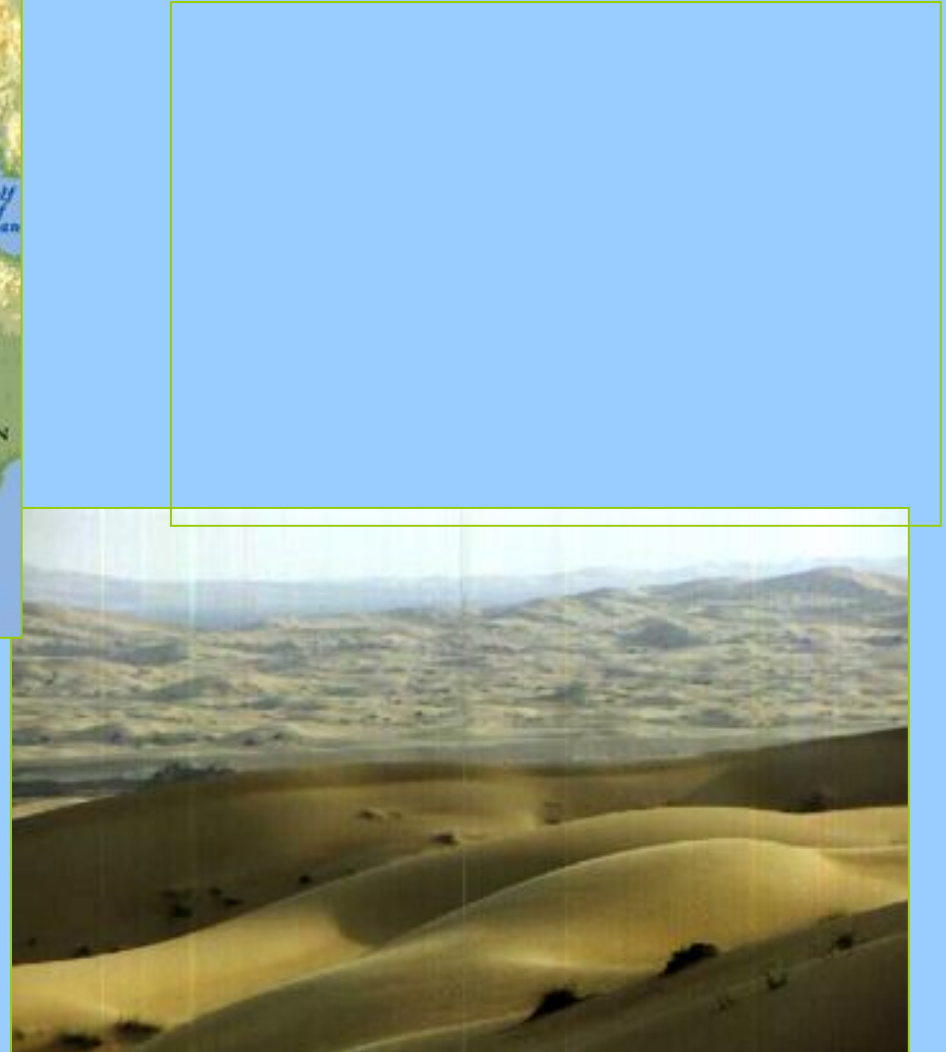
**Israel Hit By Worst
Locust Plague Since the
1950s!**



Rub al-Khali: “The Empty Quarter”



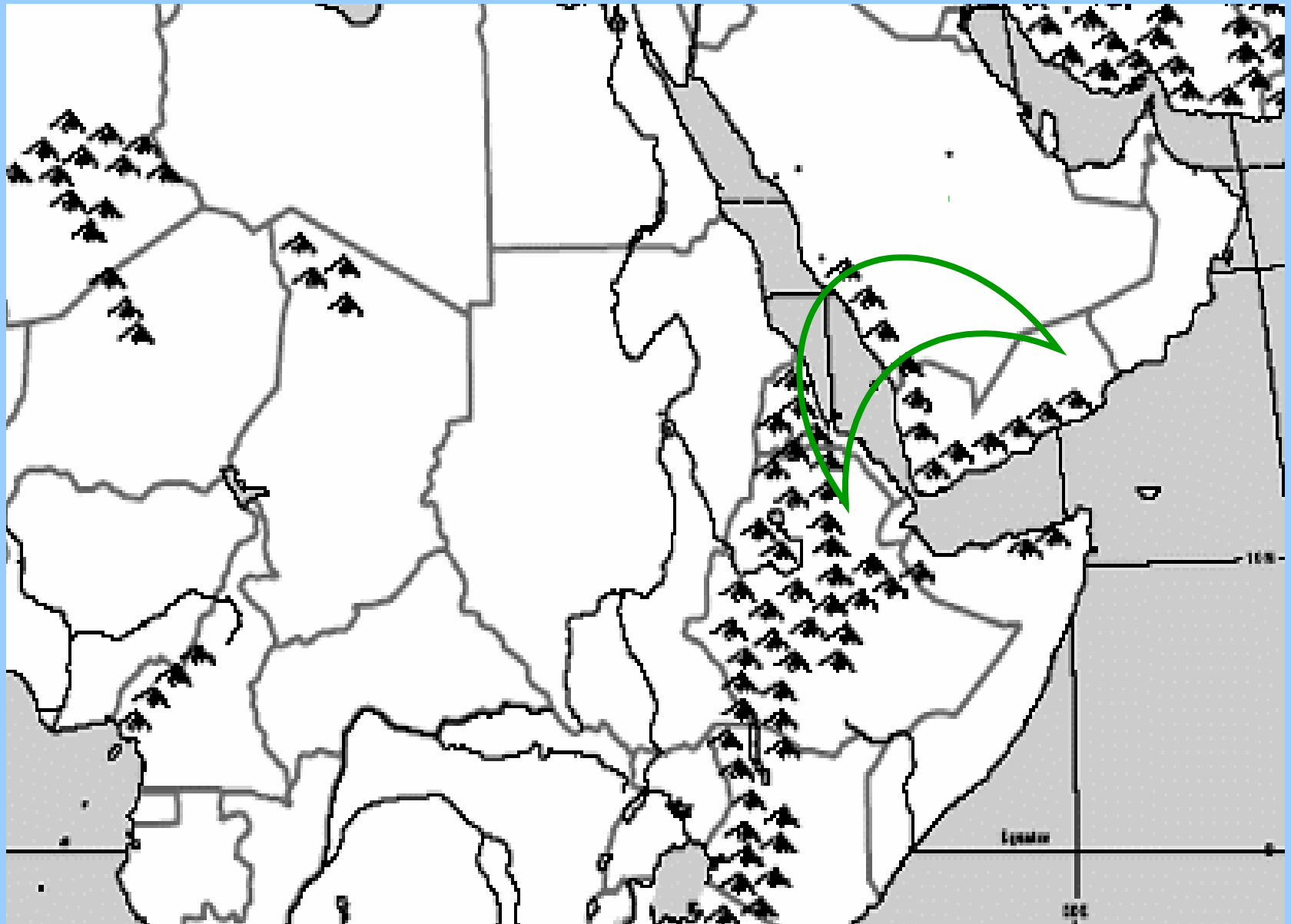
The terrain is covered with sand dunes with heights up to 250 metres. The sand is a reddish-orange color due to the presence of feldspar.



Desalinization Plants

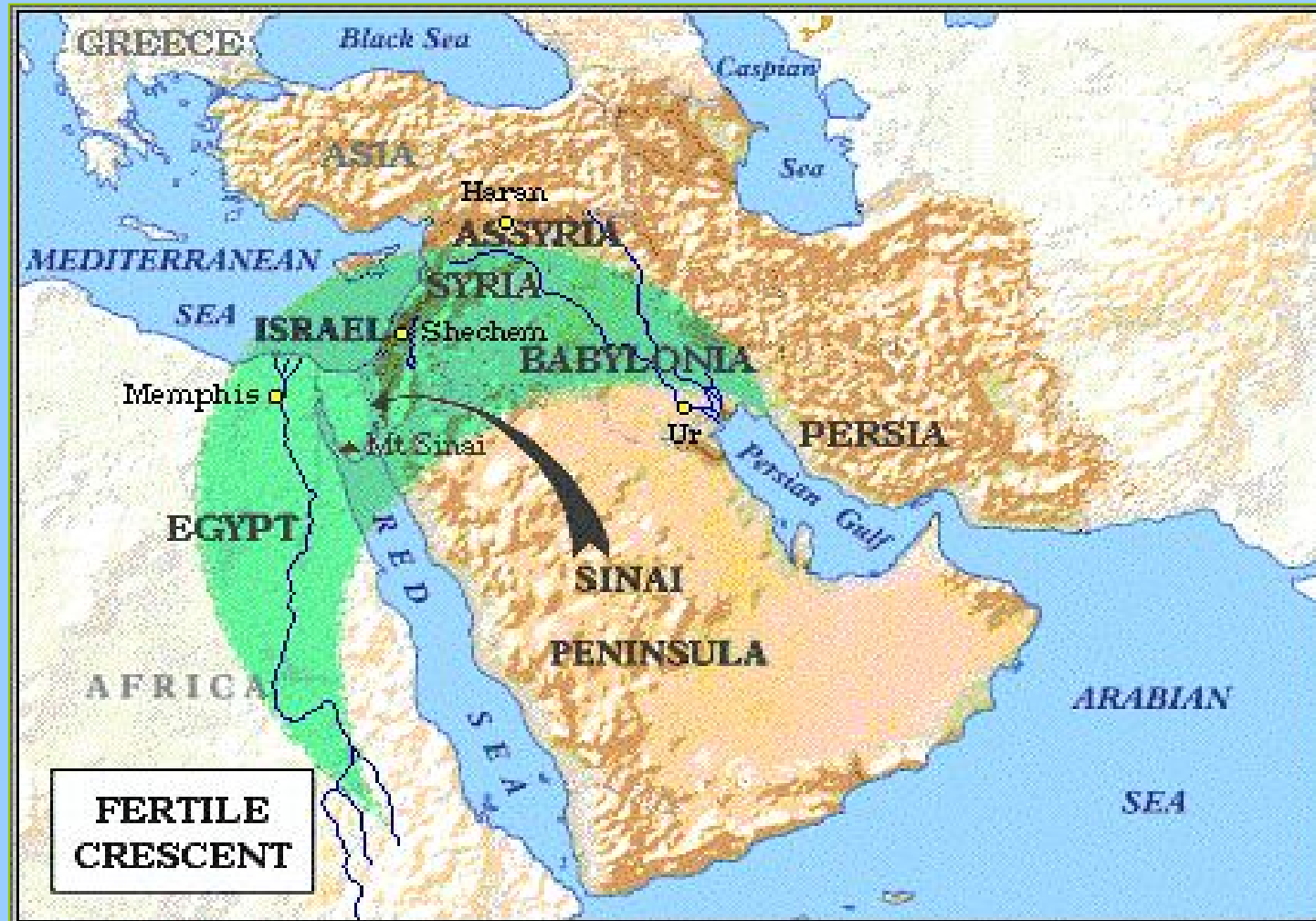


Fertile Crescent

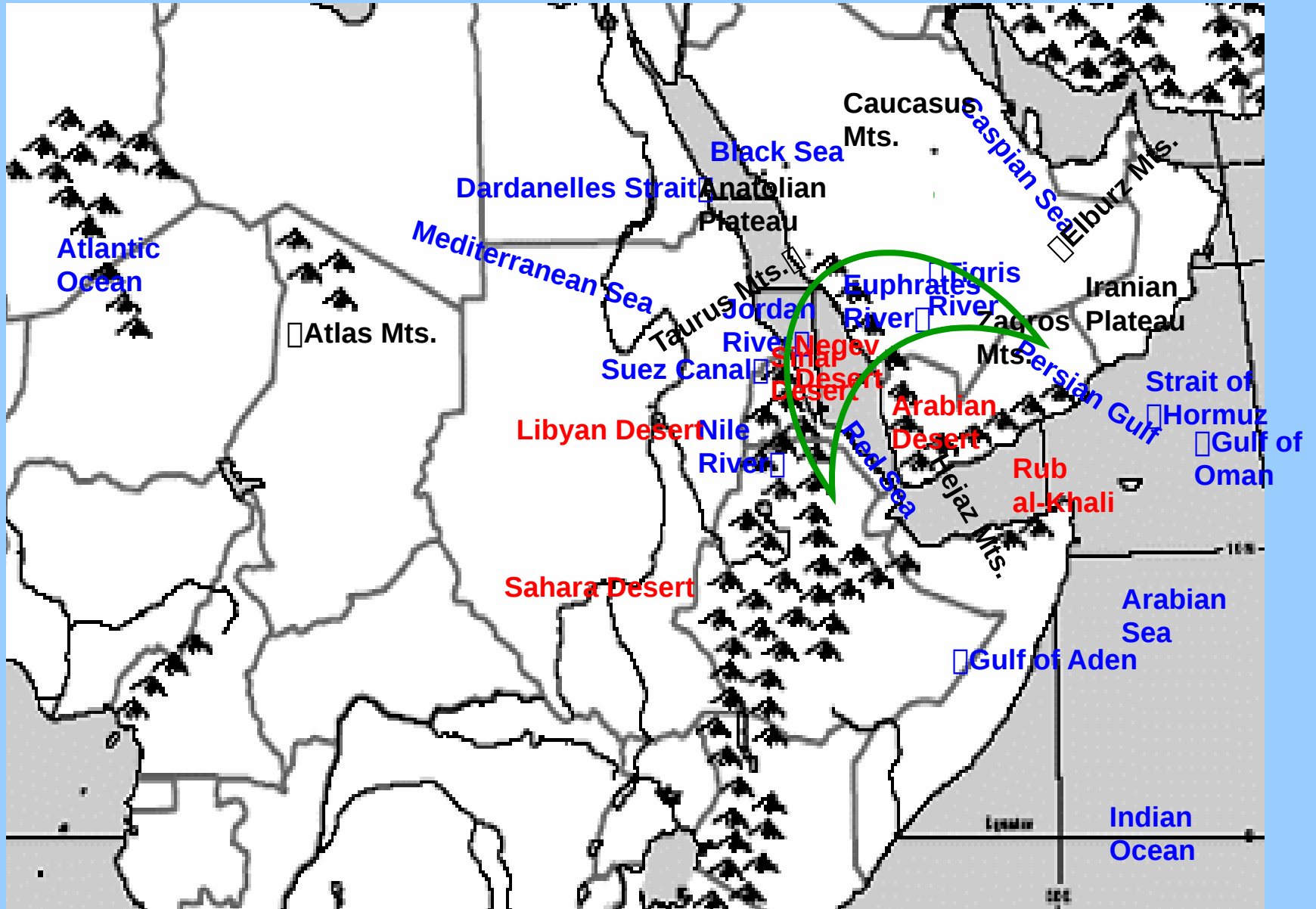


The Fertile Crescent

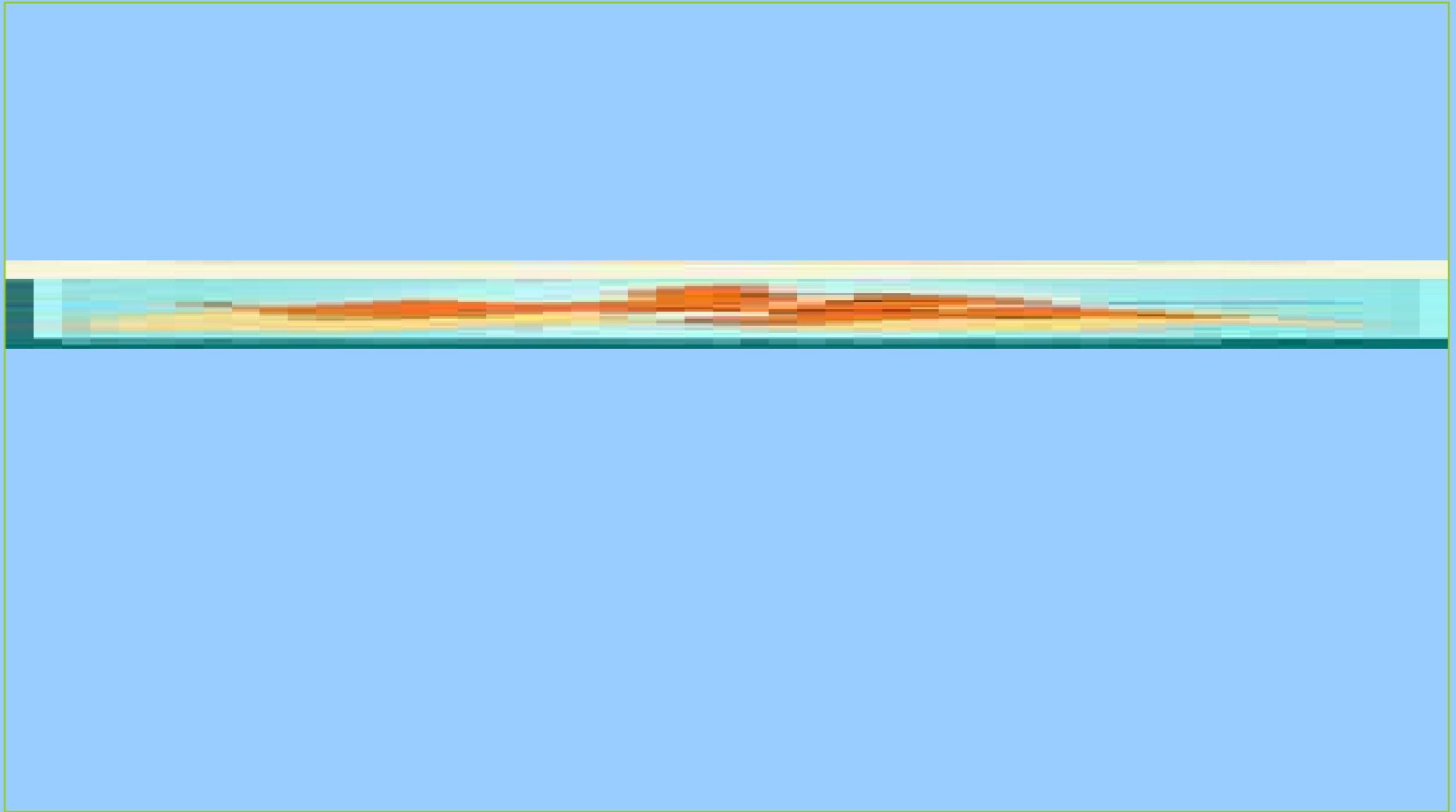
The Fertile Crescent is a **crescent-shaped region of the Middle –East**, which curves like a quarter-moon shape containing the comparatively moist and fertile land of otherwise arid and semi-arid Western Asia, the Nile Valley and Nile Delta of northeast Africa. It is **where the civilizations of the Middle East and the Mediterranean basin began.**



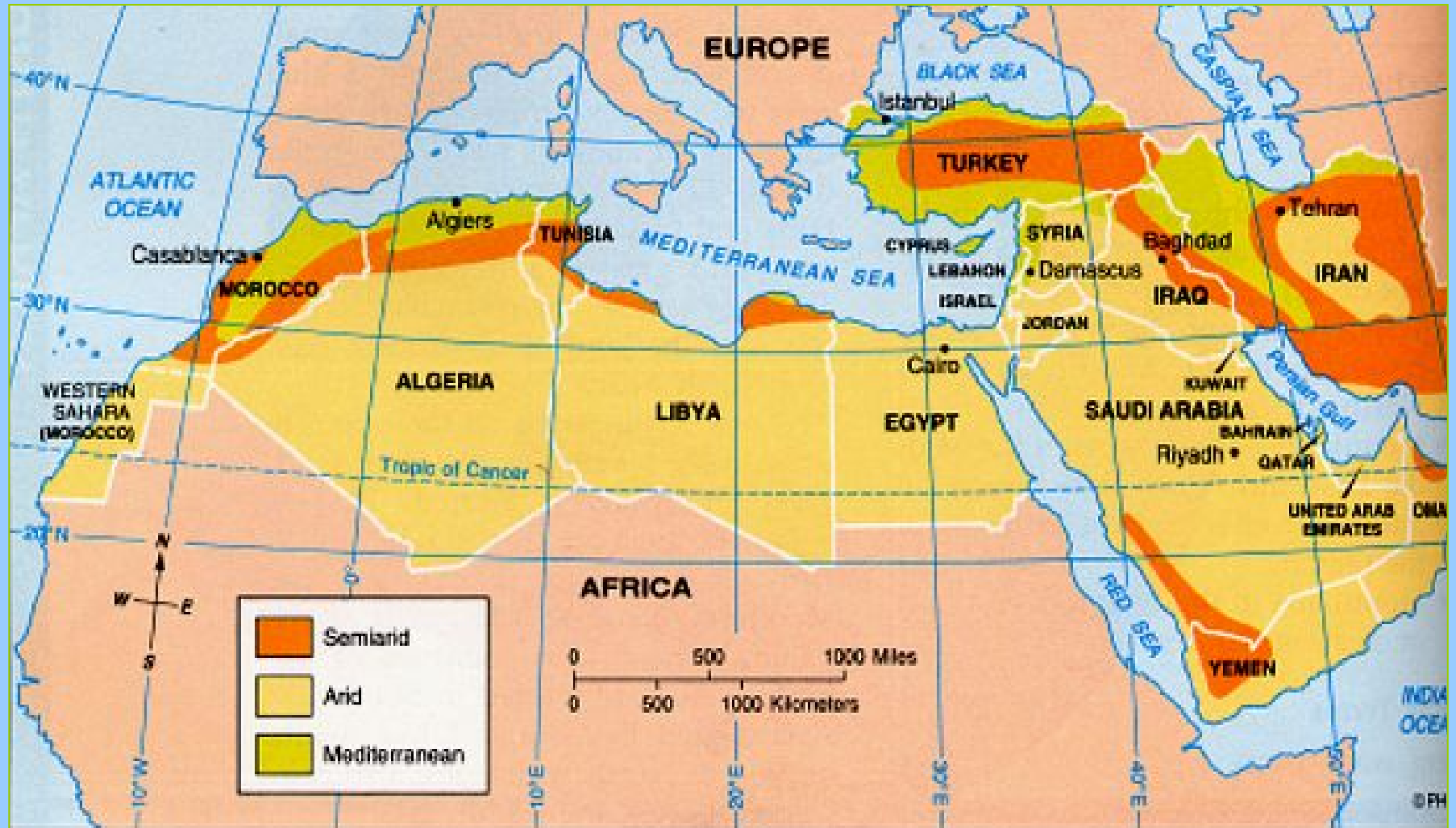
Completed Map



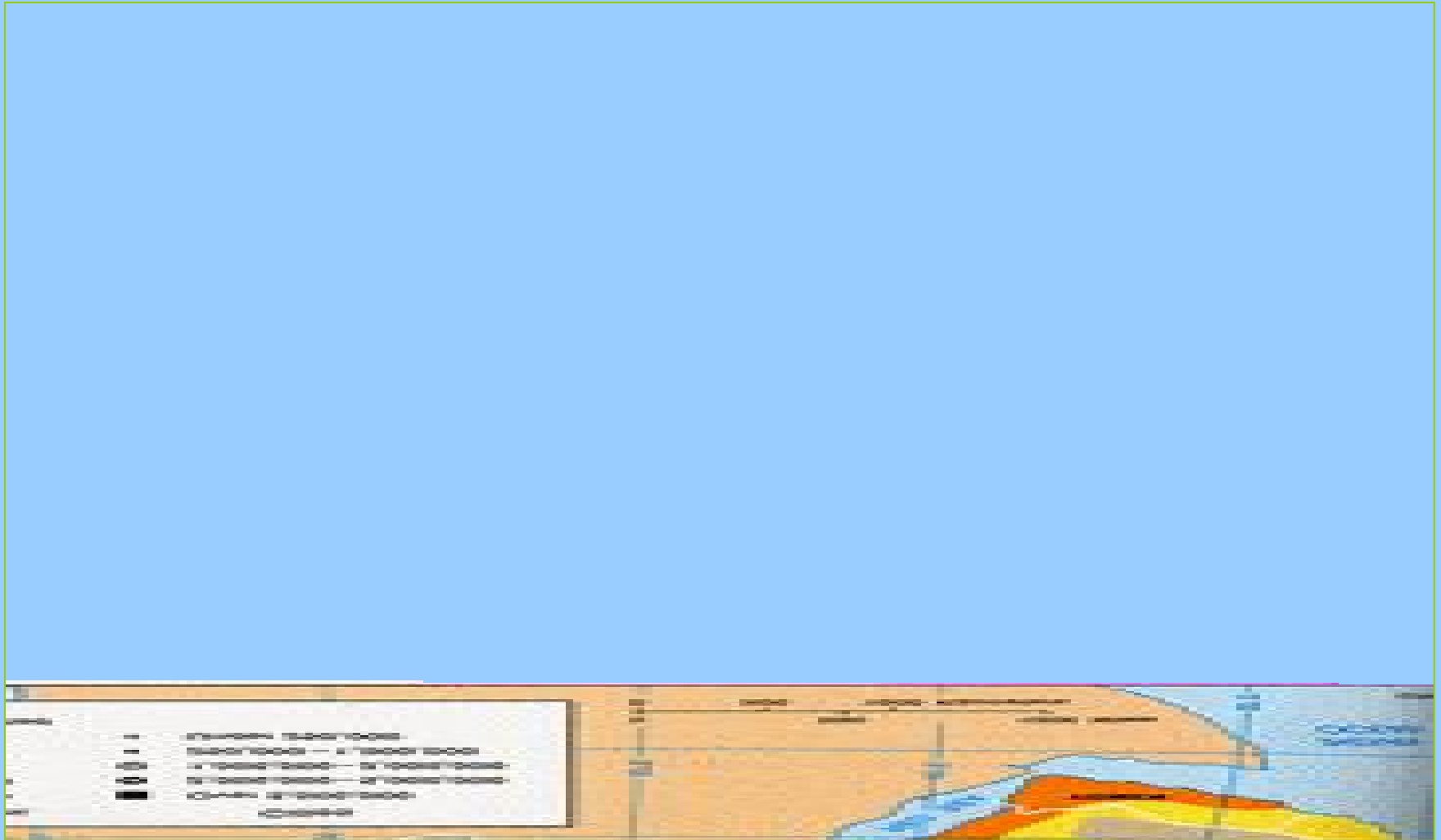
The Middle East and the Latitude Lines



Middle East: Climate Regions



Middle East: Population Density



Cairo, Egypt: the Most Populated City in the Middle East



**17,000,000+
People!**



The Middle East: Natural Vegetation



The Natural Resources of the Middle East



Saudi Oil Fields & Refineries



Kuwait: *An Island Floating on a Sea of Oil*



Kuwait
t
City



4. History

Videos

- Origins of Israel Palestinian Conflict:

<https://www.youtube.com/watch?v=wb6IiSUXpgw>

- Promises and Betrayals - Middle East - History Channel Documentary:

<https://www.youtube.com/watch?v=JW2sm0iR0E8>

- Bernard Lewis on the Middle East 2011

<https://search.yahoo.com/search?ei=utf-8&fr=aaplw&p=video+you+tube+book+lewis+middle+east>

- Bernard Lewis reflections on the Middle East- June 21, 2012

https://video.search.yahoo.com/video/play;_ylt=A2KLqIMqu.dUznoAMLz7w8QF;_ylu=X3oDMTByZjF2ZHFmBHNIYwNzcgRzbGsDdmlkBHZ0aWQDBGdwb3MDNw--?

p=youtube+Lewis+Reflections+Middle+East&vid=fecc0683d0646dd856e7e19a2988ec1b&l=56%3A22&turl=http%3A%2F%2Fts1.mm.bing.net%2Fth%3Fid%3DVN.608027418077432628%26pid%3D15.1&rurl=https%3A%2F%2Fwww.youtube.com%2Fwatch%3Fv%3D43CSjiEoZZU&tit=Notes+on+a+Century%3A+Reflections+of+a+Middle+East+Historian%2C+June+21%2C+2012&c=6&sigr=11bfvclda&sigt=1291o2rct&sigi=11r9sig65&age=1354042466&fr2=p%3As%2Cv%3Av&fr=aaplw&tt=b

- Noam Chomsky on the Middle East 2013

https://video.search.yahoo.com/video/play;_ylt=A2KLqIL1uudUa1kAWbz7w8QF;_ylu=X3oDMTBzM3UzbiRzBHNIYwNzcgRzbGsDdmlkBHZ0aWQDBGdwb3MDMTA-?

p=youtube+Lewis+Reflections+Middle+East&vid=79ab2cc62e3bbc66464dd6ed00f46ff3&l=1%3A03%3A05&turl=http%3A%2F%2Fts1.mm.bing.net%2Fth%3Fid%3DVN.608001536611582232%26pid%3D15.1&rurl=https%3A%2F%2Fwww.youtube.com%2Fwatch%3Fv%3DnZ0VzkahoGE&tit=Noam+Chomsky%3A+Edward+W+Said+Lecture%3A+Violence+and+Dignity+--+Reflections+on+the+Middle+East&c=9&sigr=11blbpeck&sigt=12ri4q8vn&sigi=11r897a26&age=1364024463&fr2=p%3As%2Cv%3Av&norw=1&fr=aaplw&tt=b

- The Islamic State

<https://www.youtube.com/watch?v=oIm76e1vMv0>

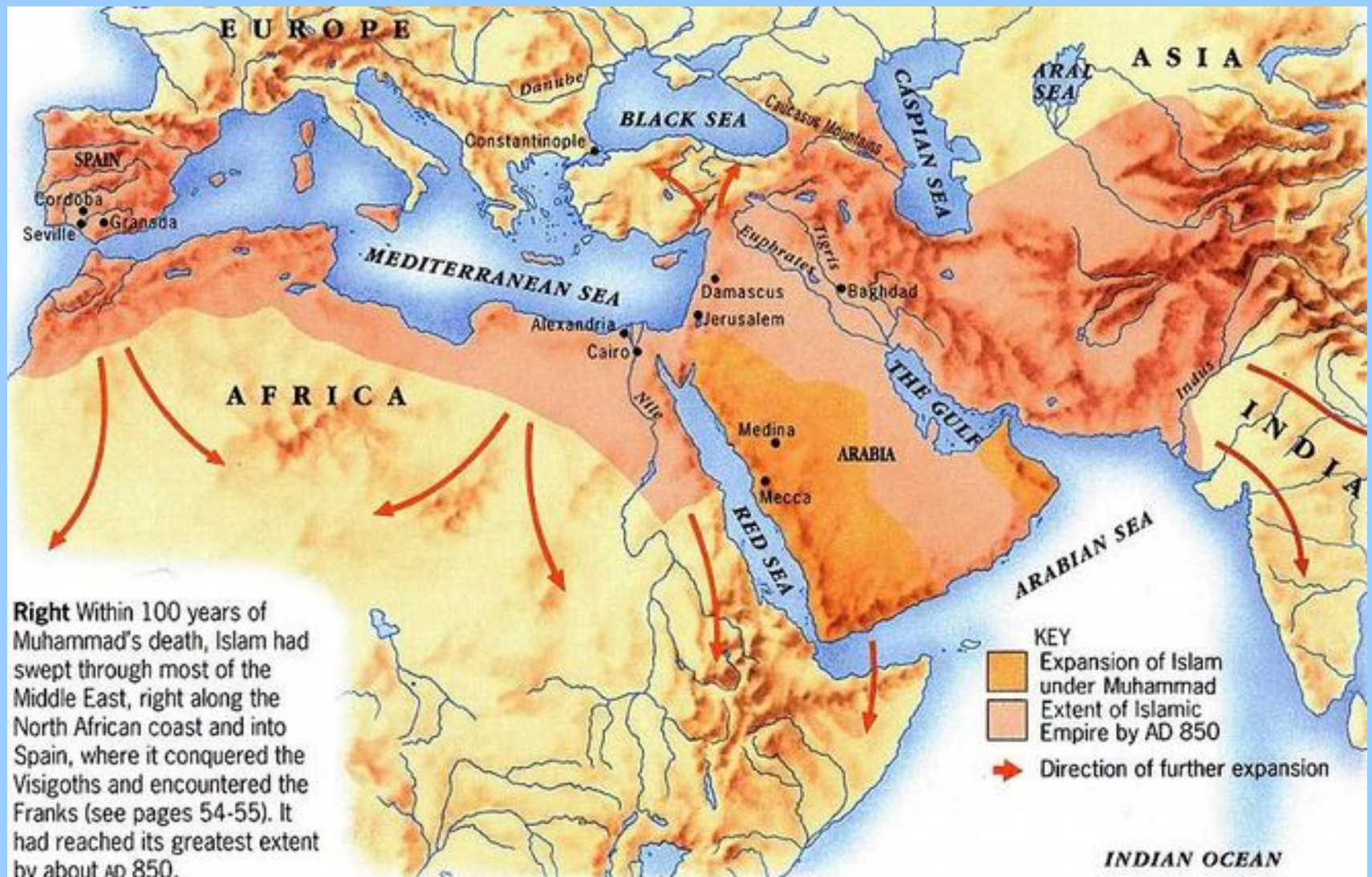
- The Arab Spring

<http://www.brookings.edu/events/2011/12/13-aron-arab-spring>

Roman Empire at its greatest extent 117 A.D.



The Expansion of Islam



Right Within 100 years of Muhammad's death, Islam had swept through most of the Middle East, right along the North African coast and into Spain, where it conquered the Visigoths and encountered the Franks (see pages 54-55). It had reached its greatest extent by about AD 850.

Social Mobility for All

Moses Maimonides (1135-1204)

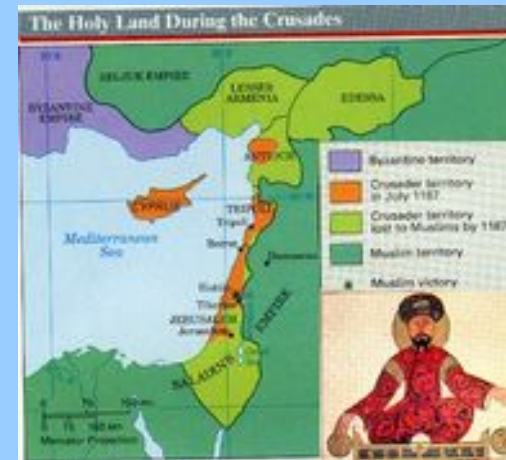
The foremost intellectual figure of medieval Judaism, **Moses Maimonides** was born in Cordoba, Spain to an educated, distinguished family. Maimonides began his study of medicine in Fez, Morocco, and later moved to Cairo, Egypt. Soon after their arrival Maimonides' father and brother died, and Maimonides began to practice medicine to support his family. His fame as a physician spread, and he soon became the court physician for Sultan Saladin and his family. Maimonides also lectured at the local hospital, maintained a private practice, and was a **leader in the Jewish community**.

The Crusades

- A series of four campaigns between 1096 and 1270 urged by the Pope for recapturing Jerusalem.
- The Crusaders controlled a long strip of land along the Mediterranean (50 miles wide and 500 long).
- The fourth Crusade led to the sacking of Constantinople, and the weakening of the Byzantine Empire.

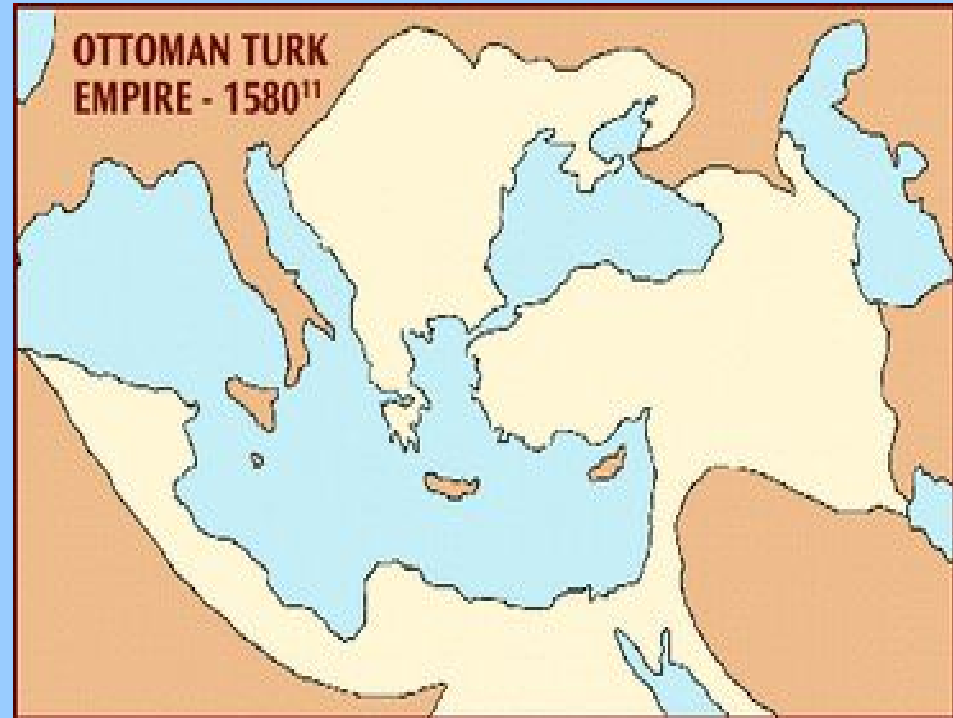


The Crusades

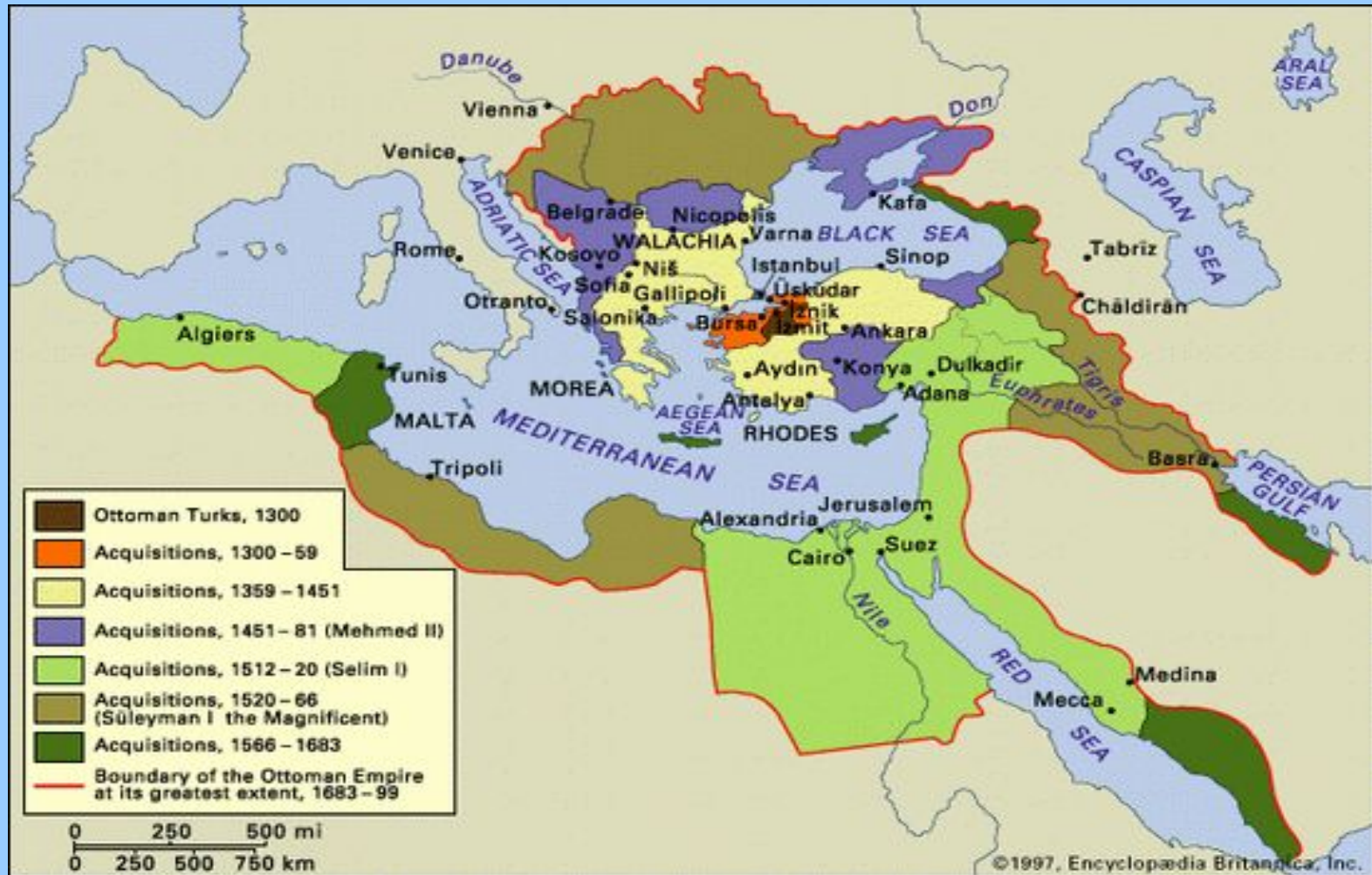


Ottoman Empire

- Communal politics – regulated by local courts: the *Millet System*.
- Limited government.
- Strong civil society – civil society institutions funded by foundations (*waqf*).
- Law enacted by civil society.



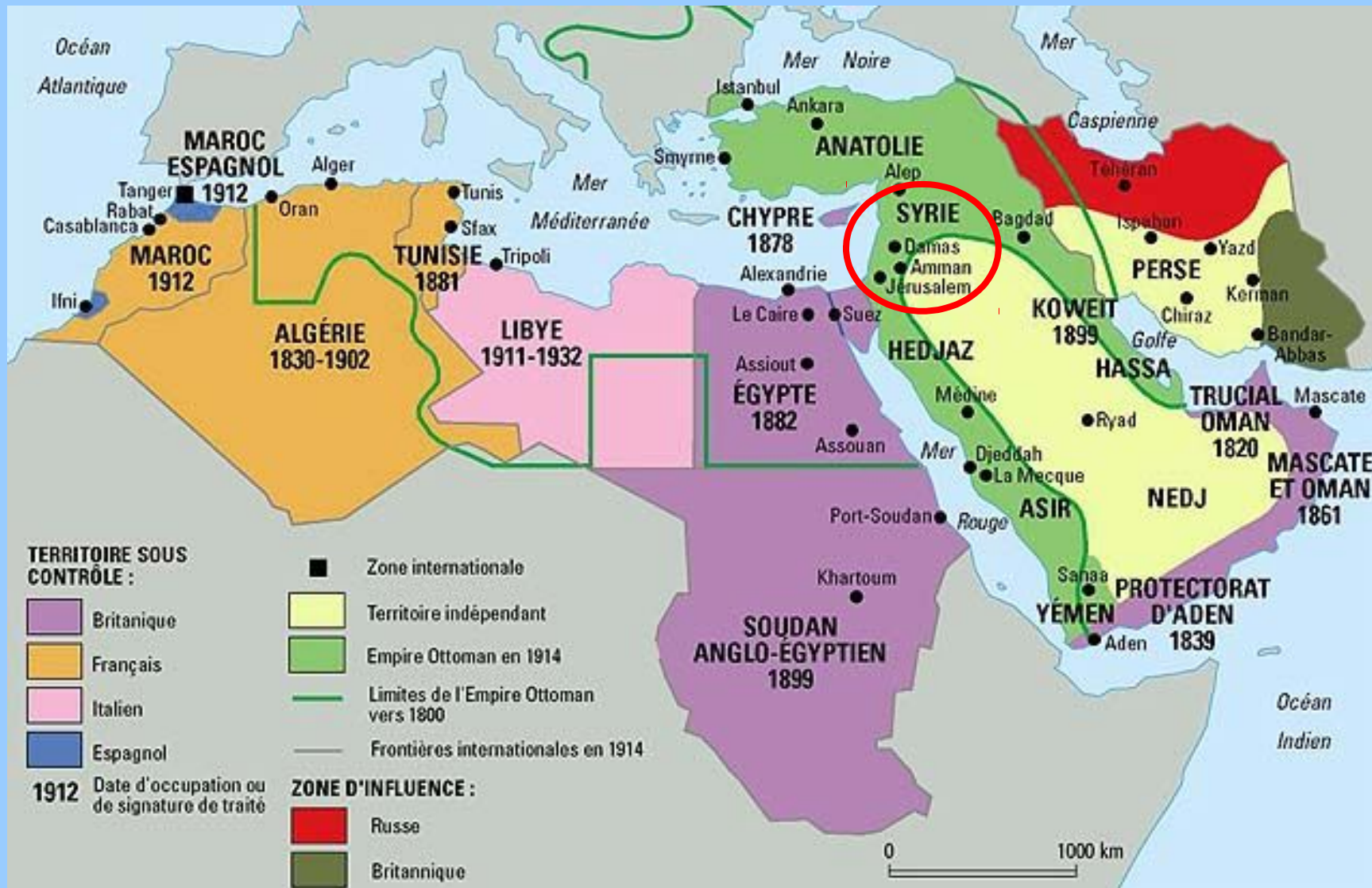
Ottoman Empire



Ottoman Empire

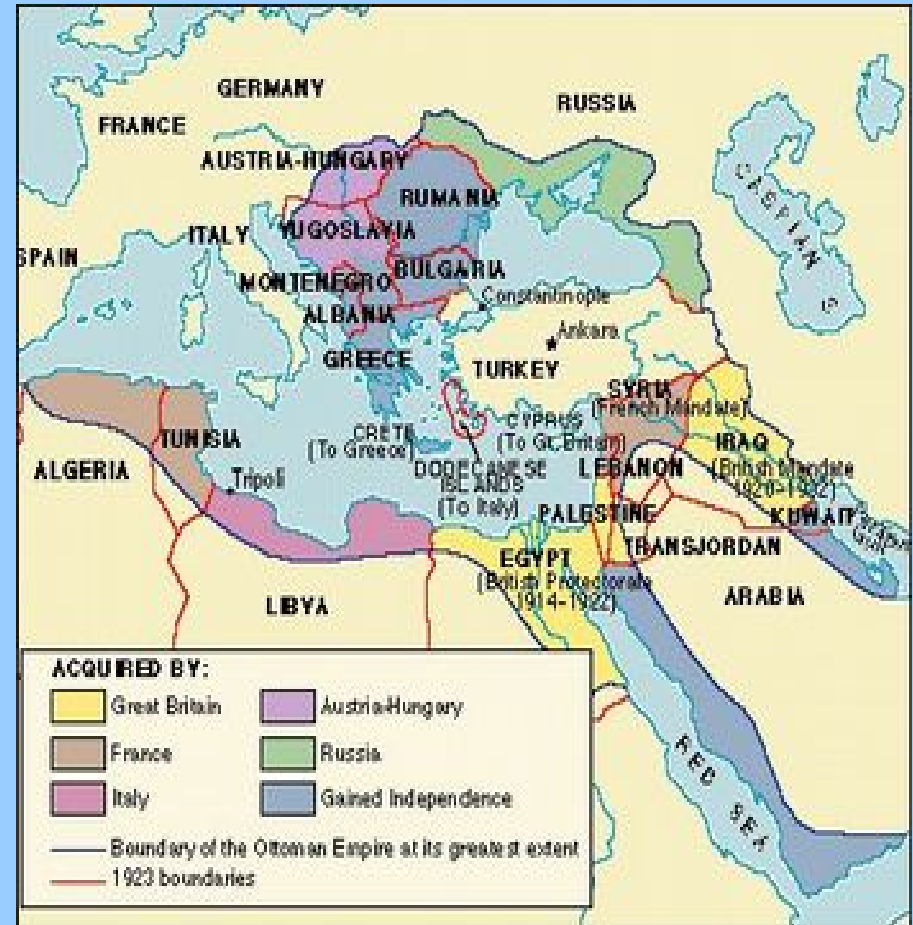


The Middle East in 1914



The Dismemberment of the Ottoman Empire

- The modernization of the Ottoman Empire.
- Turkification of the Empire.
- Centralization of political authority.
- Arab revolt and the **Sykes-Picot Agreement 1916** between France and UK to **divide the Arab provinces** after the defeat of the Ottoman Empire.



The United Kingdom and Arab Independence

- The **McMahon–Hussein Correspondence**, or the **Hussein–McMahon Correspondence**, was an exchange of letters (14 July 1915 to 30 January 1916) during [World War I](#), between the [Sharif of Mecca](#), [Husayn bin Ali](#), and [Sir Henry McMahon](#), British [High Commissioner](#) in [Egypt](#), concerning the political status of lands under the [Ottoman Empire](#). The Arab side was already looking toward a large revolt against the Ottoman Empire; the British encouraged the Arabs to revolt and thus hamper the [Ottoman Empire](#), which had become a German ally in the War after November 1914.
- The **letters declared that the Arabs would revolt in alliance with the United Kingdom, and in return the UK would recognize Arab independence.** Later, the 1916 [Sykes–Picot Agreement](#) between France and UK was exposed showing that the two countries were planning to split and occupy parts of the promised Arab country.

Colonialism after World War I



Arab-Israel Conflict



A Modern Conflict rooted in Ancient History

- **According to Jews**, their claim goes back 3,000 years when Jewish (Hebrew) kings first ruled from Jerusalem.
- **According to Palestinians** (both Muslim & Christian), the land has belonged to them since the Jews were driven out by the Romans in 135 A.D.
- **According to Arabs**, the land has belonged to them since the Mohammed-led conquest of the area in the 7th century.

A Conflict Complicated by Modern Events

- **The implications of the Holocaust.**
- **Geopolitics** - increased importance of oil in the Middle East and the political maneuverings in response to this fact.

“Setting the Stage”



Map at right: Current nation of Israel and the Palestinian territories it occupies: the Gaza Strip and West Bank

Bottom right: The new “West Bank barrier” being built by Israel.

The Jews: 1800s – Pogroms (persecutions of Jews) begin in Europe.

1894



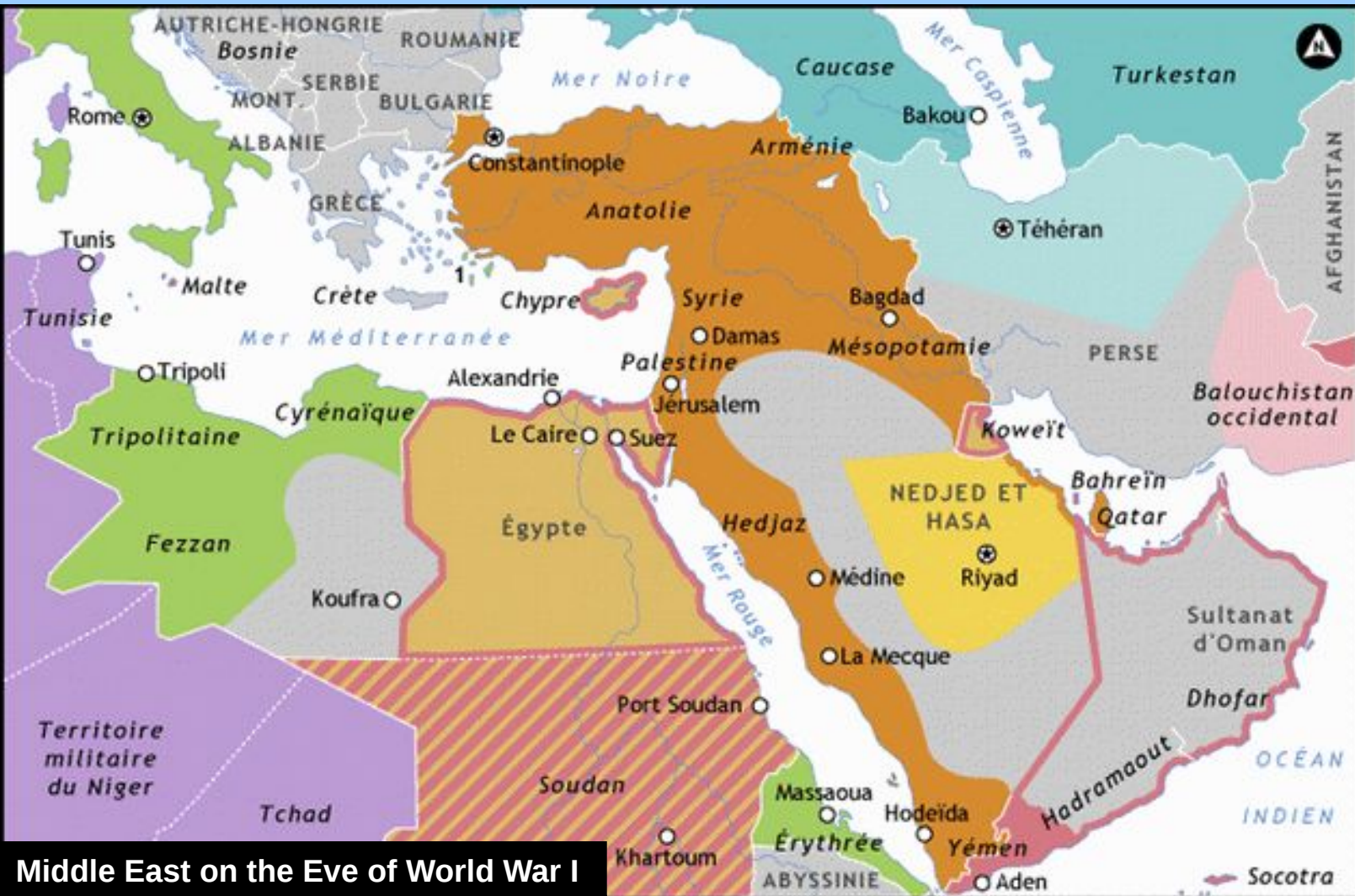
Theodor Herzl leads **Zionist movement** - a movement dedicated to creating a Jewish State in Palestine.

1896

Zionists begin settling in Palestine.

1914

WWI begins.



Middle East on the Eve of World War I

Empire ottoman	possessions britanniques	Italie et ses possessions	zone d'influence russe en Perse
État théoriquement vassal de l'Empire ottoman	territoires sous protection britannique	France et ses possessions	zone d'influence britannique en Perse
territoire ottoman sous administration britannique	condominium anglo-égyptien	Empire russe	1. Dodécanèse

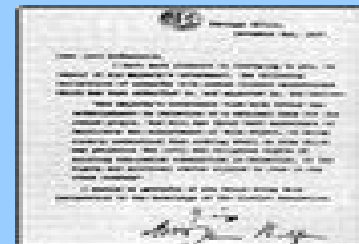
T. Loessin; Akins H.S.

The Jewish State

- Arabs were concerned about the increased immigration of Jews to Palestine.
- Jews were making requests for a homeland to be carved out of the region when the war ended.
- Britain issues the Balfour Declaration:

The **Balfour Declaration** (dated 2 November 1917) was a **letter** from the United Kingdom's Foreign Secretary Arthur James Balfour to Baron Rothschild (Walter Rothschild, 2nd Baron Rothschild), a leader of the British Jewish community, for transmission to the Zionist Federation of Great Britain and Ireland:

*His Majesty's government views with favor **the establishment in Palestine of a national home for the Jewish people, and will use their best endeavors to facilitate the achievement of this object**, it being clearly understood that nothing shall be done which may prejudice the civil and religious rights of existing non-Jewish communities in Palestine, or the rights and political status enjoyed by Jews in any other country.*



How did the Treaty of Versailles change the World Map?

1918 :

Ottoman Empire is defeated in World War I igniting widespread Turkish nationalism leading to the creation of modern Turkey.

The League of Nations asks Britain to oversee Palestine as a **mandate** – a territory to be controlled by the League of Nations until ready for independence.

MANDATE SYSTEM

1920-48

(Palestine: no states created during mandate)

1920-32

(Iraq declared independent in 1932)

1920-46

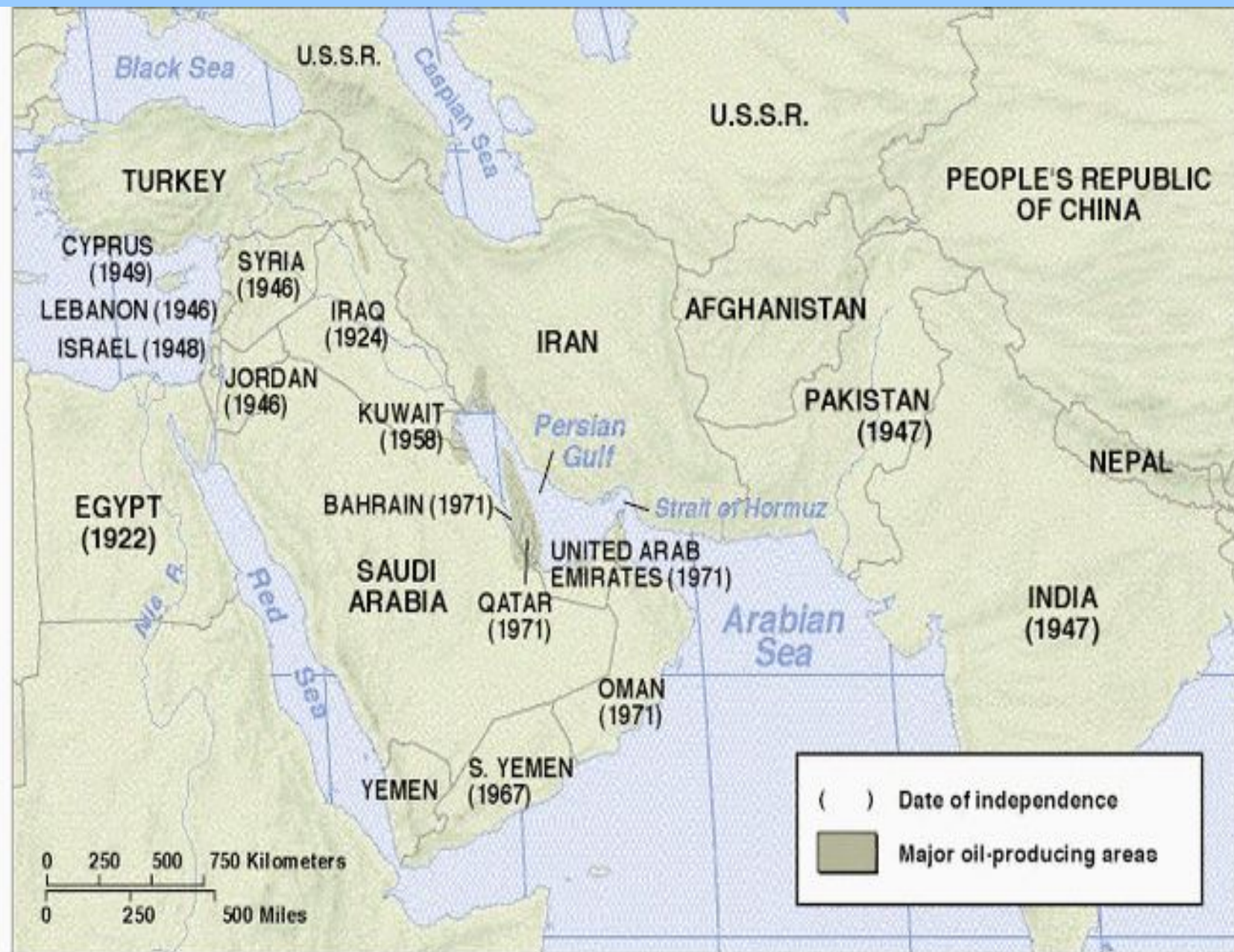
(Jordan declared independent in 1946)

 British Mandate
 French Mandate



Middle East after World War II

- Middle East countries achieved independence
- The superpowers – USA and USSR- tried to secure allies
 - Strategic importance in the Cold War
 - Vital petroleum fields
- Middle East Countries would devote large parts of their gross national product to large armies and arms purchases from both the West and the Soviet bloc.



Map 28.3 Decolonization in the Middle East and South Asia

Egypt



- In 1952, army officers led a *coup d'état* against King Faruk and replaced him with President Gamal Abdel Nasser
- Nasser became very popular in the Arab world and very unpopular in the West
- Nasser **nationalized the Suez Canal in 1956**, leading to a war with Israel, France, and Great Britain

The 1956 Suez Crisis

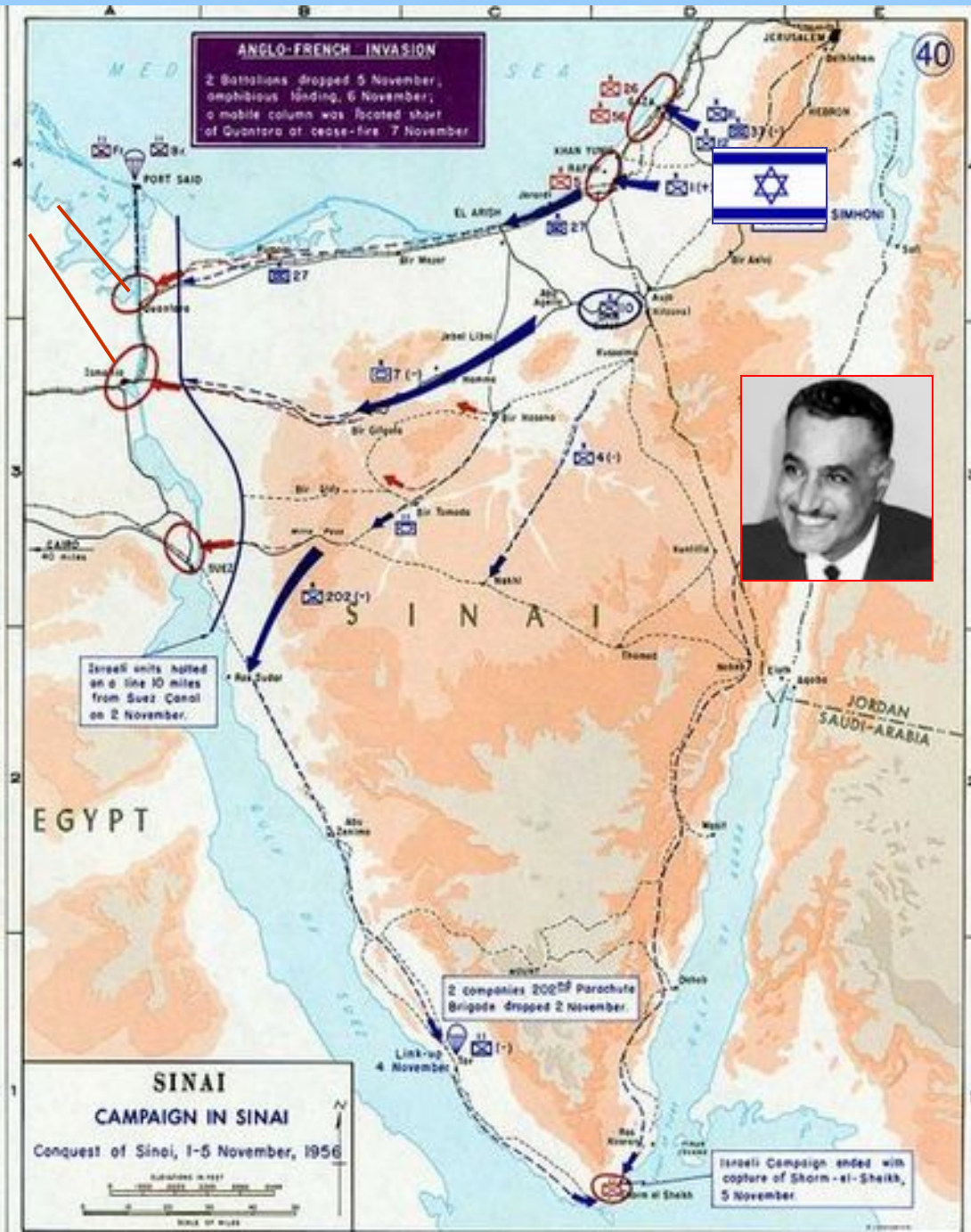
Nasser overthrew Egypt's president who many viewed as a puppet of Britain. Angry, Britain cuts off promised funds for a huge dam Egypt was building. In retaliation, Nasser seizes the Suez Canal – which Britain has controlled for nearly a century.



Egypt's new president Nasser seizes the Suez Canal.

- The 1956 Arab-Israeli war breaks out over **the Suez crisis**.
- Britain and France back an Israeli invasion of the Sinai.

Egypt was defeated but world pressure forced Israel and its allies to withdraw from Egypt and return the canal.



The 1967 Six-Day War



Nasser and the other Arab allies remained upset after the 1956 War and by 1967 were equipped with Soviet tanks and aircrafts and began to mobilize for a retaliation on Israel.

Arab forces with Soviet support began mobilizing and closed off the Gulf of Aqaba.

Israel stages a pre-emptive strike and the 1967 Six-Day War begins.

Heavy Arab losses

Israel annexes Jerusalem, the West Bank, the Sinai Peninsula, and the Golan Heights.



The U.S. and the Middle East

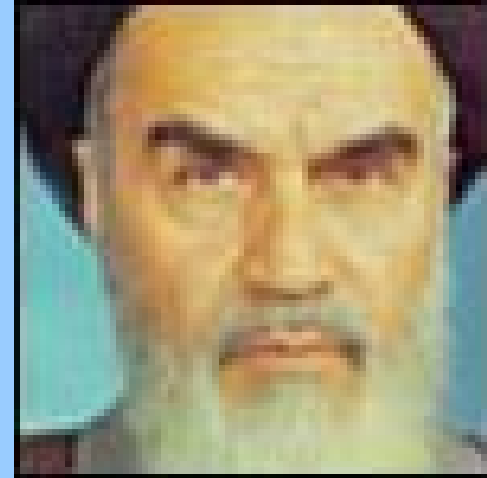
- Turkey was a cornerstone of U.S. strategy (military bases, entry into UN).
 - Greek/Turkish disagreement over Cyprus led to a Turkish armed invasion in 1974 and the subsequent division of Cyprus by the U.N.
- During the 1970s and 1980s, the U.S. would rely on Egypt, Saudi Arabia, and Israel, along with bases in the Persian Gulf and the Red Sea.

U.S.S.R. in Afghanistan

- Afghanistan had remained one of the poorest and least developed nations.
- Following a cycle of coups and countercoups, Babrak Karmal emerged and was backed by the Soviets.
- In December 1979, Soviet Union sent 80,000 troops to support the regime
- Armed resistance by militant Muslims (Mujahedin) received support & training from U.S.
- Over a million refugees fled to Pakistan.
- The mountainous terrain was ideal for guerrilla warfare and Soviet forces could not eradicate Afghan opposition.
- The Soviets withdrew in 1988-89

Iran

- Iran was another cornerstone of U.S. foreign policy after WWII.
- Led by pro-United States ruler Mohammad Reza Shah, Iran built a large military using U.S. aid and petroleum revenues.
- The Shah was overthrown in 1979 and Iran became an Islamic Republic (theocratic rule) led by the Ayatollah Ruhollah Khomeini (1902-1989):
 - Iranian leaders denounced the U.S. as “the Great Satan”
 - Demanded the Shah stand trial
 - After the U.S. refused, the U.S. embassy was occupied and the staff taken hostage in 1979
 - They were released in January 1981.



Iraq

- The Islamic revolution in Iran threatened to spread to Iraq.
- The Ba'athist government under Saddam Hussein attacked Iran in 1980.
- The war lasted until 1988 with Iraq receiving military supplies from the Soviet Union, other Arab nations, and the U.S. while Iran was supplied by North Korea, China, and Israel
- An armistice was signed in 1988; Khomeini died in 1989.

Israel

- After WWI, the area had become the British mandate of Palestine.
- When Jewish immigration accelerated, friction was created between Jews and Palestinian Arabs.
- After 1945, Zionists and Palestinian Arabs wanted individual nations and both felt they had claim to Palestine.
- Britain withdrew in 1947 and the U.N. proposed that the country be partitioned 50/50.

After World War II

Unable to settle the matter
after World War II,
Britain decides to turn the
issue over to the U.N.



Israel

- With the end of WWII, the Arab-Israeli conflict became the major political and military problem in the Middle East.
- After the Holocaust, many of the survivors had no place to go.
- Many Jews believed that they should have a homeland of their own.
- They concentrated on the biblical area of Israel.

Israel

- A war broke out when the Jews, certain of U.S. and Soviet support, **declared** their independence and the creation of a new state of Israel on **May 14, 1948**.
- When fighting ended in 1949, the Israelis had conquered more territory than had been envisioned in the U.N. plan, and the rest of the territory fell to Egypt and Jordan, rather than forming an independent Palestinian state.
- Palestinian Arab refugees fled also to Lebanon, the West Bank, and the Gaza strip.

Israel Becomes a State

The Palestinian state the U.N. had planned for the Palestinians never came into being.

Israel seized half that land in this first 1948-49 war. Egypt took control of the Gaza Strip, Jordan took the West Bank.

Thousands of Palestinians had to flee out of the areas now under Jewish control and found themselves homeless and living in U.N.-sponsored refugee camps.



The U.N. recommends the partition of Palestine into one Palestinian state and one Jewish state;



sympathy for Jews after the Holocaust helped generate increased Zionist support.

**1948:
An independent state of Israel is created.**



The next day after Israel announced its independence, six Arab states – Egypt, Iraq, Jordan, Lebanon, Saudi Arabia, and Syria – invaded Israel.

Outbreak of full-scale Arab-Israeli war.

Israel would depend on strong American support in this war and future wars with its Arab neighbors.



The Jewish State

Israël de 1947 à 1949



LE PLAN DE L'O.N.U.



APRES LA GUERRE DE 1948-1949

Palestine
britannique

	Etat arabe (palestinien)
	Etat juif
	zone internationale

 annexions
israéliennes

A. HOUDOT - Aix-Marseille

EXPANSION OF ISRAEL

LEBANON
 Beirut
 Sidon
 Tyre
 1958—U.S. Marines bolster government
 1975—Civil War begins
 1982—Israel invades
 1983—U.S. Marine barracks bombed
 1984—U.S. naval shelling; pull-out

SYRIA
 Damascus
 1976—Invasion of Lebanon
GOLAN HEIGHTS

ISRAEL
 1948—War of Independence
 1956—Sinal War
 1967—Six-Day War
 1973—Yom Kippur War

WEST BANK
 Jerusalem
 Amman
 1987—Palestinian uprising begins
 1988—PLO declares independence

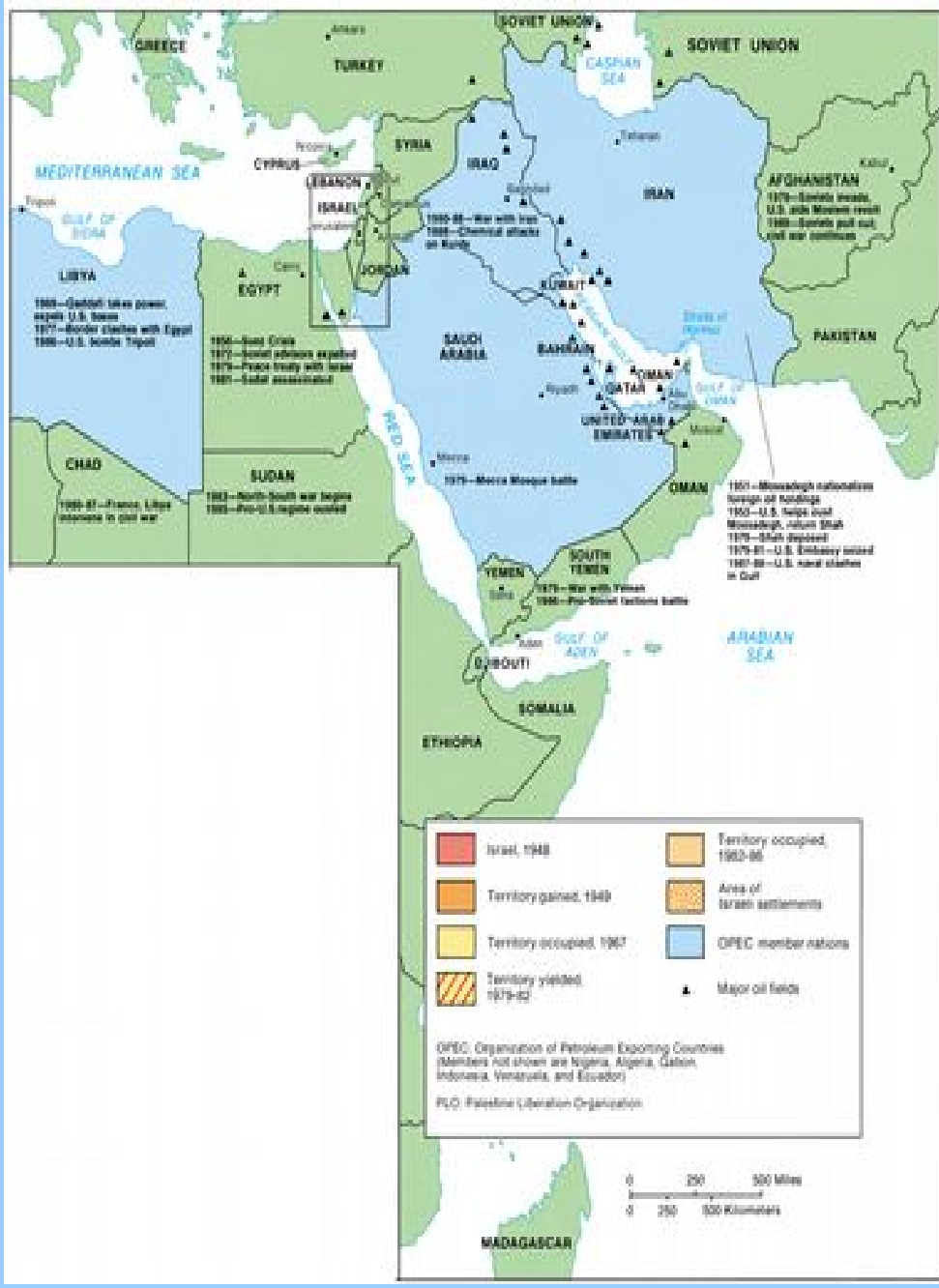
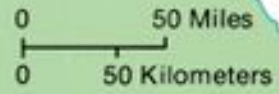
GAZA STRIP

EGYPT

SINAI PENINSULA

JORDAN

SAUDI ARABIA



Palestinian Refugees

- During the 1948 Palestine War, around 85% (720,000 people) of the Palestinian Arab population of what has now become Israel fled or were expelled from their homes, to the West Bank, the Gaza Strip, and to the countries of Lebanon, Syria and Jordan. These people are the **so-called Palestinian Refugees**.
- They, and their descendants, who are also entitled to registration, are assisted by UNWRA in 58 registered camps, 10 of which were established in the aftermath of the Six-Day War in 1967 to cope with new Palestinian refugees.

Palestine



- After 1967, the refugees form the Palestinian liberation organizations, (PLO) under the leadership of Yasir Arafat
 - The PLO used Lebanon as a base after 1970
 - The Lebanese civil war erupted again in 1975 and would continue for over 14 years
 - Beirut would witness bombings, random assassinations, and extensive destruction.

- In 1988, the PLO declared the independence of Palestine (the West Bank and Gaza).

- The conflict still continues.

The Expansion of Israel

- Israel would fight victorious wars in 1956 against Egypt, and 1967 against Egypt, Syria, and Jordan, securing much of the territory around Israel.
- Yom Kippur War (1973)
 - Syria and Egypt launched a surprise attack against Israel
 - Soviet Union supplied the Arabs and the U.S. supplied the Israeli allies
 - The seven Arab members of the Organization of Petroleum Exporting Countries (OPEC) imposed a boycott of oil sales to countries seen as friendly to Israel (October 1973 to March 1974).

"The 1973 Yom Kippur War".



October 6, 1973 was "Yom Kippur" - the holiest day on the Jewish calendar - when Egypt and Syria opened a coordinated surprise attack against Israel. The equivalent of the total forces of NATO in Europe was

mobilizing on Israel's borders. The whole world watched anxiously to see what steps would be taken by Israel's Prime Minister, **Golda Meir**.

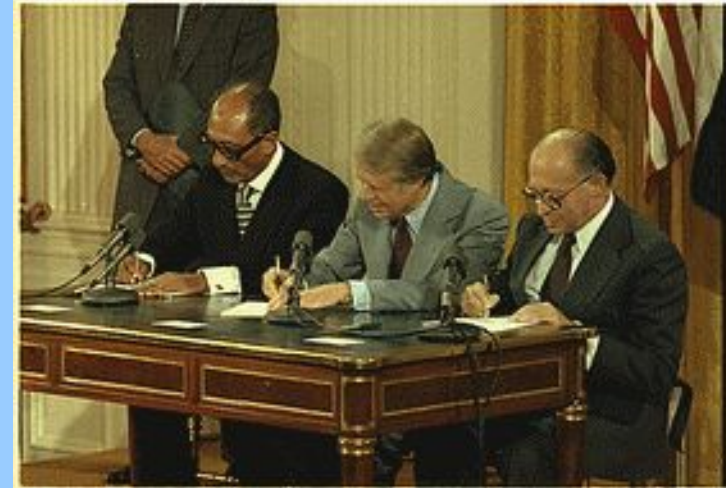
Joint Arab attack on holiest Jewish holiday.

The 1973 Yom Kippur War begins.

Israel counter-attacked. Signed an uneasy truce.

Camp David Accords

- In 1979, with the mediation of President Jimmy Carter Israel (Menachen Begin) and Egypt (Anwar Sadat) sign a peace treaty, the Camp David Accords:
- Israel would return the Sinai to Egypt in exchange for recognition.
- Israel had to negotiate a resolution of the Palestinian refugee problem (never happened).
- Made an all-out war between Israel and the Arab world less likely.



- Egypt becomes first Arab nation to officially recognize Israel's statehood.
- Israel agrees to return Sinai Peninsula to Egypt.



Two years later, **Sadat is assassinated by angry Muslim extremists.**

Egypt's new President **Hosni Mubarak**



policy and maintained peace with Israel. Palestinians could no longer rely on Egypt in their conflict with Israel.



Withdrawal from Sinai Following the Israel-Egypt Peace Treaty



Palestinians continued to resent Israel's rule over their lands and they began turning increasingly to the **P.L.O. (Palestinian Liberation Organization)** - a militant group fighting an armed struggle for the liberation of Palestine from Israel.

Yasir Arafat was the leader of the P.L.O. from 1969 – 2004.

In 1987 Palestinians began the **intifada** - a widespread “uprising” with acts of civil disobedience – such as attacking Israeli soldiers, rock throwing, boycotts, demonstrations. By 1991 world pressure led to peace talks again.

"The Declaration of Principles"

Ongoing violence associated with the intifada as well as Palestinian civil disobedience led to pressure on Israel.

Prime Minister of Israel Yitzhak Rabin and P.L.O. leader Arafat issue a Declaration of Principles.

Rabin promised self-rule for the Palestinians in the Gaza Strip and West Bank.

Rabin and Arafat were both awarded the Nobel Peace Prize in 1994.



In the same manner that Sadat had been assassinated in 1981 by Muslim extremists on his side who were angry about his willingness to make peace with Israel...



Following the assassination of Egypt's President Sadat in 1981, Israeli Prime Minister Rabin paid a respectful visit to his memorial.



Memorial to Yitzhak Rabin in Tel Aviv, Israel

...Israel's Prime Minister Rabin was also assassinated in 1995 by a right-wing Jewish extremist angry at Rabin's concessions to the P.L.O.



1997: Arafat congratulates the West Bank town of Hebron being returned to Palestinian control after 30 years under the Israelis. But Israel's new Prime Minister Netanyahu then approved a large new Jewish housing project in eastern Jerusalem. New violence broke out, led primarily by a right-wing Islamic extremist group called Hamas.

1998: A “land-for-peace” deal is signed by Netanyahu and Arafat that called for a promised crackdown on terrorists, redeployment of Israeli troops, transfer of 14.2 percent of the West Bank land to Palestinian control, safe passage corridors for Palestinians between Gaza and the West Bank.



1999: Israel's new Prime Minister Barak released 200 Palestinian prisoners and began transferring West Bank land to Palestinian control as part of the terms of the 1998 accords.

2000: Israeli right-wing opposition leader Ariel Sharon led a delegation to a Jerusalem site that Jews and Muslims consider sacred. Crowds of Palestinians in Gaza and the West Bank began attacking Israeli forces. A deadline for a final peace accord passes with no agreement reached. Barak resigns.



2001: Ariel Sharon wins the election. The new U.S. Bush Administration, which had been mostly mute on the Middle East conflict, was suddenly stirred to interest following the 9/11 attacks on the U.S.



2002: Despite renewed diplomatic efforts by the U.S., the U.N., Russia, and even from the Saudi Crown Prince, the violence intensified with a barrage of suicide bombings.



2003: Once the P.L.O. President Yasser Arafat, under pressure from the U.S., EU, U.N., and Russia, instituted a constitutional reform for the Palestinian Authority, including transferring some of his powers to the newly created post of prime minister, the quartet formally presented the details of the proposed "road map to peace" to the Israelis and the Palestinians.



Mahmoud Abbas was elected to the new position of Prime Minister by the newly formed Palestinian Authority cabinet.



2004: Palestinian Authority President Yasser Arafat, 75, the leader who passionately sought a homeland for his people but was seen by many Israelis as a ruthless terrorist and a roadblock to peace, died.

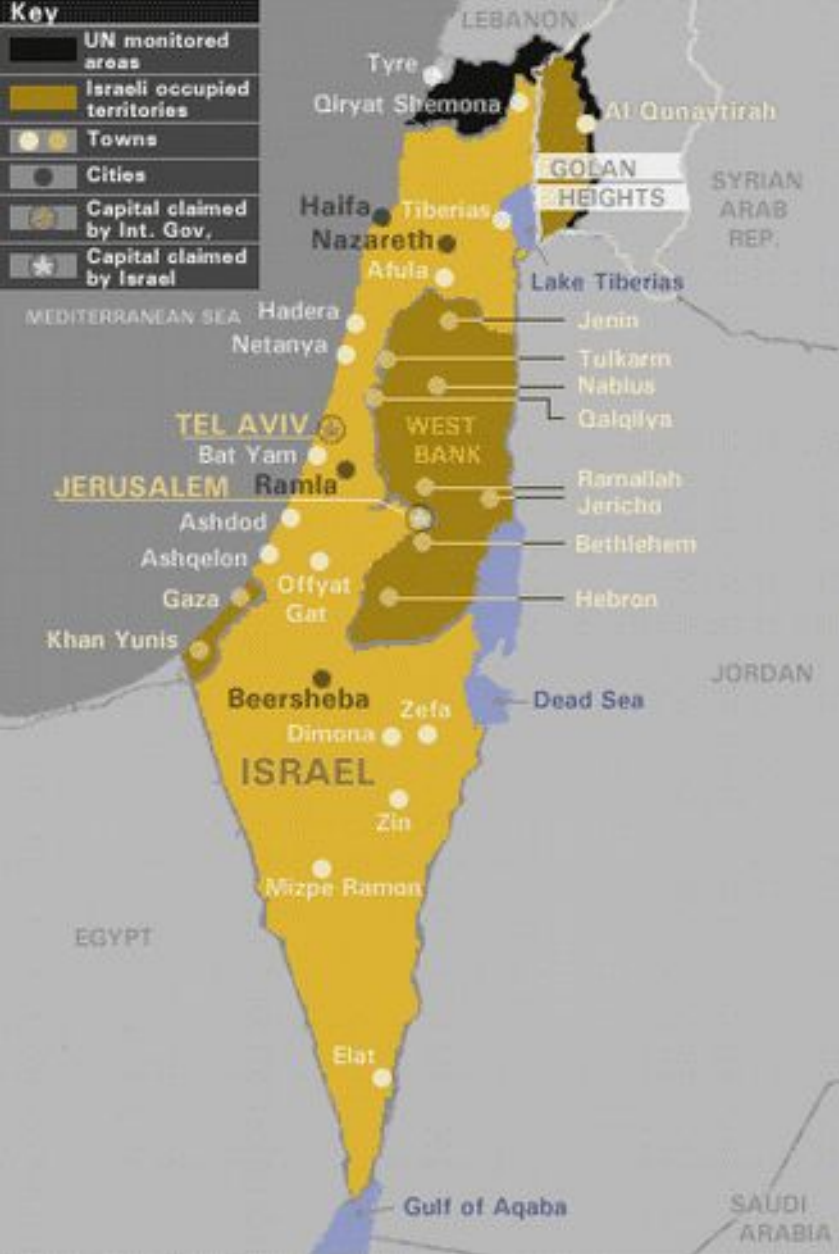
2005: Palestinian President Mahmoud Abbas will meet U.S. President George W. Bush in Washington on May 26 to further discuss the "Road Map to Peace."



The United Nations established the U.N. Relief and Works Agency for Palestinian Refugees in the Near East to help care for those Palestinians. More than 3.7 million Palestinians are registered with the agency in Jordan, Syria, Lebanon, the West Bank and Gaza. More than 1 million of those refugees live in 59 U.N.-operated refugee camps -- 27 of them in the West Bank and Gaza. Jordan hosts the most refugees -- about 1.6 million, of which 280,000 live in 10 camps.

Israeli leaders have held the position that the right of return is non-negotiable saying that it would create a demographic problem for Israel, making it unable to continue as a Jewish state.





Demographics

Israel: Disputed. Israel claims Jerusalem as its capital, but most countries have embassies in Tel Aviv.

Area: 8,019 sq. mi, slightly smaller than New Jersey.

Population: 5,938,093 (July 2011 est.).

Gaza Strip: Israeli occupied territory with limited Palestinian self-government.

Area: 139 sq. mi, mostly limestone hills.

Population: 1,178,119 (2011 est.)

West Bank: Israeli occupied territory with areas of limited Palestinian self-government.

Area: 2,263 sq. mi

Population: 2,090,713 (2011 est.)

Settlements: about 380,000 Israeli settlers in the West Bank; about 20,000 in the Israeli-occupied Golan Heights; about 300,000 in East Jerusalem.

September 11, 2001

- The **September 11 attacks** were a series of four coordinated terrorist attacks by the Islamic terrorist group al-Qaeda on the United States in New York City and the Washington DC area on Tuesday, September 11, 2001.
- The attacks killed 2,996 people and caused at least \$10 billion in property and infrastructure damage.



Motives of the Attacks of 9/11

Osama bin Laden's declaration of a holy war against the United States, and a 1988 *fatwā* –Islamic Legal Pronouncement -signed by bin Laden and others, calling for the killing of American civilians, are seen by investigators as evidence of his motivation.

⌈ In bin Laden's November 2002 "Letter to America", he explicitly stated that al-Qaeda's motives for their attacks include:

- U.S. support of Israel;
- Support for the "attacks against Muslims" in Somalia;
- Support of Russian "atrocities against Muslims" in Chechnya;
- Pro-American governments in the Middle East (who "act as your agents") being against Muslim interests;
- Support of Indian "oppression against Muslims" in Kashmir;
- The presence of U.S. troops in Saudi Arabia;
- The sanctions against Iraq.

The War in Afghanistan

- The **War in Afghanistan (2001–present)**: following the September 11 attacks, the United States invaded the country supported initially by close allies.
- Its aims were to dismantle [al-Qaeda](#), and to deny it a safe base of operations in Afghanistan by removing the [Taliban](#) from power. Key allies, including the United Kingdom, supported the U.S. from the start.
- In August 2003, NATO became involved as an alliance, taking the helm of the [International Security Assistance Force](#). On December 28, 2014, NATO formally ended combat operations in Afghanistan and transferred full security responsibility to the Afghan government.

The War in Iraq

- The **Iraq War** was a protracted armed conflict that began with in March [2003 the invasion of Iraq](#) led by the United States. The invasion toppled the government of [Saddam Hussein](#). The conflict, however, continued for much of the next decade as an insurgency emerged to oppose [the occupying forces](#) and the post-invasion Iraqi government. The United States officially withdrew from the country in 2011, but the insurgency and various dimensions of the civil armed conflict continue.
- The power vacuum following Saddam's demise and the mismanagement of [the occupation](#) led to widespread [sectarian violence](#) between [Shias](#) and [Sunnis](#) as well as a [lengthy insurgency](#) against U.S. and coalition forces. The United States responded with a [troop surge in 2007](#); the heavy American presence and deals made between the occupying forces and [Sunni militias](#) reduced the level of violence.
- The U.S. began withdrawing its troops in the winter of 2007–2008 and formally withdrew all combat troops from Iraq by December 2011.
- The [Bush Administration](#) based its [rationale for war](#) on the assertion that Iraq possessed weapons of mass destruction (WMDs) and that Saddam's government posed an immediate threat to the United States and its coalition allies. Select U.S. officials accused Saddam of harboring and supporting [al-Qaeda](#), while others cited the desire to end a repressive dictatorship and bring democracy to the people of Iraq. After the invasion, no substantial evidence was found to verify the initial claims about WMDs. The rationale and misrepresentation of pre-war intelligence faced heavy [criticism](#) within the U.S. and internationally.

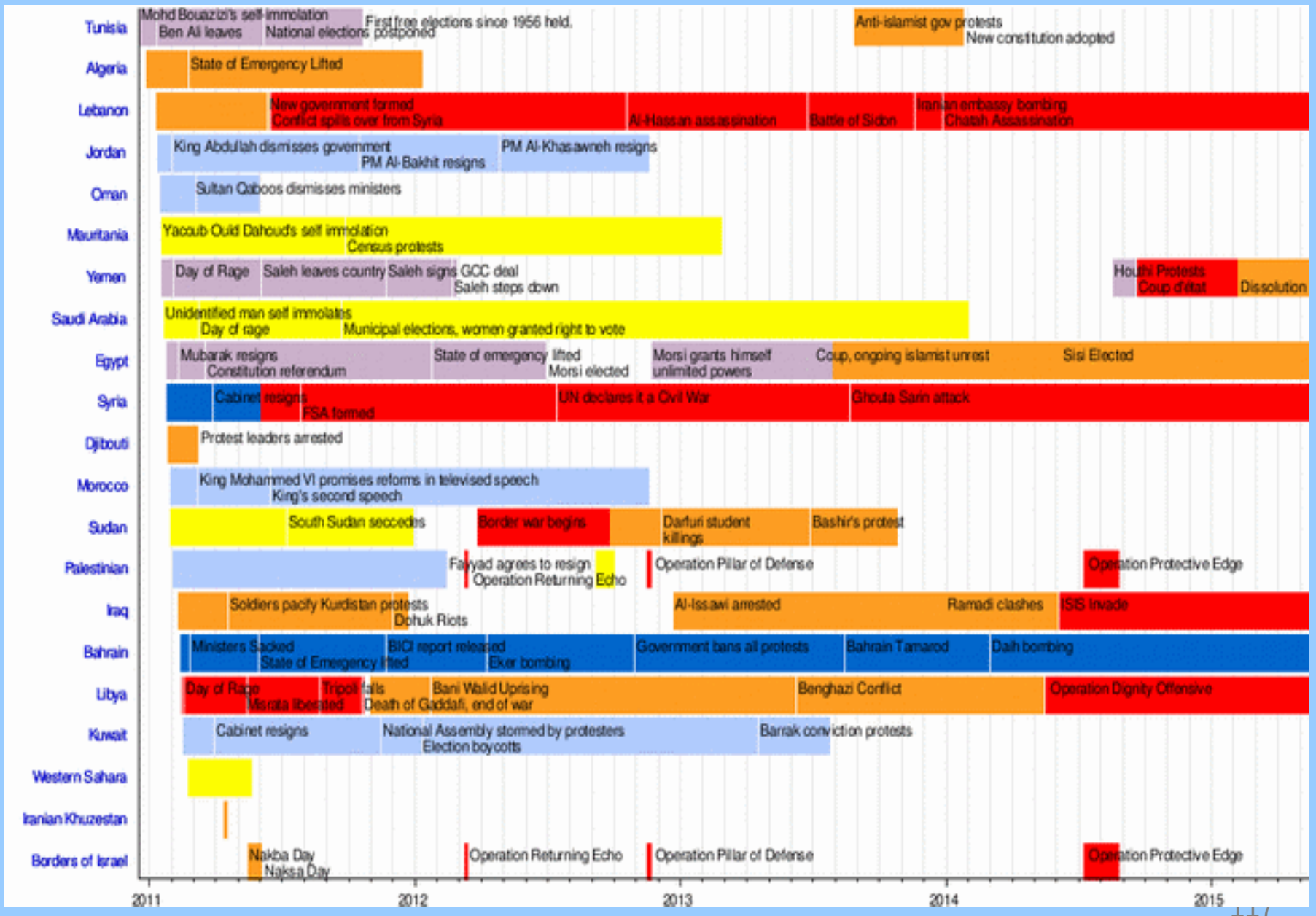
The Arab Spring

Understanding the Revolutions of
2011 by Jack O. Goldstone

The Post-Islamist Revolutions by
Asef Bayat



Arab Spring Timeline



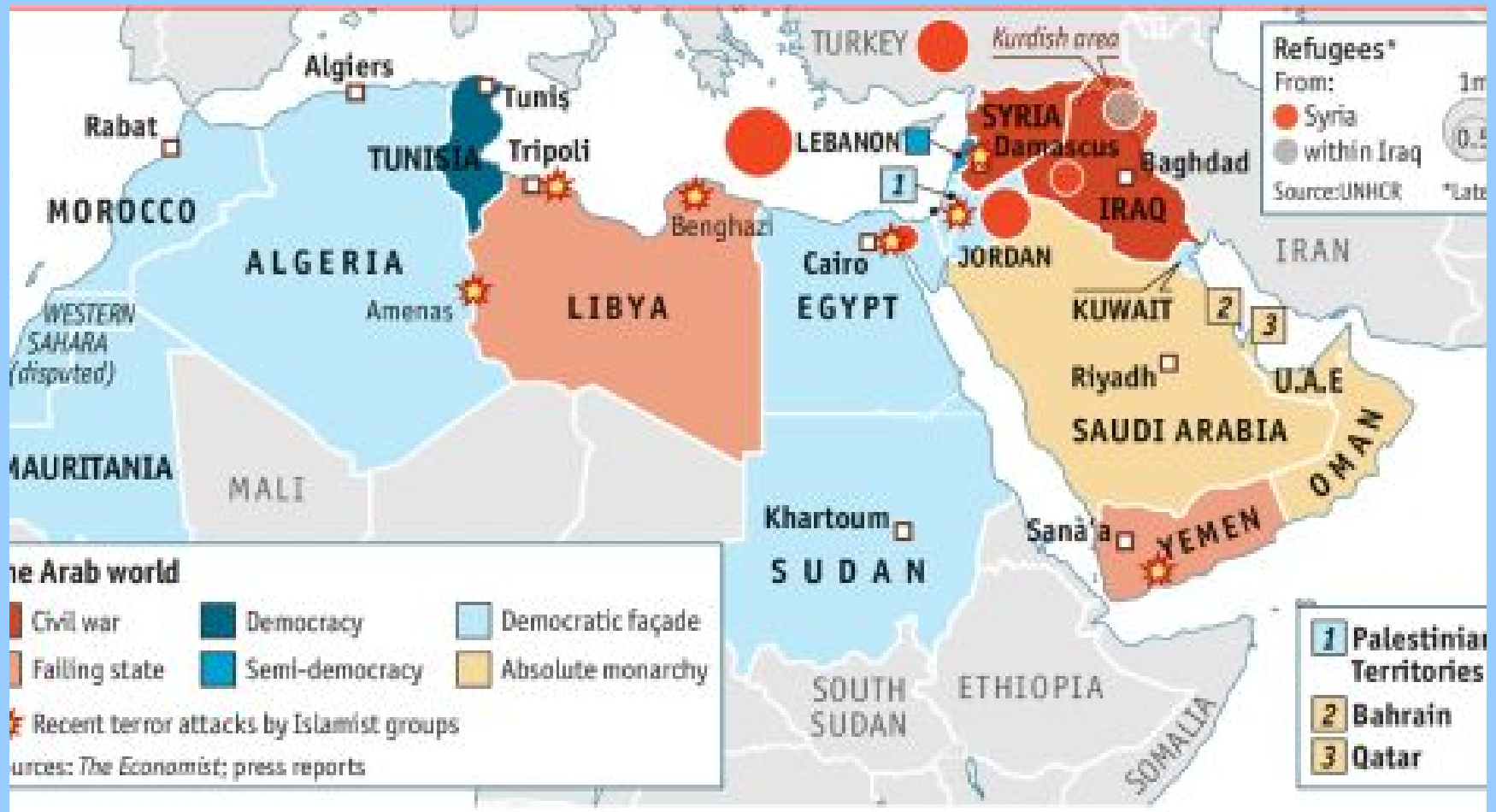
The Arab Revolts: A Search for Dignity

- The year 2011 saw dramatic changes in the Arab world. Unprecedented popular demonstrations in Tunisia, Egypt, and Libya led to the overturning of autocratic rule in North Africa.
- Arab political language is changing: *“The new slogans are about equitable distribution of wealth, defeating nepotism and corruption, freedom of expression and assembly, all of which are rights meant to restore self-respect and render to people their due sense of dignity,” Nabil Echchaibi, an Arab scholar.*
- One of the remarkable aspects of the prospective democratic transitions in North Africa and the Middle East is that it has taken so long. With the exception of Central Asia, *the Arab world is the last major region to start down the democratic path.*

Status of the Arab Awakening

(As of July 2014)

Source: The Economist



Arab Spring: Why Now?

Many of the
challenges,
frustrations, and
unmet

Triggers and Drivers – Immediate and Underlining Causes

- Rising food prices
- High Unemployment Rate (especially youth unemployment)
- Frustration with closed, corrupt, unresponsive political systems
- Lack of freedom of expression and political freedom
- Increasing wealth and income inequality.

The Arab Spring

- In both Tunisia and Egypt, **the military plays** a significant role.
- In both countries military resentments made the military less likely to crack down on mass protests; officers and soldiers would not kill their countrymen just to keep the Ben Ali and Mubarak families and their favorites in power.
- A similar defection among factions of the Libyan military led to Qaddafi's rapid loss of large territories.
- In Egypt, the military was crucial in the overcoming of the democratic elected President Morsi condemned to a death penalty

Necessary Conditions for a Revolution

□ **For a revolution to succeed, a number of factors have to come together:**

1. The government must lose its legitimacy.
2. Elites (especially in the military) must be alienated from the state and no longer willing to defend it.
3. A broad-based section of the population, spanning ethnic and religious groups and socioeconomic classes, must mobilize.
4. International powers must either refuse to step in to defend the government or constrain it from using maximum force to defend itself.

Necessary Conditions for a Revolution

Revolutions rarely triumph because these conditions rarely coincide.

- In almost all cases, broad-based popular mobilization is difficult to achieve because it requires bridging the different interests of the urban and rural poor, the middle class, students, professionals, and different ethnic or religious groups.
- In addition, other countries have often intervened to save embattled rulers in order to stabilize the international system (i.e., in support of their opposition to Communists/Iran/ Radical Islamist Groups etc.) -A Recent Example: Bahrain.

The Authoritarian Regimes

How did authoritarian regimes manage to resist change?

- They preserved some of the **formal aspects of democracy**, e.g., elections, political parties, a parliament, or a constitution. However, they ruled above them by installing their supporters in key positions and sometimes by declaring states of emergency, which they justify by appealing to fears of external (or internal) enemies.
- Behind the scenes, **dictators generally accumulate great wealth**, which they use to buy the loyalty of supporters and punish opponents.
- They also seek relationships with foreign countries, promising **stability** in exchange for aid and investment.

The Authoritarian Regimes

- Dictators control their countries' military elites by keeping them divided.
- To keep the masses depoliticized and unorganized, authoritarian regimes control elections and political parties and pay their populations off with subsidies for key goods, such as electricity, gasoline, and foodstuffs.
- When combined with **surveillance, media control, and intimidation**, these efforts generally ensure that citizens stay disconnected and passive.

The Collapse of Authoritarian Regimes

- Fast-growing and urbanizing populations in the Middle East have been hurt by low wages and by food prices that rose by 32% in the last year alone, according to the UN's Food and Agriculture Organization (FAO).
- But it is not simply such rising prices, or a lack of growth, that fuels revolutions; **it is the persistence of widespread and unrelieved poverty amid increasingly extravagant wealth (i.e., inequality).**
- Although economies across the region have grown in recent years, the gains have bypassed the majority of the population, being amassed instead by a wealthy few.
- However, over time power becomes too concentrated and it is difficult to hold on to.

The Post-Islamist Revolutions

- Religious rhetoric has been remarkably absent, even though the participants of the Middle East's many uprisings remain overwhelmingly people of faith.
- In Tunisia, protesters' central objective was to establish a democratic government. Similarly, in Egypt the revolution demanded “change, freedom, and social justice” and was broadly **secular**.
- ✂ In fact, the major religious groups did not initially back the revolution. The Muslim Brotherhood's old-guard joined reluctantly and only after being pushed by the group's younger members.

The Post-Islamist Revolutions

- Libya's rebel movement and provisional government, the National Council, is composed not of Islamists or al Qaeda members but of a mix of the secular and faithful, including doctors, lawyers, teachers, regime defectors, and activists working to end Muammar al-Gaddafi's oppression.
- According to their spokesman, Islamist presence is minimal, since the country's Islamists were, for the most part, crushed by Qaddafi long ago.

The Post-Islamist Revolutions

- In Yemen and Syria, where protesters are also demanding democracy, there has also been no evidence of a major Islamist presence.
- Today's overwhelmingly **civil** and **secular** revolts represent a departure from the Arab politics of the mid-1980s and 1990s.
- Bolstered by Iran's 1979 Islamic Revolution, in those days the political class was consumed by the idea of establishing an Islamic order, including a religious state and sharia.

The Post-Islamist Revolutions

- Recently, Islamism began to lose its appeal, and the Iranian model of revolution lost much of its attractiveness.
- Al Qaeda's violence, moreover, had caused a backlash against ordinary Muslims, who found al Qaeda's practices abhorrent to the true spirit of Islam.
- Post-Islamism emerged as a frame within which religious politics could become more inclusive.
- Muslims could confidently remain Muslim but also have a democratic state.
- Role of the diaspora
- Sectarism has not disappeared

After The Arab Spring

- Some Western governments, having long supported dictators (e.g., Mubarak) against a rising tide of radical Islam, now fear that Islamist groups are poised to take over.
- Many polls have shown that **Turkey's experience (or the Turkish model: secular, democratic, Western-friendly)** engages the imagination of Arab public opinion in a way that Iran's does not. Arabs tend to see in Turkey not just a vibrant democracy, but a dynamic economy led by Islam's equivalent of Christian Democrats.
- However the secularization of Turkey is being questioned.
- After the Arab spring there other two models: **Iran the Islamic republic and ISIS the Islamic State.**

ISIS

Thanks to Wendy Peters
Senior Vice President
Terrorism Practice Group Willis North America

Videos and Articles

□ Article and Video:

<http://www.theatlantic.com/features/archive/2015/02/what-isis-really-wants/384980/>

□ Myths about Isis:

<http://www.vox.com/cards/isis-myths-iraq/crazy-irrational>

□ Ideology

<http://www.npr.org/2014/12/11/370156315/to-fight-isis-you-have-to-understand-its-ideology>

□ The Evolution of ISIS

<http://www.al-monitor.com/pulse/tr/security/2013/11/syria-islamic-state-iraq-sham-growth.html>

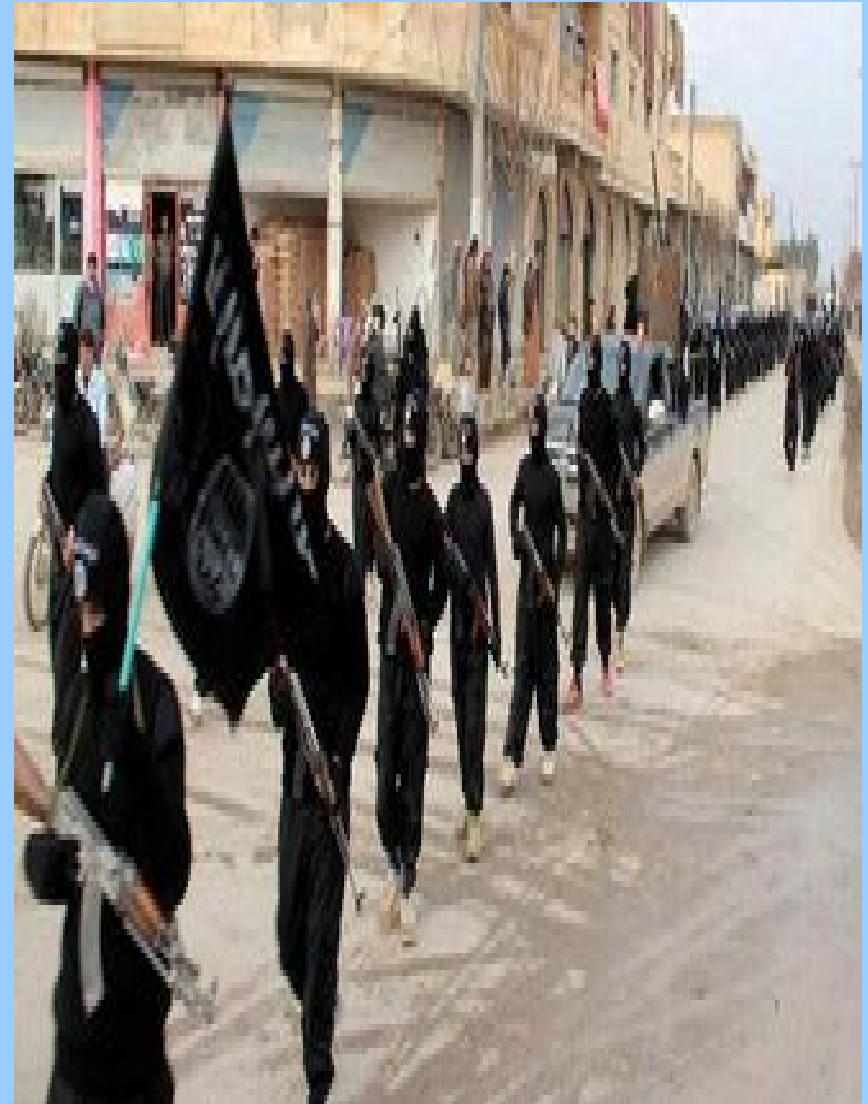
□ The Islamic State Ideology and Propaganda

<http://www.brookings.edu/events/2015/03/11-islamic-state-ideology-propaganda>

Isis

ISIS: Islamic State of Iraq and Syria;
ISIS: Islamic State of Iraq and the Levant

- ❖ Estimated 50,000 in Syria / 30,000 in Iraq
- ❖ Estimated \$2 billion in net assets by mid 2014 private donors, robbing banks, etc.
- ❖ Produces raw crude and sells electric power in Syria
- ❖ Sophisticated in use of social media; cunning, brutal, well-funded.
- ❖ ISIS is believe to have established foothold in Mexico in cooperation with drug cartels.



The Islamic State



The Islamic State



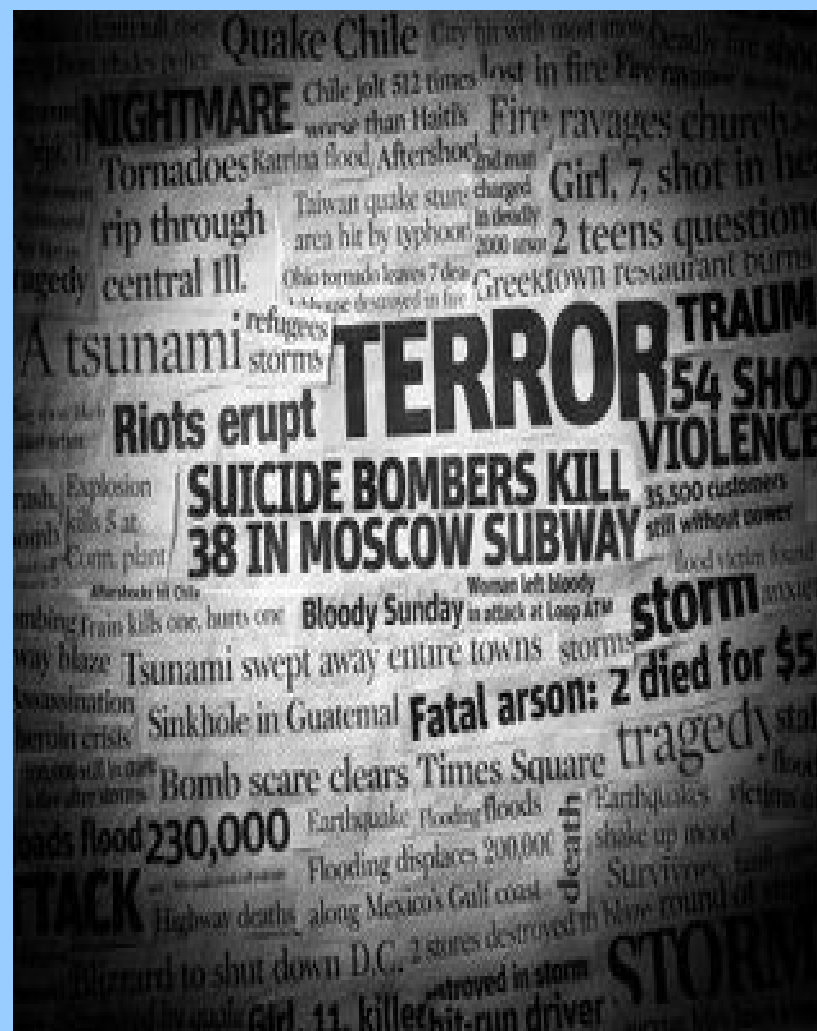
The Islamic State



Terrorism RISK TODAY

□ The Terrorism Risk:

- Is terrorism risk still an issue?
- How is terrorism currently insured? New market dynamics & capacity.
- ⌘ The Terrorism Risk Insurance Program Reauthorization Act of 2014:
 - News from Capitol Hill. Support or inaction? The latest proposals.
 - The consequences of indecision – options available to ensure optimal coverage.
- ⌘ Action Items for 2015

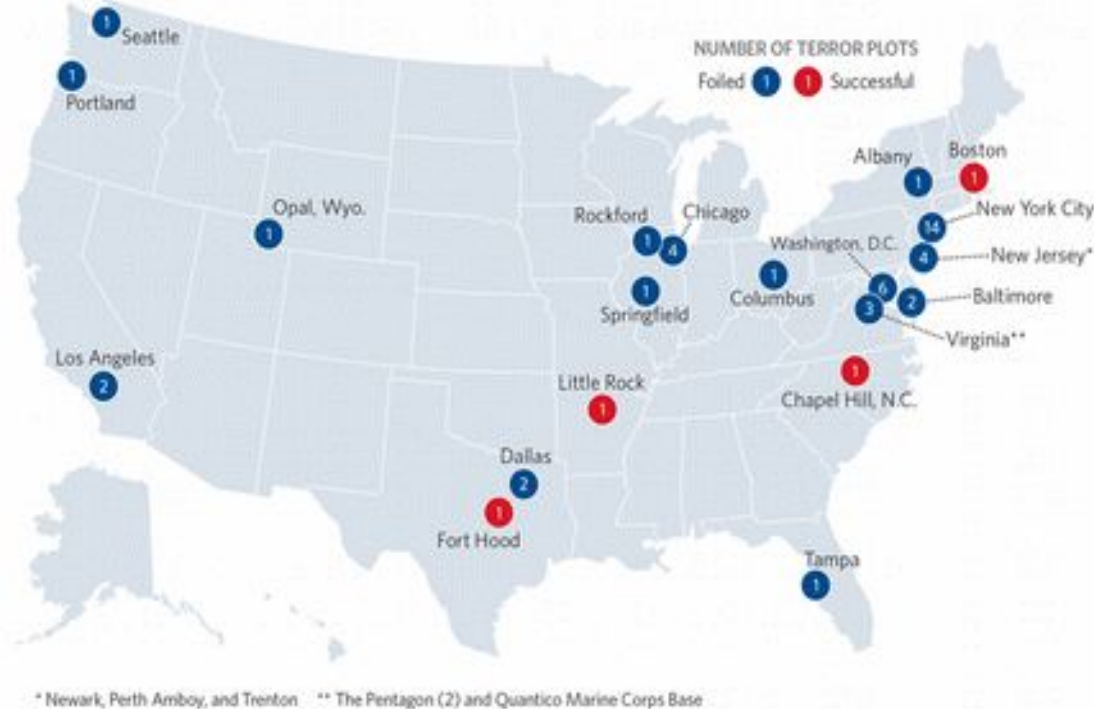


Terrorism in the US

MAP 1

Terrorists Have Targeted Locations Across the U.S.

This map locates 49 specific sites targeted for terror attacks since September 11, 2001. More than 10 additional plots with no clear target were also foiled.



Source: Heritage Foundation research based on media reports and court documents.

SR 137 heritage.org

- At least 19 publically known terrorist attacks against the US have been foiled since 9/11.
- While not of the scale of 9/11, the fear of home grown terrorists increases
- Motives can vary from revenge for war on Islam, to poverty, to animal rights, or governmental policy.
- Over 100 US citizens have been identified as ISIS recruits.
- New tactics: Cyber terrorism, electromagnetic pulse, biological agents (e.g. ebola) .
- Attacks on the power grid in 2014 in California.

5. Culture and Religion

Thanks to Louay M. Safi
Executive Director
ISNA Leadership Development Center

Islam and Muslims

The world of Islam is as diverse as the world of Christianity.

□

□ Islam is experienced differently across cultures. In the words of a contemporary scholar of Islam: “*Islam is like a river in that it takes its color from the cultural bed it flows through.*”

What is ISLAM?

Islam is an Arabic word derived from the word peace, which also means submitting to a higher will.

Islam means seeking peace by submitting to the Divine Will.

Who are the Muslims?

- ❖ Individuals who completely and peacefully submit to the will of God, believe in the Articles of Faith and practice the Five Pillars of Islam.
- ❖ Muslims constitute 1/5 of world population, about 1.4 billion, and form the majority in 40 countries.
- ❖ Most Muslims live outside the Middle East.



Who is God in Islam?

Say: He is God, the One; God, the Eternal and Absolute; He begets not, nor is He begotten; And there is none like unto Him.

Qur'an (112 : 1-4)

Who is God in Islam?

“God is He, beside whom there is no other god; He knows (all things) both secret and open; He, Most Gracious, Most Merciful.”

“God is He, beside whom there is no other god; the Sovereign, the Holy, the Peace, the Guardian of Faith, the Preserver of Safety, the Exalted in Might, the Irresistible, the Supreme: Glory to God! (High is He) above the partners they attribute to Him. He is God, the Creator, the Evolver, the Form Giver. To Him belong the Most Beautiful Names: whatever is in the heavens and on earth, does celebrate His Praises and Glory: and He is the Exalted in Might, the Wise.”

(Qur'an 59: 22-4)

Who is Prophet Muhammad?



- ❖ Born in Makkah (Mecca) in the year 570 (CE).
- ❖ Received his first revelation from God at the age of forty, while engaged in a meditative retreat, through Archangel Gabriel (Holy Spirit).
- ❖ Revelations continued for twenty-three years, and are recorded in the Qur'an.

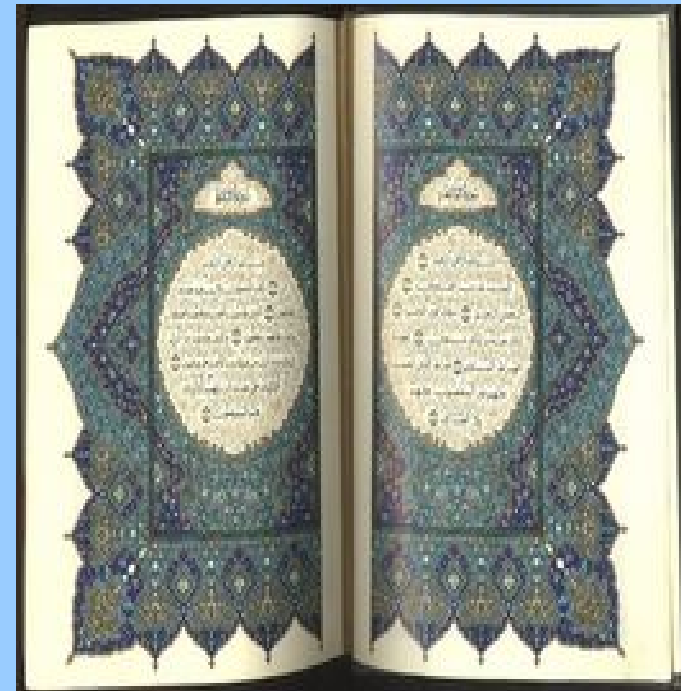
Qur'an



Qur'an is the primary source of Islamic guidance.



The Qur'an is the record of the words of God revealed to Prophet Muhammad in Arabic through Archangel Gabriel. This revelation came in phases and continued for twenty-three years.



Sunnah – Saying and Teaching of the Prophet



Sunnah, the practices, examples and saying of Prophet Muhammad



A major source of Islamic guidance

Illustrates Islamic faith in practice



Collected in hundreds of texts known as “*Hadiths*” (narrations).



Articles of Faith



Belief in the Oneness or Unity of the Divine



Belief in Angels created by God



Belief in the Revealed Books of God.

Articles of Faith



Belief in the Messengers and Prophets



Belief in the Day of Judgment



Belief in Divine Dispensation.

The Five Pillars of Islam

Islam is built on five pillars, the first of which is a statement of faith. The other four are major exercises of faith



Declaration of Faith (Shahadah).



Prayer (Salah)



Obligatory Charity (Zakah)



Fasting (Siyam)



The Pilgrimage (Hajj)

Hajj Pilgrimage



Mecca



Spirit of Islam

□ O mankind! We created you **from** a single (pair) of a male and a female, and made you into nations and tribes, that you may know each other. Verily the most honored of you in the sight of God is the most righteous of you. And God has full knowledge and is well acquainted with all things.

Qur'an (49:13)

The Spirit of Islam

The leading features of Mohammedanism [Islam] involve that in actual existence nothing can become fixed, but that everything is destined to expand itself in activity and life in boundless amplitude of the world, so that the worship of the one remains the only bond by which the whole is capable of uniting. In this expansion, this active energy, all limits, all national and cast distinctions vanish, no particular race, no political claim of birth or possession is regarded—only man as a believer.

G.W.F. Hegel, *Philosophy of History*

Respect of Religious Diversity

- Muslims, like Christians and Jews, trace their religion to Prophet Abraham. Israelites are the descendant of Isaac and Arabs are the descendant of Ishmael.
- *“Say (O Muslims), We believe in God, and the revelation given to us, and to Abraham, Ishmael, Isaac, Jacob, and the Tribes, and that given to Moses and Jesus, and that given to (all) Prophets from their Lord: **we make no difference between one and another of them: and we bow to God in submission.**”*
(Qur’an 2:136)

Respect of Religious Diversity

Salvation: Devotion Not Association

*“Those who believe (in the Qur’an), those who follow the Jewish (scripture), the Christians, and the Sabians, anyone **who believes in God** and the Last Day, and works righteousness, on them shall be no fear, nor shall they grieve.” (Qur’an 2:62)*

Search For Common Ground

*"Say: O People of the Book! come to common terms as between us and you: that we worship none but God; that we associate no partners with him; **that we erect not, from among ourselves, Lords and patrons other than God.**" (3:64)*

Religious Diversity

Mention the glory of Spanish Jewry in the days before the Inquisition and what comes immediately to mind are the southern cities of **Cordoba and Granada**, where giants of Jewish history like Moses Maimonides and Yehuda Halevi lived and wrote, and where highly literate Jewish communities helped the Muslim leaders of Spain create a glorious civilization at a time when Christian Europe was slumbering in the Dark Ages.

Another city where Jewish life flourished before the Inquisition is **Toledo**, the beautiful former capital of Castille, located near Madrid in central Spain, which, like Cordoba and Granada, is today much visited by Jewish tourists from around the world.

Walter Ruby, *Off the Beaten Path in Tarazona, Spain, Jewish Heritage*

Islamic Civilization

The **Muslims of Spain** were the most cultured people of the West. Literature and art became their glories, and learning flourished when rulers, often men of letters themselves, invited some of the best scholars of the Muslim East to settle in Spain.

By the twelfth century scholars from northern Europe were flocking to Spain to study, and through them much of the learning of the Arabs was passed to Christian Europe.

Islamic Civilization



▲ Alhambra Palace, **Granada** 715



▲ Umayyad Mosque, Damascus 705
Khaju Bridge in Isfahan, built 1602 ▼



Islamic Civilization



◀ **Cordova University**
(Cordova 786)

Al Azhar University ▶
(Cairo 972)

The Blue Mosque
(Istanbul 1603)



Sunni and Shia

Video: Sunni and Shia

- <http://www.cfr.org/peace-conflict-and-human-rights/sunni-shia-divide/p33176#!/>
- <https://www.youtube.com/watch?v=5KLvjs7Yrtw>

Sunni and Shia

Sunnis and Shia		
Item	Sunnis	Shiites or Shi'i
<i>Meaning of name</i>	"tradition" or "well-trodden path"	"partisans of Ali"
<i>Current adherents</i>	85-90 percent of Muslims, 1.275-1.35 billion	10-15 percent of Muslims, 150-225 million
<i>Did Muhammad designate a successor?</i>	No	Yes
<i>True successor of the Prophet</i>	Abu Bakr, father of Muhammad's wife, A'isha	Ali ibn Abi Talib, husband of Fatimah, Muhammad's daughter
<i>Qualifications for leader of the faith</i>	Tribe of the Prophet; later, any qualified ruler	Family of the Prophet
<i>Leadership</i>	Imam is a prayer leader; no clerical hierarchy	Imam is exalted position; Ayatollah is title for highest imams
<i>Quality of imams</i>	Human	Infallible manifestations of God; perfect interpreters of the Qur'an
<i>Approach to Islam</i>	Qur'an applies to entire life; individuals approach God directly	More orthodox; Qur'an and laws interpreted by clerics
<i>Holy cities</i>	Mecca, Medina, Jerusalem	Mecca, Najaf, Karbala, Medina, Jerusalem
<i>Day of communal worship (not considered Sabbath or a holy day)</i>	Friday	Friday

Sectarism

Believers, beliefs and branches

A brief glossary of Muslim traditions and sects*

Branch (numbers)	Belief	Foes
Sunnis (1 billion-plus)	Follow the sayings, deeds and practices (<i>Sunnah</i>) of Muhammad. Emphasis on texts and legal interpretation	Hardline Shias see Sunnis as domineering distorters of Muslim history and destroyers of others' shrines
Shias (100m-plus)	Believe Muhammad's kin were his rightful successors, and that the last of a line of 12 imams may reappear soon. Embittered by repression and terrorist attacks	Some Sunnis accuse Shias of innovation (<i>bida</i>) and compromising God's unique status (<i>shirk</i>)
Sufis (unknown [†])	Adhere to Islam's mystical tradition, cultivate remembrance (<i>dhikr</i>) of God through asceticism and recitation of prayers. May be either Sunni or Shia	Strict Sunnis see Sufis as dangerous innovators who over-praise their own holy teachers
Salafists/Wahhabis (at least 17m [‡])	Imitate the earliest generations of Muslims and distrust later interpretations. Strict, austere Sunnis, may be peaceful or violent, pietistic or political. Often followers of al-Wahhab, 18th-century Salafist teacher. Prevalent in Saudi Arabia	Sufis, Shias, many moderate Sunnis see them as zealous and intolerant
Ismailis (15m)	Disagree with other Shias about the line of spiritual succession after 8th century, notable do-gooders, relaxed about religious rules	Hardline Sunnis question their status as Muslims
Alevis (10m)	Downplay formal Muslim rituals, stress sexual equality, overlap with the Bektashi mystical movement. Leftist, fear Sunni majority. Based in Turkey	Turkish Sunnis see them as heretical, disloyal, pro-Syrian
Ahmaddiyas (4m [‡])	Revere a 19th-century Indian Muslim revivalist. Vigorous but oppressed in Pakistan and South Asian diaspora, keen builders of schools and hospitals	All mainstream Muslim authorities see them as heretics
Alawites (3m)	Emphasise the Shia imams, esoteric offshoot of Ismaili Shiism. Some rites overlap with Christianity. Rulers of Syria	Many mainstream Shias, most Sunnis see them as heretics

*Selected categories, not necessarily exclusive [†]Many Sufis practise in secret

[‡]In Saudi Arabia, more elsewhere [‡]In Pakistan, elsewhere unknown

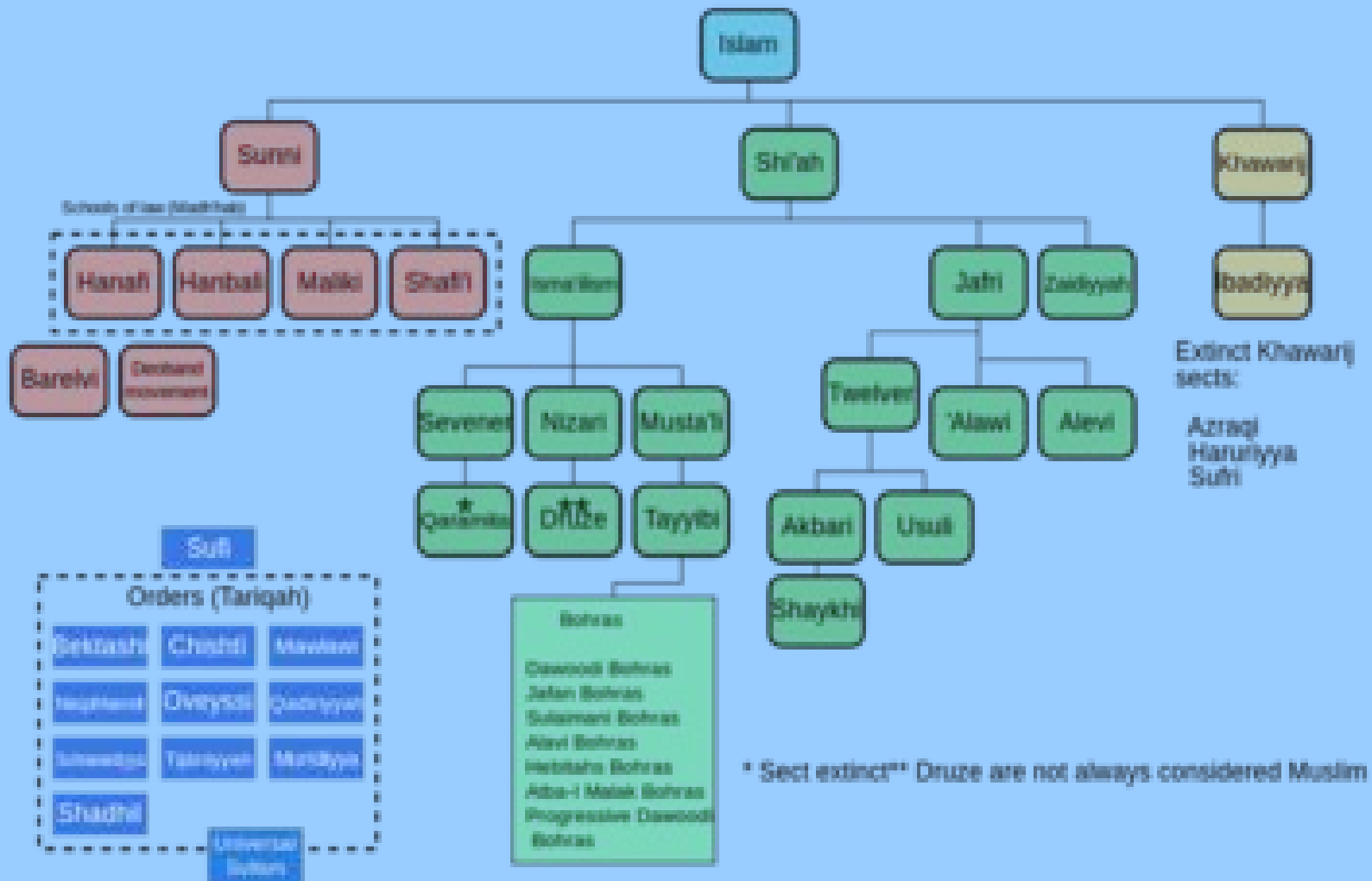
Source: *The Economist*

Sunni and Shia

Table 2. – Middle East/North African Countries, Shiite/Sunni

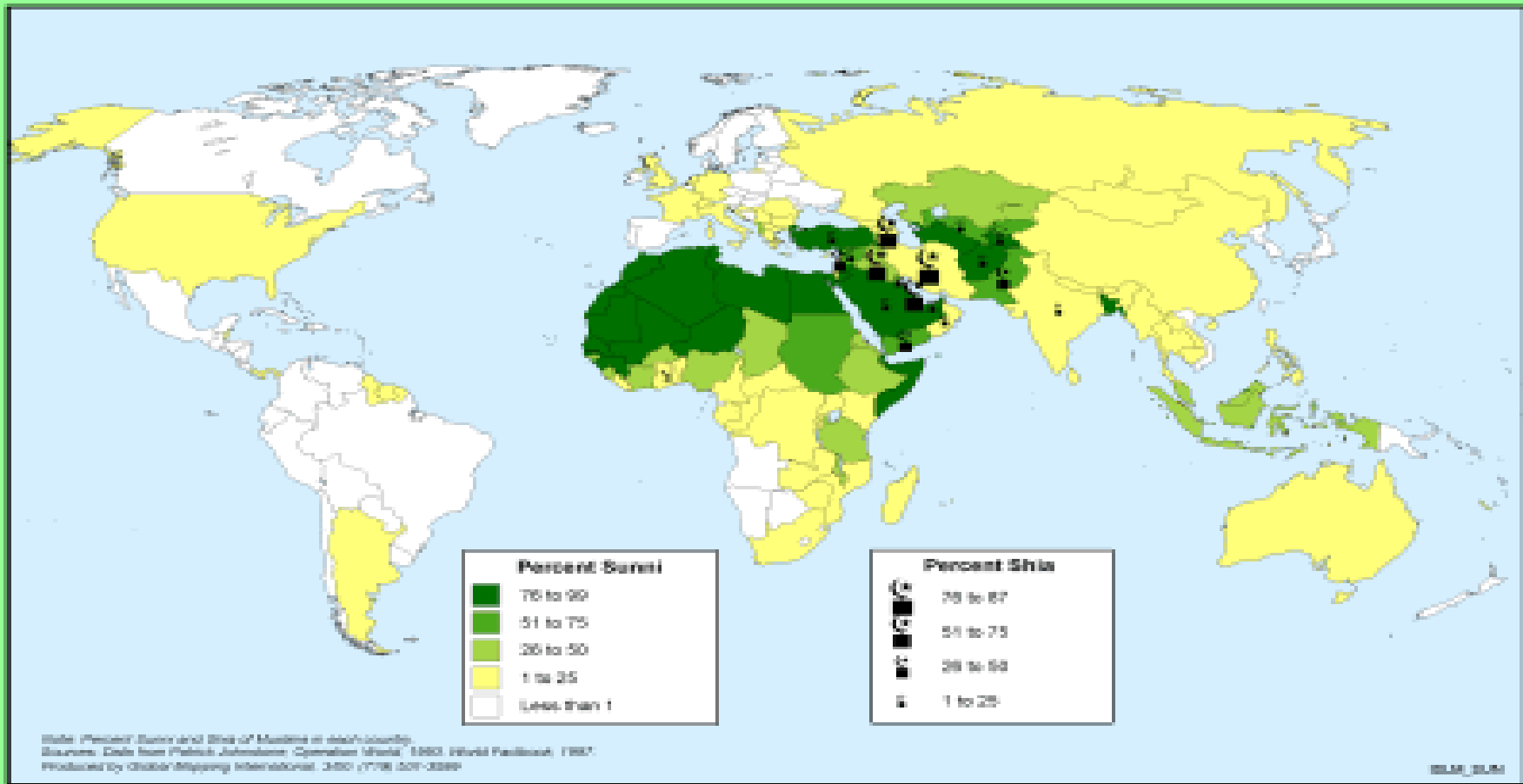
Country	Muslim (in mil.)	Muslim % Total Pop.	% Shiite	Shiite (in mil.)	Sunni (in mil.)
Afghanistan	28.1	100%	13%	3.6	24.4
Algeria	34.2	98%	0%	0.0	34.2
Bahrain	0.6	81%	70%	0.4	0.2
Egypt	78.5	95%	0%	0.0	78.5
Iran	73.8	99%	93%	68.2	5.5
Iraq	30.4	99%	68%	20.5	9.9
Jordan	6.2	98%	0%	0.0	6.2
Kuwait	2.8	95%	23%	0.6	2.2
Lebanon	2.5	59%	50%	1.3	1.3
Libya	6.2	96%	3%	0.2	6.0
Oman	2.5	88%	75%	1.9	0.6
Pakistan	174.1	96%	13%	21.8	152.3
Qatar	1.1	78%	10%	0.1	1.0
Saudi Arabia	24.9	97%	13%	3.1	21.8
Syria	20.2	92%	18%	3.5	16.7
Turkey	73.6	98%	13%	9.2	64.4
United Arab Emirates	3.5	76%	10%	0.4	3.2
Yemen	23.4	99%	38%	8.8	14.6
Total Populations				143.7	443.0

Sunni and Shia

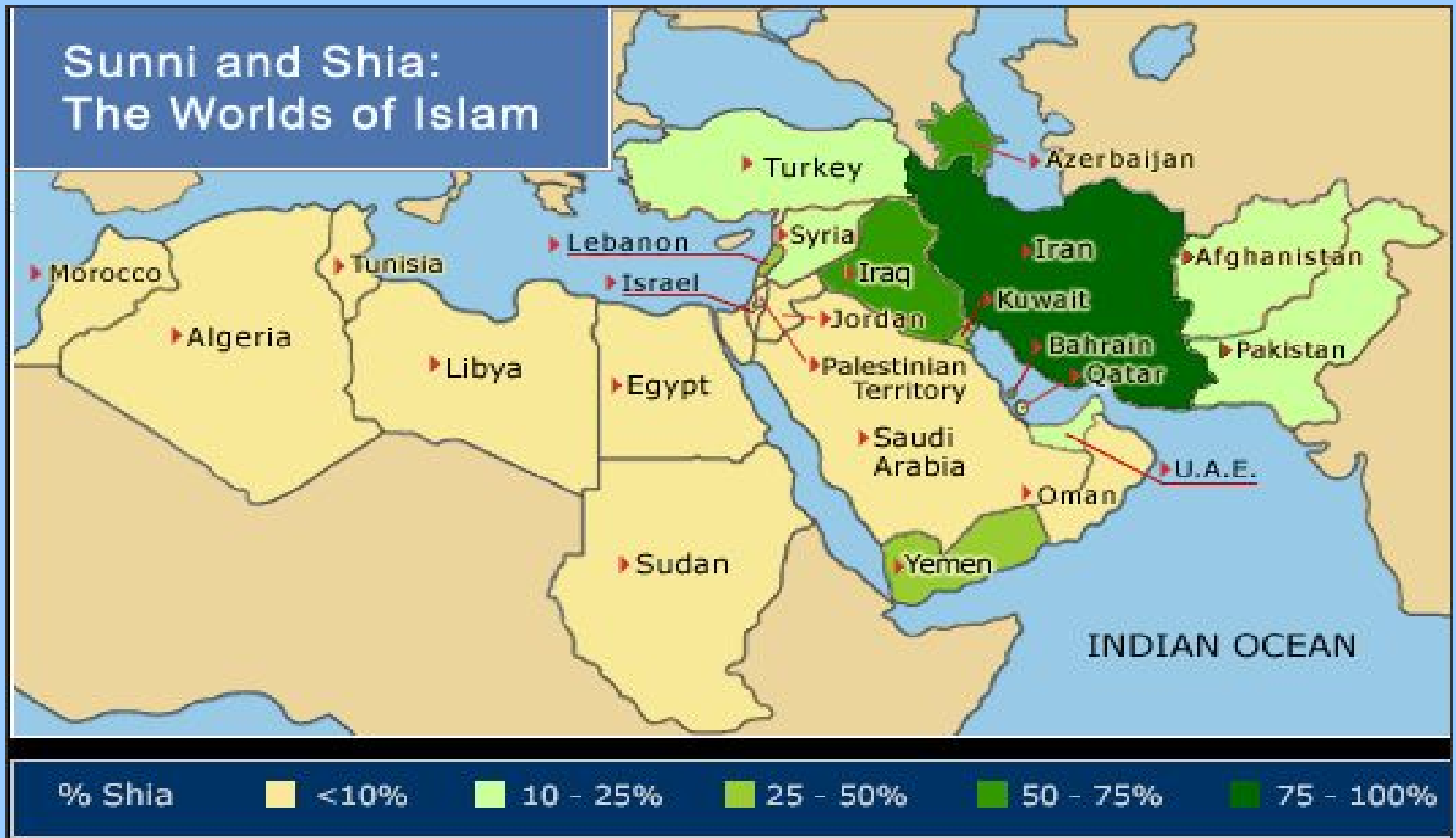


Sunni and Shia Around the World

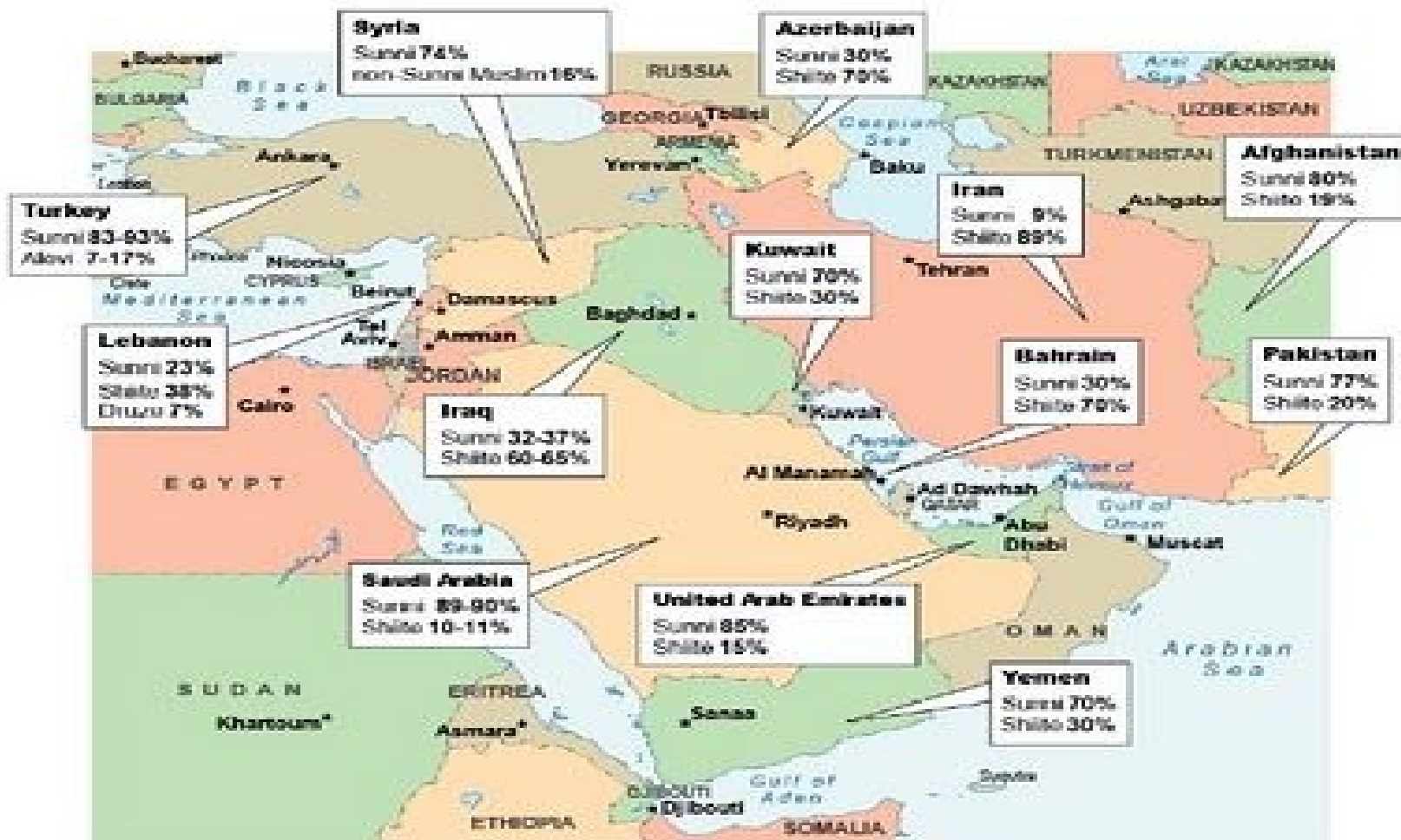
Distribution of Sunni and Shia Muslims



Sunni and Shia in the Middle East



Sunni and Shia in the Middle East



Source: Map Resources. Adapted by CRS. (1/24/06)

6. Society

Middle Eastern Culture

- Honor (self-respect to self-pride) and expectation of equal treatment regardless of wealth, position, or rank.
- Fierce sense of independence and resentment of imposed rules or decisions not sanctioned by social norms and customs.
- Strong loyalty to extended family, friends, and locality, and a great expectation of solidarity.
- Hospitality to guests and visitors.

Family Role

- Family is often inclusive of cousins
- Family loyalty and obligation is paramount
- Family is seen as a person's ultimate refuge and support system
- Children are taught profound respect for adults

Men and Women

- The public display of intimacy between men and women is considered offensive.
- This code also applies to husbands and wives.
- The maintenance of family honor is one of the highest values.
- In Middle Eastern cultures, promiscuous behavior can be more damaging to family honor.
- Most Middle Easterners still prefer arranged marriage. The family always plays a major role in the decision of any member to wed.

Status of Women

- Statements on women's status vary in applicability depending on the country involved. For instance, in Turkey, Lebanon, Syria, Jordan, and Egypt, educated women have been very active at all levels of society.
- In the Persian Gulf States, most women do not work. Those who do, work only in all-female environments such as schools and banks for women, except those in the medical profession
- Traditionally-oriented men and women don't see prevailing customs as restrictions-rather as protections

Women Social Participation

Traditional Muslim societies are patriarchic.

□

□ Modern Influence and Muslim feminism

□

□ Islamic Influence and Revisiting Islamic Sources:

Believing men and women are the guardian and protector of one another, they both enjoin the good and prohibit evil, establish prayers, give for charity, and obey God and His Messenger.

(Qura'n 9: 71)

Middle Eastern Women



Middle Eastern Women



Politicization of Hijab

- Hijab is a veil that covers the head and chest, which is particularly worn by some [Muslim](#) women beyond the age of [puberty](#) in the presence of adult males outside of their immediate family and, according to some interpretations, in the presence of adult non-Muslim females outside of their immediate family. It can further refer to any head, face, or body covering worn by Muslim women that conforms to a certain standard of [modesty](#). Women attire (hijab) have been frequently viewed via a political lens.
- Kemal Attaturk prohibited Islamic outfit.
- Syrian government placed ban on the hijab in the 1980s.
- Turkey and Tunisia persecutes women who wear hijab since early 1990s.
- Iran and Saudi Arabia continue to enforce hijab.
- France outlawed hijab in late 2003.

Continuity and Change

- Middle Eastern society has been in a state of flux for over a century, searching for a new direction and identity, and experiencing a great deal of tension as rivaling forces compete for its future.
- The most pronounced tension is between modernity and tradition, that increasingly takes the form of struggle between Islam and modernity.
- Islam is viewed by many Muslims not simply as a religion, but also as a cultural identity and heritage.
- While cultures and traditions vary markedly, the following qualities are often shared by M.E. Culture.

Modernization

- Islam was dismissed by the 1950s as Pre-Modern and obsolete:

Whether from East or from West, modernization poses the same basic challenge—the infusion of “a rationalist and positivist spirit” against which scholars seem agreed, “Islam is absolutely defenseless.”

Daniel Lerner, *The Passing of Traditional Society*

Islam and Modernity

The Shock of Modernity

-
- Colonialism and the Loss of independence
- Modern State and the Loss of local autonomy and control
- Westernization and the Loss of Tradition
- Fragmentation and the Loss of Unity

Islamic Reassertion

-
- Rejection: Radical Islam
- Reconciliation: Reform Islam
- Dualism: Traditional Islam

Traditional City



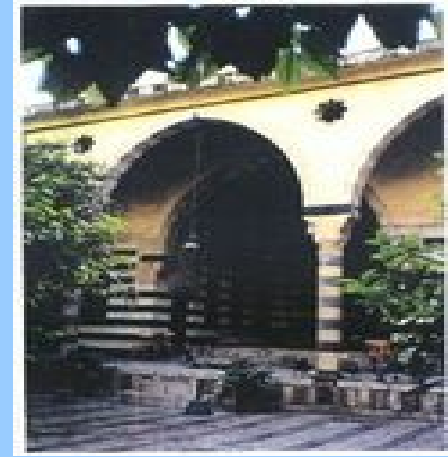
- ▲ Umayyad Mosque built 705-715 AD.
- ◀ Suq (Shopping Mall) Al-Hamiddiyyah.

Traditional City



Narrow Allies, Plain External Design

Traditional City



- Privacy
- Open space is located within the traditional house.
- All Houses look alike from outside – no decoration.
- Court yard is located inside the house.

Modern City



Modern Dubai



Modern Cairo

□ Multi-Story apartment buildings is the new residential pattern.

Sharia Law

For Arabs *sharia* ("legislation") means the moral code and religious law of a prophetic religion.

The term "sharia" has been largely identified with Islam in English usage.

Sharia (Islamic law) deals with several topics including: crime, politics, and economics, as well as personal matters such as sexual intercourse, hygiene, diet, prayer, everyday etiquette and fasting.

Adherence to Islamic law has served as one of the distinguishing characteristics of the Muslim faith historically, and through the centuries Muslims have devoted much scholarly time and effort on its elaboration.

Interpretations of sharia (*fiqh*) vary among Islamic sects and respective schools of jurisprudence, yet in its strictest and most historically coherent definition, sharia is considered the infallible law of God.

Women Punished under Sharia Law



Official from the Department of [Propagation of Virtue and the Prevention of Vice](#), beating a woman in [Afghanistan](#) for violating local interpretation of sharia.

Jihad

- **Jihad** is an [Islamic term](#) referring to a religious duty of [Muslims](#). In Arabic, the word *jihād* is a noun meaning "struggle" or "resisting". A person engaged in jihad is called a [mujahid](#), the plural of which is *mujahideen*. The word *jihad* appears frequently in the [Quran](#), often in the idiomatic expression "striving in the way of God".
- Muslims and scholars do not all agree on its definition. Within the context of the classical Islamic law, it refers to struggle against those who do not believe in the [Islamic God \(Allah\)](#) and do not acknowledge the submission to Muslims, and so is often translated as "Holy War", although this term is controversial.
- According to the *Dictionary of Islam* and Islamic historian [Bernard Lewis](#), in the large majority of cases jihad has a military meaning.
- Javed Ghamidi states that there is consensus amongst Islamic scholars that the concept of jihad will always include armed struggle against wrong doers. It was generally supposed that the order for a general war could only be given by the [Caliph](#) (an office that was claimed by the Ottoman sultans), but Muslims who did not acknowledge the spiritual authority of the Caliphate (which has been vacant since 1923)—such as non-Sunnis and non-Ottoman Muslim states—always looked to their own rulers for the proclamation of a jihad. There has been in fact no universal warfare by Muslims on non-believers since the early caliphate. Some proclaimed Jihad by claiming themselves as [mahdi](#), e.g., the Sudanese [Mahommed Ahmad](#) in 1882.

7. The European Union and the Middle East

The EU and the Middle East

- In 1973, the then European Community (EC) recognized the rights of the Palestinians; in 1980, through its Venice Declaration, the EC also recognized the Palestinian right to self-determination. In 1999, the EU's Berlin Declaration "prepared the ground" for the adoption of the two-state solution; and in 2002, through its Seville Declaration, the EU made explicit that a future Palestinian state should be based on the 1967 borders.
- In 2007, Nicolas Sarkozy launched a proposal to establish a "*Mediterranean Union*", which would consist principally of Mediterranean states. The Mediterranean Union would be modeled on the European Union with a shared judicial area and common institutions. At the Paris Summit for the Mediterranean (13 July 2008), 43 Heads of State and Government from the Euro-Mediterranean region decided to launch the Barcelona Process: Union for the Mediterranean (UfM).
- A key of the Mediterranean union was the **common and shared governance** of institutions between countries on the two sides of the Mediterranean sea.

The EU and the Middle East

- The Mediterranean Union accepts and commits to the purpose of promoting "**peace, stability and prosperity**" throughout the region. The four chapters of cooperation developed in the framework of the Barcelona Process remain valid:
 - *Politics and Security*
 - *Economics and Trade*
 - *Socio-cultural*
 - *Justice and Interior Affairs.*

- The objective to establish a **Free Trade Area** in the Euro-Mediterranean region by 2010 (and beyond). In addition to these four chapters of cooperation, the 43 Ministers of Foreign Affairs gathered in Marseilles on November 2008 identified six concrete projects that target specific needs of the Euro-Mediterranean region and that will enhance the visibility of the Partnership:
 - *De-pollution of the Mediterranean; Maritime and land highways; Civil protection; Alternative energies: Mediterranean solar plan; Higher education and research: Euro-Mediterranean University.*
 - *The Mediterranean business development initiative.* The purpose of the initiative is to promote small and medium-sized enterprises from the Mediterranean partner countries by "assessing the needs of these enterprises, defining policy solutions and providing these entities with resources in the form of technical assistance and financial instruments."

The EU and the Middle East

- At the beginning of November 2010 the peace talks stalled, and the Egyptian co-presidents conditioned the occurrence of the summit on a gesture from Israel that would allow the negotiations to resume. According to some experts the announcement of the construction of 1,300 **new settlements** in East Jerusalem ended all the possibilities of celebrating the Euro- Mediterranean summit of heads of States. On the 15th of November it was decided to postpone the summit *sine die*, alleging that the stagnation of the Middle East Peace Process would hinder a "satisfactory participation."
- In December 2010, the *Arab Spring* began.
- In May 2012 **Nicholas Sarkozy lost** the election for President of France.
- On May 14th, 2012, EU foreign ministers stated for the first time clearly that “ending the conflict was a European interest”. This culminated in the decision of the majority of EU member states’ governments in late November 2012 to abstain or vote in favor of the upgrade of Palestine to “**observer-member state**” in the UN.
- Starting in January 2014, EU financial assistance will no longer go to Israeli entities in the occupied territories. The directive covers most areas of co-operation between the EU and Israel such as science, economics, culture, sports and academia, but it does not cover trade-related issues.

The EU-Middle East- Economic and Financial Cooperation

- The **European Commission (EC)** contributes to the relationship with Mediterranean countries through the European Neighborhood Policy Instrument (ENPI). Some of the initiatives: De-pollution of the Mediterranean (€22 million); Maritime and land highways (€7.5 million); Alternative energies: Mediterranean Solar Plan (€5 million); Euro-Mediterranean University of Slovenia (€1 million)
- The **European Neighborhood Instrument (ENI)** came into force in 2014. It is the financial arm of the European Neighborhood Policy, the EU's foreign policy towards its neighbors to the East and to the South. It has a budget of €15.4 billion and will provide the bulk of funding through a number of programs.
- The **European Investment Bank (EIB)** contributes to the support of Mediterranean countries through its Euro-Mediterranean Investment and Partnership (FEMIP). Following the June 2012 meeting the EIB announced it would give € 500 million to support projects in the Mediterranean.
- The **InfraMed Infrastructure Fund** was established in June 2010 by five European financial entities: the French Caisse des Dépôts, the Moroccan Caisse de Dépôts et de Gestion, the Egyptian EFG Hermes, the Italian Cassa Depositi e Prestiti and the **European Investment Bank (EIB)**. On an initial phase, the Fund will contribute €385 million to projects on infrastructure.

The EU-Middle East- Economic and Financial Cooperation

- Traditionally, the European Union (EU) has been blamed for its “*megaphone*” diplomacy and for its rhetoric that is never translated into real foreign policy. UE’s voice regarded as “*unpleasant background noise*”, the phrase used by Foreign Affairs Ministry spokesman Yigal Palmor in 2012.
- North European countries do not regard the Middle East as a priority as compared to European eastward expansion and consolidation.
- The financial and economic crisis of 2008 hit particularly hard European Mediterranean countries, i.e., Greece, Italy, Spain and weakened the European interest on the Middle East and Mediterranean countries.

The EU-Middle East- Economic and Financial Cooperation

Enlargement: the impossible solution?

- History
- Incentives
- Not for all

8. The United States and the Middle East

The United States and the Middle East

- The United States has been entangled in the region's political conflicts and it is considered **the heir to British imperialism in the region**. The main factors of the US policy in the Middle East are:
 - desire to keep the vast **oil reserves** in hands friendly to the United States,
 - wish to keep out potential rivals (such as the Soviet Union at the time of the **Cold War** and possibly China),
 - opposition to neutrality in the cold war,
 - fight to terrorism, and
 - domestic political considerations.
- These factors often clash with the **democratic values of the USA**
- The United States provides a **continuous staunch support to Israel**. At the same time, the United States has been associated with the support of **authoritarian regimes** in Middle East countries, e.g., Mubarak in Egypt, Hafez al-Assad in Syria, to support **stability**. The US policy in the Middle East before September 11, 2001 includes U.S. alliances with Iraq to counter Iran; the Gulf War of 1991.
- The feeling of anger and humiliation after the **terrorist attacks of the September 11th**, 2001, has been as the main factor that compelled the United States to invade Afghanistan (2001) and Iraq (2003) under the so-called Bush Doctrine (2002)

The United States and the Middle East

- Beginning in the early 1970s, the United States dramatically increased its **foreign assistance to the Middle East**. After the U.S. withdrawal from South Vietnam, the Middle East began to receive a disproportionate share of U.S. aid; more U.S. foreign aid than any other region of the world, a trend that has continued to this day.
- The leading recipient of aid is Israel, but several other countries in the region - Egypt, Lebanon, Palestinians and Gaza, and Jordan - are awarded hundreds of millions of US dollars annually.
- The Near East region as a whole, which includes North Africa and the Persian Gulf States and Iraq, received \$5.26 billion in 2010, more than all of Africa (\$5.19 billion), and nearly eight times the amount of aid delivered to East Asia.

The United States and the Middle East

- People in the Middle East perceived the new order of the Bush Doctrine as dangerous as the old Cold War order because it would feature an activist U.S. foreign policy without the inhibitions imposed by the superpower rivalry.
- Currently, faced with the Arab Spring, to many observers and people in Middle East countries, the **US policy looks ineffective**. The United States has not provided a clear support to the democratic process that the Arab Spring has initiated (e.g., Libya, Egypt, and Syria) and it is struggling between the **old authoritarian and gradualist approach and a rhetoric support to the democratic process**.
- American policies in the Middle East, mainly stem from the belief that American military involvement in the Middle East protects U.S. access to **“cheap” oil**. That portends ill for the people of the Middle East, as well as for American citizens, who will see their taxes continue to raise, their consumer economy increasingly distorted by military spending, and their blood spilled—all in the name of U.S. leadership.
- The role of oil from the Middle East can change following the **energy boom** in the United States.

The United States and the Middle East: Opinion Poll

Ten Nation Impressions of America (2002)

In the aftermath of the September 11 attacks, Americans became painfully aware of the gap in understanding between American world and much of the Arab world. Front page headlines and newsmagazine cover stories asked “*why do they hate us?*” Pundits and scholars across the ideological spectrum offered answers that ranged from the serious to the silly.

Some suggested that (i) *the behavior of the attackers was not aberrant, but characteristic of Islam and its followers.* They suggested that the West and Islam are not only different, but are inevitably headed toward a clash.

Others suggested that (ii) “*they*” –*Arabs -hate US democratic values, US superpower status, US wealth, and American people.*

Still others noted that (iii) *it is the US policy of unquestioning support for Israel, the US denial of Palestinian rights, and US collaboration with authoritarian regimes in the Middle East that is behind the Arab hostility towards the USA.*

<http://www.aaiusa.org/pages/opinion-polls/>

The United States and the Middle East: Opinion Poll

5 Nation Survey of the Middle East (2006)

Continuing Conflict in Iraq and Palestine Deepens U.S.-Arab relationships.

Results of the 2006 AAI/Zogby International poll in 5 Arab countries show:

- Overall Arab attitudes towards U.S. have worsened; negative attitudes have hardened.
- Attitudes toward U.S. policies in Iraq and Palestine are a key factor.
- Attitudes toward American values, people and culture have declined as well.
- Uncertainty resulting from these two conflicts has significantly dampened Arab confidence in prospects for economic development and political stability.

<http://www.aaiusa.org/pages/opinion-polls/>

The United States and the Middle East: Opinion Poll

□ Is Peace Possible?

A report on a comprehensive survey of attitudes among Israeli Jews, Israeli Arabs, Palestinians in the Occupied Lands, Refugees in Lebanon, Refugees in Jordan, and Jewish Americans.

Conducted in **September 2012** an extensive survey of public opinion with over 4,200 participants among: Israeli Jews and Arabs; Palestinians in the West Bank, Gaza, and East Jerusalem; Palestinian refugees in Lebanon and Jordan; and the American Jewish community.

A review of the **results establishes the enormous challenges confronting peacemaking efforts. Wide gaps separate Israeli Jewish and Palestinian public opinions. At present, no easy agreement can be reached on issues as fundamental as: the location of borders, the disposition of Israeli settlements and settlers, the resolution of the refugee issue, and the status of Jerusalem.**

<http://www.aaiusa.org/pages/opinion-polls/>

The United States and the Middle East: Opinion Poll

□ Today's Middle East: Pressures and Challenges (November 2014)

Conducted for the Sir Bani Yas Forum, an annual event cohosted by the UAE Ministry of Foreign Affairs and the Washington-based Center for Strategic and International Studies, **Today's Middle East: Pressures & Challenges**, surveyed eight Middle East and North African countries on the emergence of ISIS, the role of the Muslim Brotherhood, the growth of sectarianism, the future of Syria and Iraq, Iran's nuclear program, and more.

The poll confirms many prevailing assumptions about regional outlooks, and it reveals some surprising shifts in public opinion. **A key finding is that despite deep regional antipathy towards ISIS, there is popular opposition to any Western-led intervention and extremely low support for U.S. policies** - two factors, which may become a significant challenge to the efficacy of the U.S.-led military campaign against the group.

<http://www.aaiusa.org/pages/opinion-polls/>

9. Performance: Ultimate Goals

Mena Region: GDP and GDP per capita

Middle East and North Africa regional forecast (annual percent change unless indicated otherwise)								
	2010	2011	2012	2013	2014e	2015f	2016f	2017f
GDP at market prices, geographic region (b)(c)	4.6	3.2	3.3	2.3	3	3.3	3.6	3.9
GDP at market prices, developing countries (c)	4.4	-0.1	1.4	0.5	1.2	2.5	3	3.5
(Sub-region totals-- countries with full N/A_BOP data) (d)								
GDP at market prices, developing countries (c)(d)	4.7	2.7	-1.1	0.9	2.3	2.5	2.7	3.3
GDP per capita, constant \$	3.1	1.1	-2.6	-0.5	0.8	1.1	1.4	2
PPP GDP (e)	4.7	2.6	-1	1	2.3	2.6	2.8	3.4
Private consumption	4.5	3.4	2.8	2.7	2.7	3.2	3.4	3.5
Public consumption	3.5	4	4	-0.4	3.3	2.2	2.3	3.2
Fixed investment	7	1.9	-0.5	-1.8	-2	3	2.9	4.3
Exports, GNFS (f)	5.1	-1.7	-7.1	0.3	3.6	4.6	4.7	4.9
Imports, GNFS (f)	8.1	1.2	4.4	-3.3	4.1	5.7	5.7	5.9
Net exports, contribution to growth	-0.5	-0.9	-3.4	1.1	-0.3	-0.5	-0.5	-0.6
Current Account Balance, %of GDP	3.8	4.4	1.3	0.6	-1	-4.3	-4.1	-3.9
Consumer prices (annual average) (g)	7.1	11.9	14.4	18.6	10.3
Fiscal Balance, %of GDP (h)	0.1	-4	-3.8	-6	-7.1	-6.1	-5.3	-4.4
Developing countries, ex. Libya	4.4	3.1	-0.6	1.1	2	2.5	2.9	3.4
High Income Oil Exporters (i)	4.8	7	5.4	4.1	4.7	4.1	4.2	4.3
Developing Oil Exporters	4.2	-1.7	0.5	-0.8	0.3	1.8	2.4	3.1
Developing Oil Importers	4.9	2.6	2.6	2.6	2.6	3.6	3.8	4.1
Egypt	4.8	2	2.2	2.1	2.9	3.6	3.9	4
Fiscal year basis	4.8	1.8	2.2	2.1	2.2	3.5	3.8	4
Iran	5	3.9	-6.6	-1.9	1.5	0.9	1	2.2
Algeria	3.9	2.8	3.3	2.8	3	3.3	3.5	3.5

Source: World Bank- Last Updated: January 2015

World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not differ at any given moment in time.

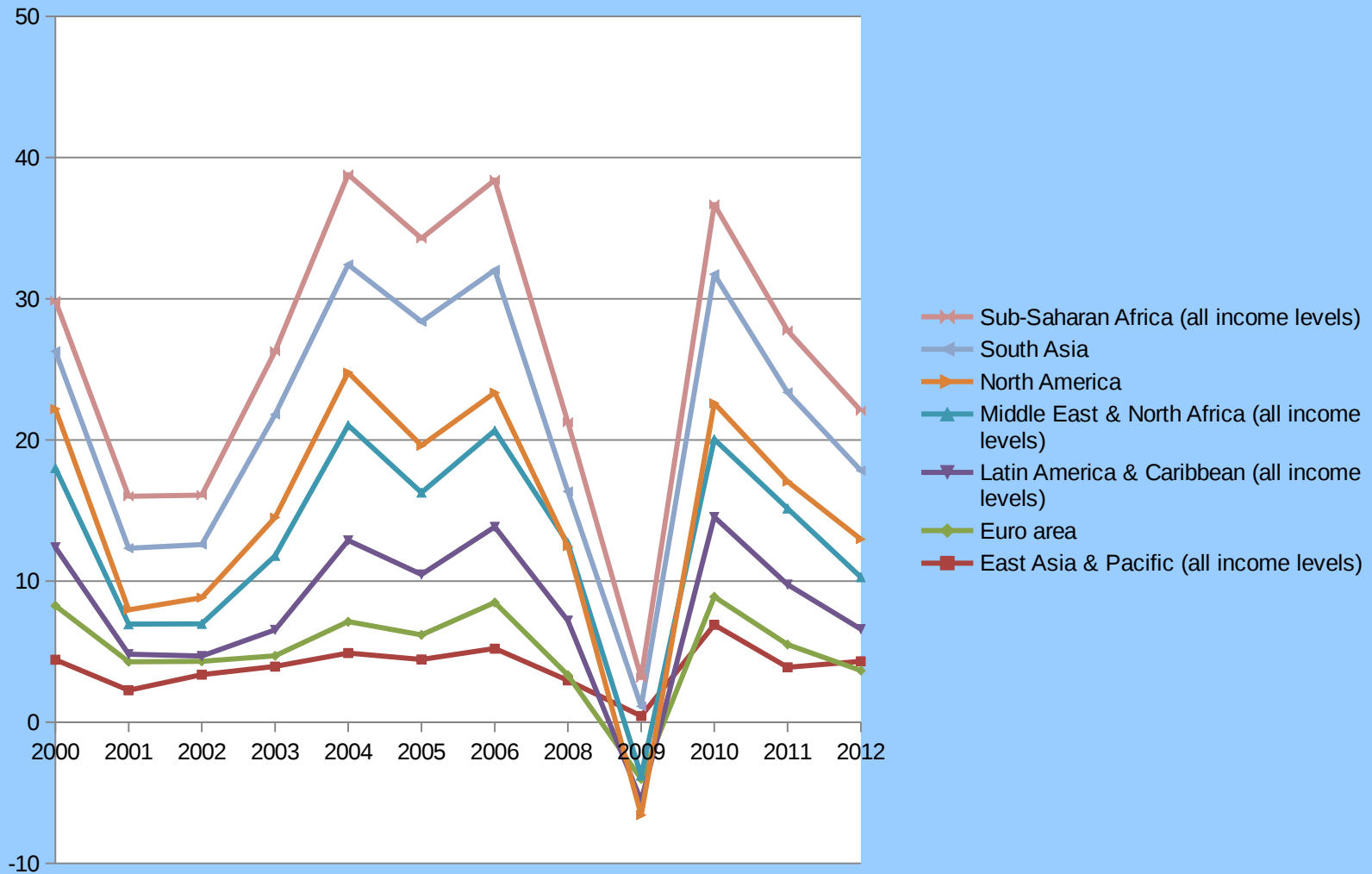
GDP per capita in MENA and other Regions

GDP per Capita 2000-2012 - Various Regions

Region	2000	2001	2002	2003	2004	2005	2006	2008	2009	2010	2011	2012
East Asia & Pacific (all income levels)	3954	3644	3669	4001	4451	4699	4947	6301	6439	7415	8501	9039
Euro area	19722	19920	21557	26451	30117	31084	32798	40863	37241	36138	39119	36671
Latin America & Caribbean (all income levels)	4308	4148	3680	3733	4221	5035	5813	7740	7196	8759	9687	9575
Middle East & North Africa (all income levels)	3020	2958	2901	3190	3652	4299	4958	7092	6179	7084	8462	8875
North America	35202	35887	36730	38472	40859	43411	45744	48100	46293	48169	49932	51701
South Asia	451	454	470	540	617	697	785	985	1068	1289	1416	1396
Sub-Saharan Africa (all income levels)	516	483	501	623	756	861	976	1224	1126	1322	1438	1434

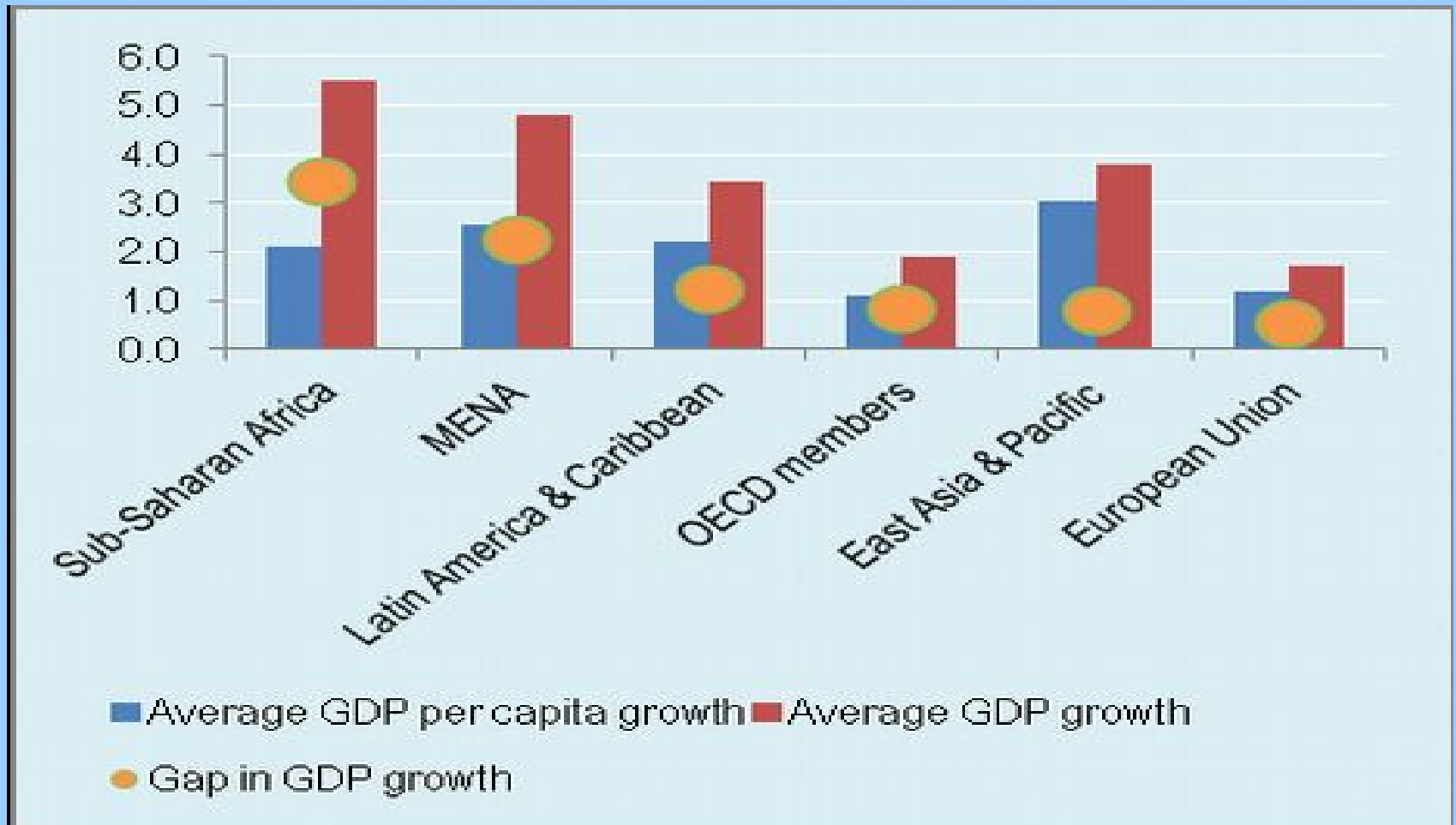
Source: World Bank,
World Development
Indicators

GDP Annual Growth by Region



Sources: World Bank - WDI

GDP and GDP per capita Growth 2000–10 by Region



Source: World Bank 2011

GDP and GDP per Capita

- High GDP growth rates have not been reflected in GDP per capita growth, which indicates that economic growth has not kept pace with population growth.
- Economic growth during 2000–10 in the MENA region has averaged **4.8** percent, whereas average GDP per capita growth for 2000–09 (the latest 11 years for which data are available) has been only **2.5** percent. This gap between GDP and GDP per capita growth is one of the highest in the world, below only sub-Saharan Africa.
- Performance among countries differs, with **Tunisia, Morocco, and Lebanon registering the lowest gaps between GDP and GDP per capita growth**, and Iraq, the United Arab Emirates, and Yemen registering the widest gaps.

Human Development Index and its Components

Human Development Index (HDI) and its Components										
HDI						GDP pc Index				
	1990	1995	2000	2005	2011	1990	1995	2000	2005	2011
Mena Low	0.3	0.32	0.36	0.4	0.43	0.32	0.36	0.38	0.4	0.43
Mena Mid	0.52	0.56	0.61	0.64	0.66	0.55	0.56	0.58	0.59	0.61
Mena High	0.7	0.72	0.73	0.75	0.78	0.78	0.78	0.78	0.78	0.8
Africa	0.38	0.38	0.37	0.4	0.43	0.34	0.32	0.33	0.34	0.37
Asia	0.47	0.52	0.55	0.59	0.63	0.39	0.43	0.46	0.5	0.56
LAC	0.62	0.64	0.67	0.7	0.73	0.6	0.61	0.62	0.63	0.65
Oceania	0.78	0.79	0.8	0.81	0.82	0.7	0.71	0.72	0.72	0.73
Europe	0.76	0.78	0.81	0.84	0.85	0.75	0.73	0.75	0.77	0.78
North America	0.87	0.88	0.9	0.9	0.91	0.82	0.83	0.86	0.87	0.87
Education Index						Health Index				
Mena Low	0.14	0.18	0.21	0.24	0.27	0.53	0.56	0.6	0.64	0.68
Mena Mid	0.38	0.43	0.49	0.54	0.27	0.7	0.75	0.79	0.81	0.84
Mena High	0.54	0.58	0.62	0.65	0.69	0.78	0.8	0.82	0.84	0.86
Africa	0.32	0.36	0.35	0.39	0.41	0.46	0.46	0.46	0.49	0.54
Asia	0.42	0.45	0.48	0.53	0.56	0.71	0.73	0.74	0.76	0.79
LAC	0.52	0.56	0.61	0.65	0.69	0.76	0.79	0.82	0.84	0.86
Oceania	0.81	0.84	0.83	0.84	0.84	0.83	0.85	0.87	0.89	0.9
Europe	0.69	0.76	0.8	0.84	0.86	0.86	0.87	0.89	0.91	0.93
North America	0.91	0.93	0.93	0.93	0.94	0.87	0.89	0.9	0.91	0.93

Source: UNDP 2012

Human Development Index

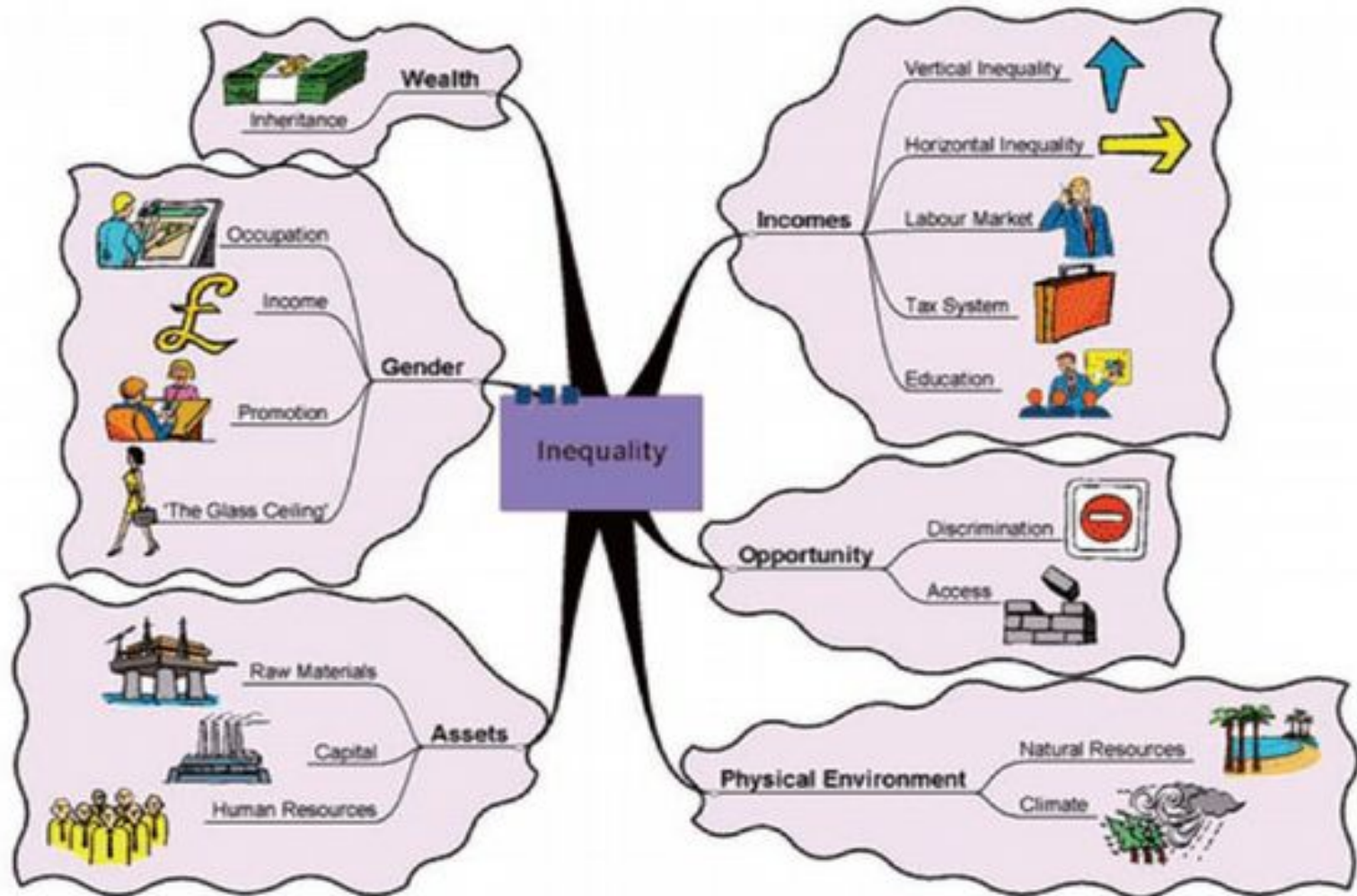
The Human Development Report introduces a new way of measuring development by combining indicators of **life expectancy, educational attainment and income into a composite human development index, the HDI.**

The breakthrough for the HDI was the creation of a **single statistic**, which was to serve as a frame of reference for both social and economic development. The HDI sets a minimum and a maximum for each dimension, called goalposts, and then shows where each country stands in relation to these goalposts, expressed as a value between 0 and 1.

Inequality

Equal Opportunities or Equal Outcome?

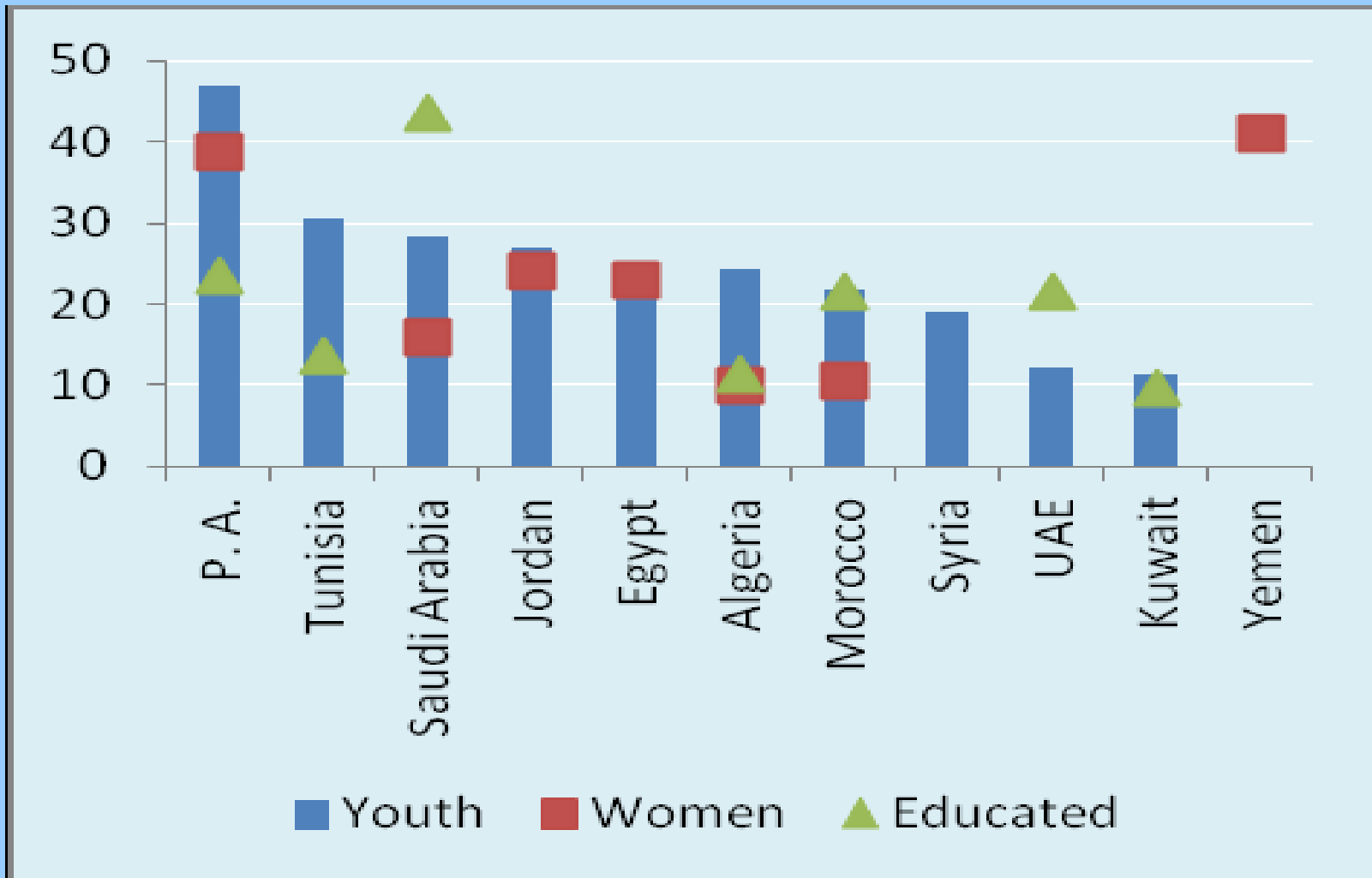
Dimension of Inequality



Source:

<http://www.bized.co.uk/educators/1619/economics/development/activity/inequality.htm>

Unemployment in % among youth, women, and the educated- 2010



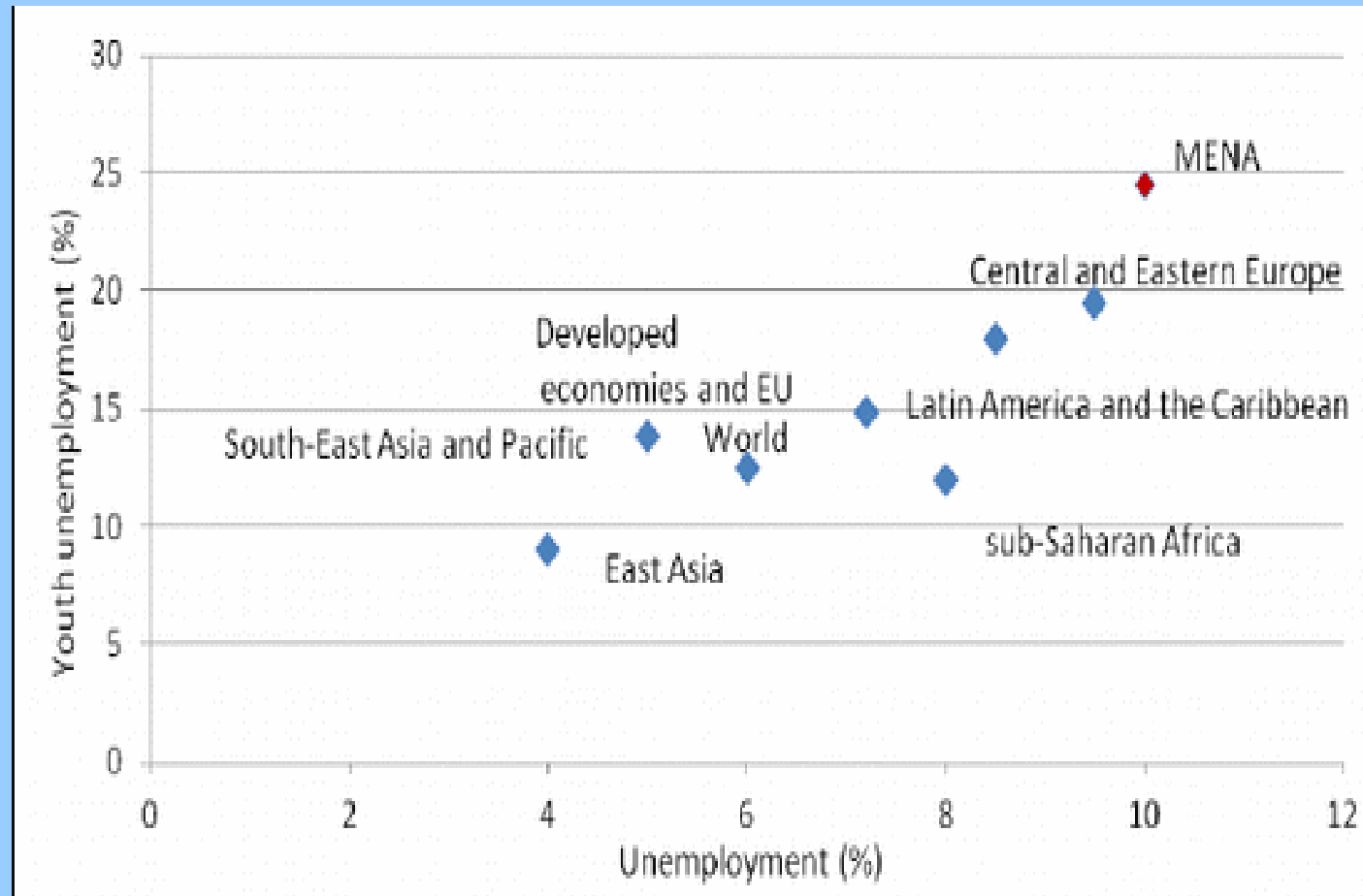
Source: World Bank 2011

Youth Labor Participation Rate

Youth Labor Participation Rate	Total(%)			Male(%)			Female(%)		
	2000	2010	2015	2000	2010	2015	2000	2010	2015
World	53.8	50.9	50.2	62.5	58.9	58.2	44.7	42.4	41.6
Developed Economies & EU	53.1	50.2	50.2	55.9	52.6	52.5	50.3	47.7	47.9
Central and South Eastern Europe (non EU & CIS)	42.4	41.7	40.8	48.9	47.7	47.0	35.7	35.5	34.3
East Asia	67.2	59.2	56.9	65.8	57.0	55.0	68.7	61.6	59.2
South-East Asia & the Pacific	55.8	51.3	50.6	63.5	59.1	57.9	48.0	43.3	42.9
South Asia	48.0	46.5	46.3	66.1	64.3	64.0	28.5	27.3	27.2
Latin America & the Caribbean	54.2	52.1	51.4	66.5	61.3	59.3	41.7	42.7	43.5
Middle East	36.9	36.3	34.7	52.6	50.3	48.1	20.2	21.5	20.5
North Africa	39.4	37.9	36.5	53.4	52.5	50.2	25.1	22.9	22.3
Sub-saharan Africa	57.8	57.5	57.4	64.1	62.7	62.1	51.4	52.2	52.7

Source: ILO, Economically Active Population Estimates and Projections, 5th Edition, revision 2009.

Youth Unemployment in the MENA Region: Determinants and Challenges



IMF 2010

Youth Unemployment in the MENA Region: Determinants and Challenges

The ILO's *Global Employment Trends for Youth 2013* (ILO, 2013)

identified the Middle East as having the highest youth unemployment

rate of all regions, at 28.3% in 2012 and expected to rise to 30.0% in

2018.

In North Africa the corresponding rates were 23.7 and 24%

respectively, to be contrasted with a global youth unemployment rate

of 12.4% in 2012 , projected to rise to 12.8% by 2018.

Inequality-Adjusted Human Development Index

Inequality-adjusted Human Development Index - 2011

Regions	Inequality-adjusted HDI	Inequality-adjusted life expectancy Index	Inequality-adjusted education Index	Inequality-adjusted income Index				
Value	Overall loss (%)	Value	Loss (%)	Value	Loss (%)	Value	Loss (%)	
Sub-Saharan Africa	0.303	34.500	0.331	39.012	0.276	35.555	0.306	28.400
South Asia	0.393	28.407	0.529	26.941	0.266	40.857	0.430	15.079
MENA Countries	0.472	26.400	0.654	17.979	0.307	40.800	0.524	17.800
East Asia and the Pacific	0.528	21.300	0.709	14.261	0.477	21.900	0.435	26.800
Europe and Central Asia	0.655	12.736	0.715	11.705	0.681	10.704	0.578	15.720
Latin America and the Caribbean	0.540	26.101	0.743	13.425	0.528	23.206	0.401	39.294

Inequality-adjusted HDI (IHDI): Human Development Index (HDI) value adjusted for inequalities in the three basic dimensions of human development, i.e., a long and healthy life, knowledge and a decent standard of living.

Source: UNDP 2011

Gender Inequality

Gender Inequality Index and Related Indicators								
Regions	Gender Inequality Index	Maternal Mortality Ratio	Adolescent Fertility Rate	Seats in National Parliament (% Female)	Population with at Least Secondary Education		Labor Force Participation Rate	
					Female	Male	Female	Male
Sub-Saharan Africa	0.610	618.928	119.739	19.763	22.155	34.936	62.853	81.188
South Asia	0.601	251.866	77.401	12.450	27.348	49.185	34.566	81.157
MENA Countries	0.563	191.758	44.357	11.969	32.857	46.230	26.017	77.112
East Asia and the Pacific	..	79.430	19.753	20.213	48.109	61.285	64.235	80.348
Europe and Central Asia	0.311	29.075	28.033	13.363	78.038	83.326	49.669	67.759
Latin America and the Caribbean	0.445	79.872	73.743	18.732	50.506	52.173	51.740	79.938

Source: UNDP 2011 Report

Gender Inequality Index: A composite measure reflecting inequality in achievements between women and men in three dimensions: reproductive health, empowerment and the labor market.

Gender Inequality: Definitions

Maternal mortality ratio: Ratio of the number of maternal deaths to the number of live births in a given year, expressed per 100,000 live births.

Adolescent fertility rate: Number of births to women ages 15–19 per 1,000 women ages 15–19.

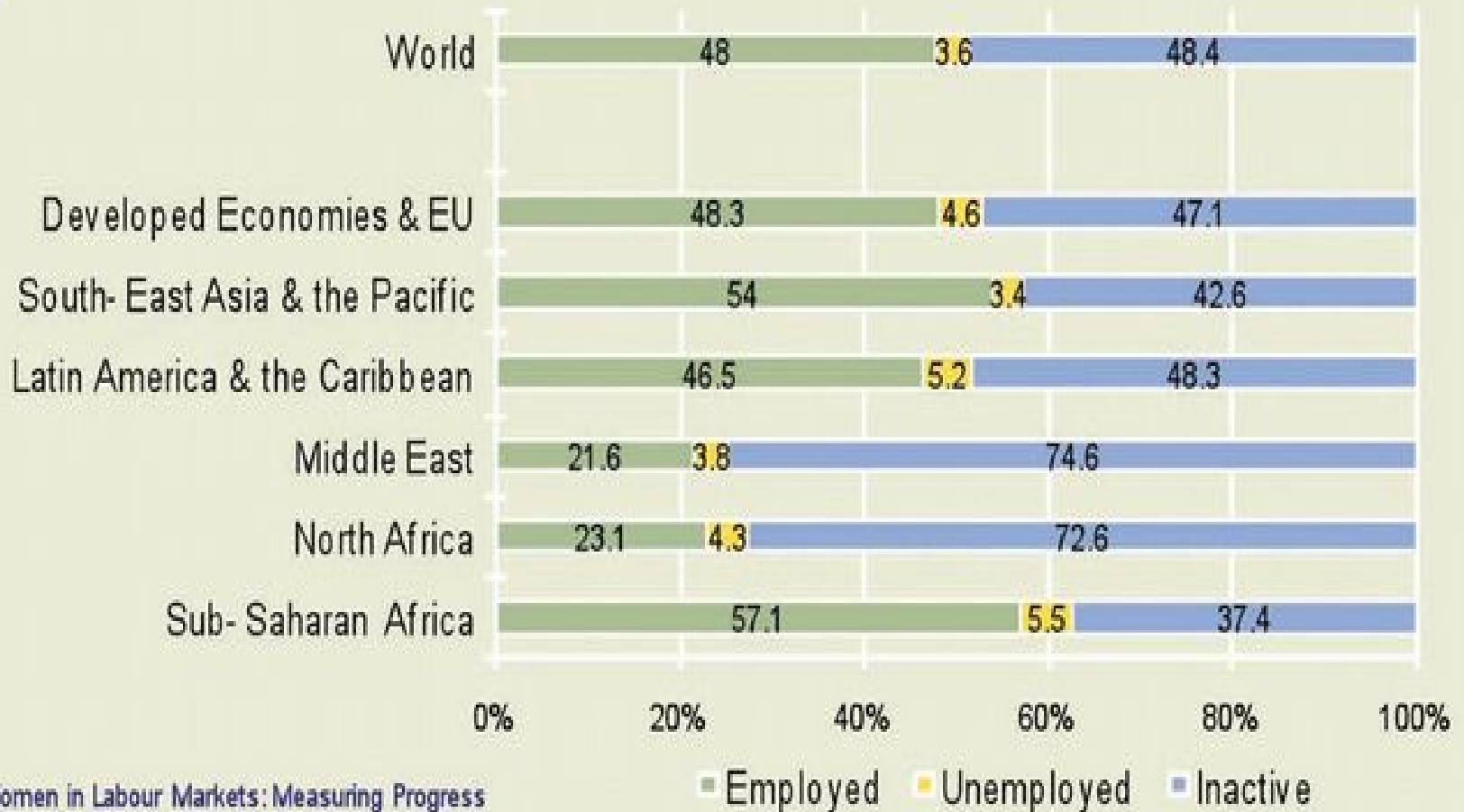
Seats in national parliament: Proportion of seats held by women in a lower or single house or an upper house or senate expressed as percentage of total seats.

Population with at least secondary education: Percentage of the population ages 25 and older who reached at least a secondary level of education.

Labor force participation rate: Proportion of a country's working-age population that engages in the labor market, either by working or actively looking for work, expressed as a percentage of the working-age population.

Female Participation in the Workforce

Female



MENA countries represent a somewhat extreme case in international comparisons of *de jure* obstacles to female employment and entrepreneurship and have low female labor participation and low female entrepreneurship and ownership rates.

10. “Intermediate” Variables: Factors that Affect Performance

Total Factor Productivity (TFP)

- *“TFP measures the residual growth that cannot be explained by the rate of change in the services of labor, capital and intermediate outputs, and is often interpreted as the contribution to economic growth made by factors such as technical and organizational innovation.”*

OECD. 2008. Compendium of Productivity Indicators, OECD Paris.

- TFP (or Multi Factor Productivity for the OECD) accounts for innovation and entrepreneurship.

Total Factor Productivity

- TFP was formally introduced by Robert Solow (1957) as a residual component of GDP that is not explained by the variations of inputs.
- The starting point for this method is an aggregate production function, which expresses the relationship between inputs and product aggregate. Among the different specifications, the most widespread production function is the homogeneous of first grade Cobb-Douglas:

$$Y = A K^\alpha L^{(1-\alpha)}$$

- Where Y is the aggregate product (output),
- A is the Total Factor Productivity or Solow residual and the efficiency factor,
- K the physical capital stock,
- L the number of workers and
- α the relative share of physical capital to production.

Total Factor Productivity (TFP)

- TFP growth = Growth in output quantity – Growth in input quantity
- TFP growth is typically measured using indexing methods, but can also be measured/projected using econometrics
- Indexing methods compute measures of comprehensive output quantities (Y) and input quantities (X)
- Change in TFP (ΔTFP) is then computed as
$$\Delta\text{TFP} = \Delta Y - \Delta X$$

Total Factor Productivity

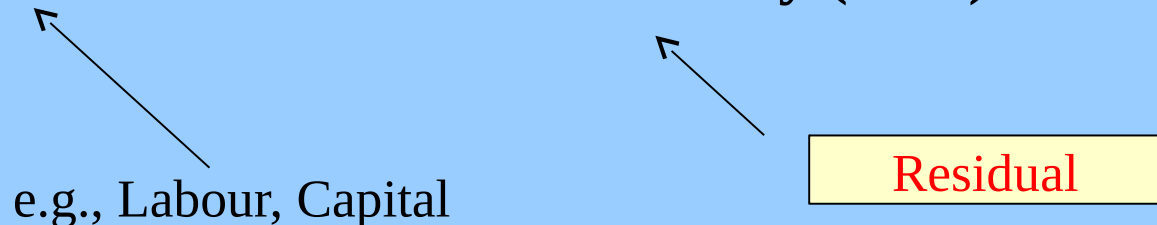
Gross Domestic Production (GDP) and GDP per capita – basically Income per person – is a key indicator of economic wellbeing

-
- GDP per capita increases by growth of inputs (e.g., more capital or labor) or higher Total Factor Productivity (TFP)

□

$$\mathbf{GDP = Inputs + Total Factor Productivity (TFP)}$$

e.g., Labour, Capital



Residual

How to Measure Total Factor Productivity

- Productivity is a measure of the transformation of inputs into outputs
- Total factor productivity measures the transformation of all inputs into comprehensive output
- Partial factor productivity measures the transformation of a subset of inputs into comprehensive output
- Productivity can be measured as a level or rate of change

Total Factor Productivity (TFP)

Factor Productivity

The amount of output relative to amount of a specific input (e.g., units per labor hour).

□

□ Example:

- Year 1 : 10 units of output per labor hour (10 hours of work); same capital
- Year 2 : 12 units of output per 11 hours of work; same capital
- Year 3 : 14 units of output per labor hour (11 hours of work); same capital

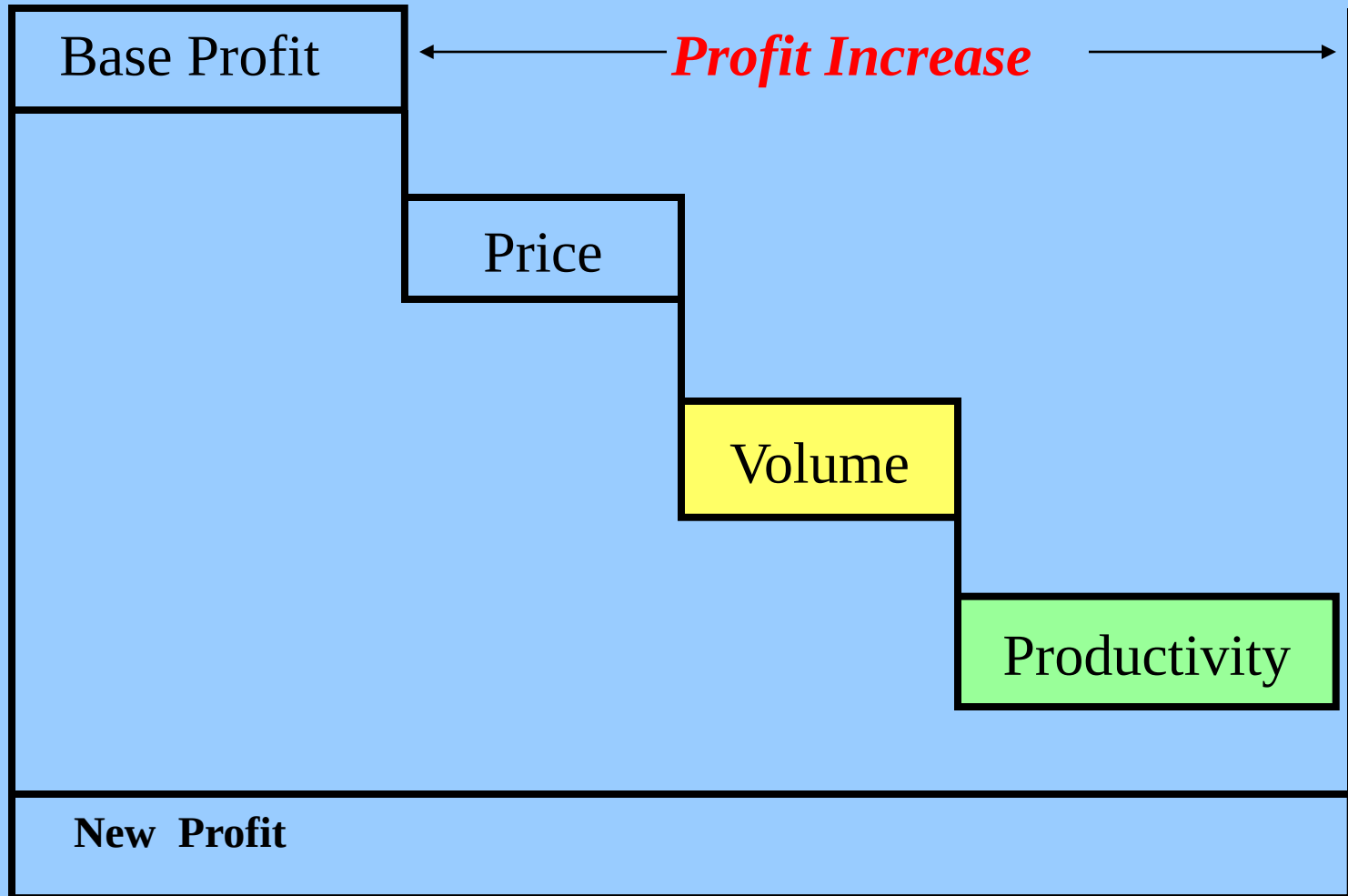
In Year 2 labor productivity increased by 0.09% (from 10/10 to 12/11).

□ Total Factor Productivity (TFP)

A combined measurement of the amount of output (of a product) relative to the sum of all resource inputs (the factors). It measures the overall performance of an operation.

- In Year 3 the increased output is due to the increase of TFP (increased from 12/11 to 14/11)

Total Factor Productivity

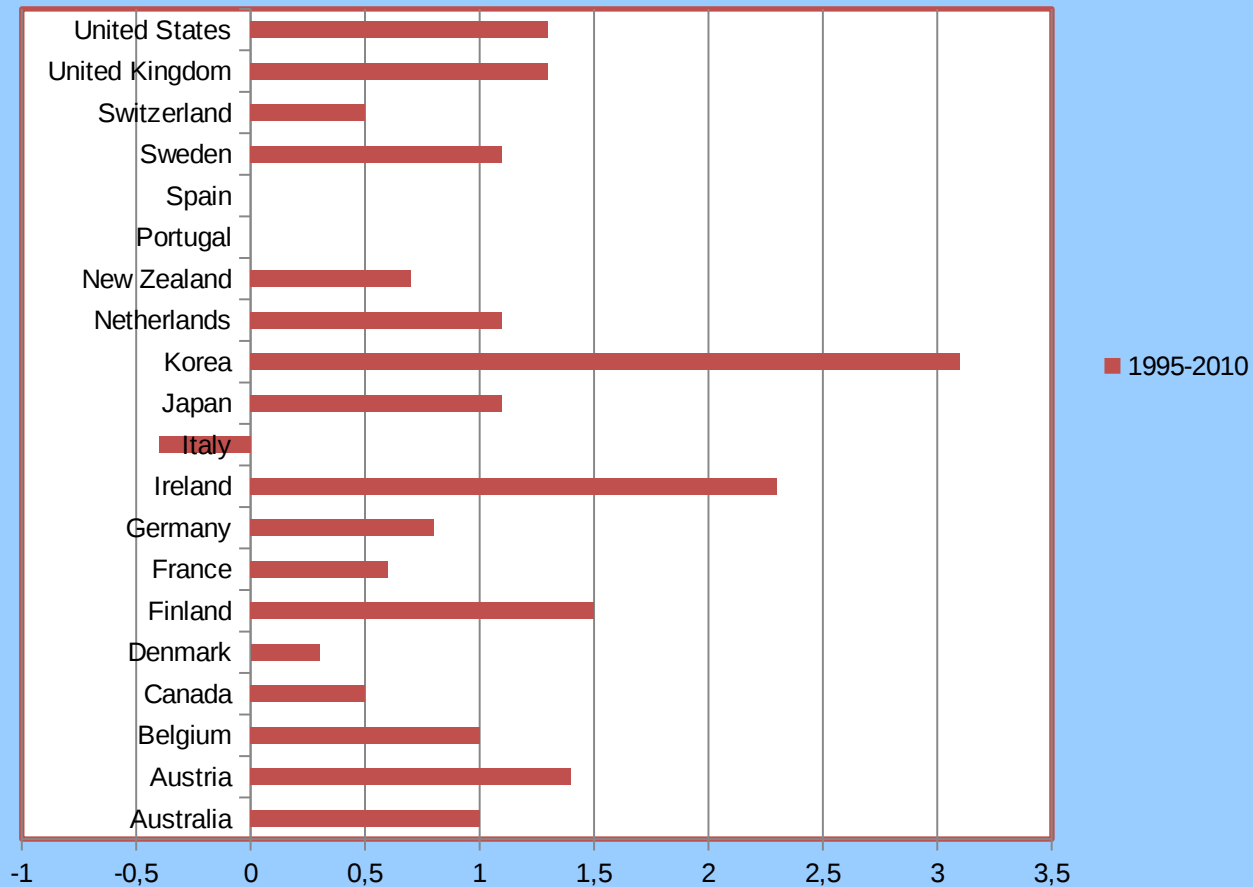


Productivity “Facts”

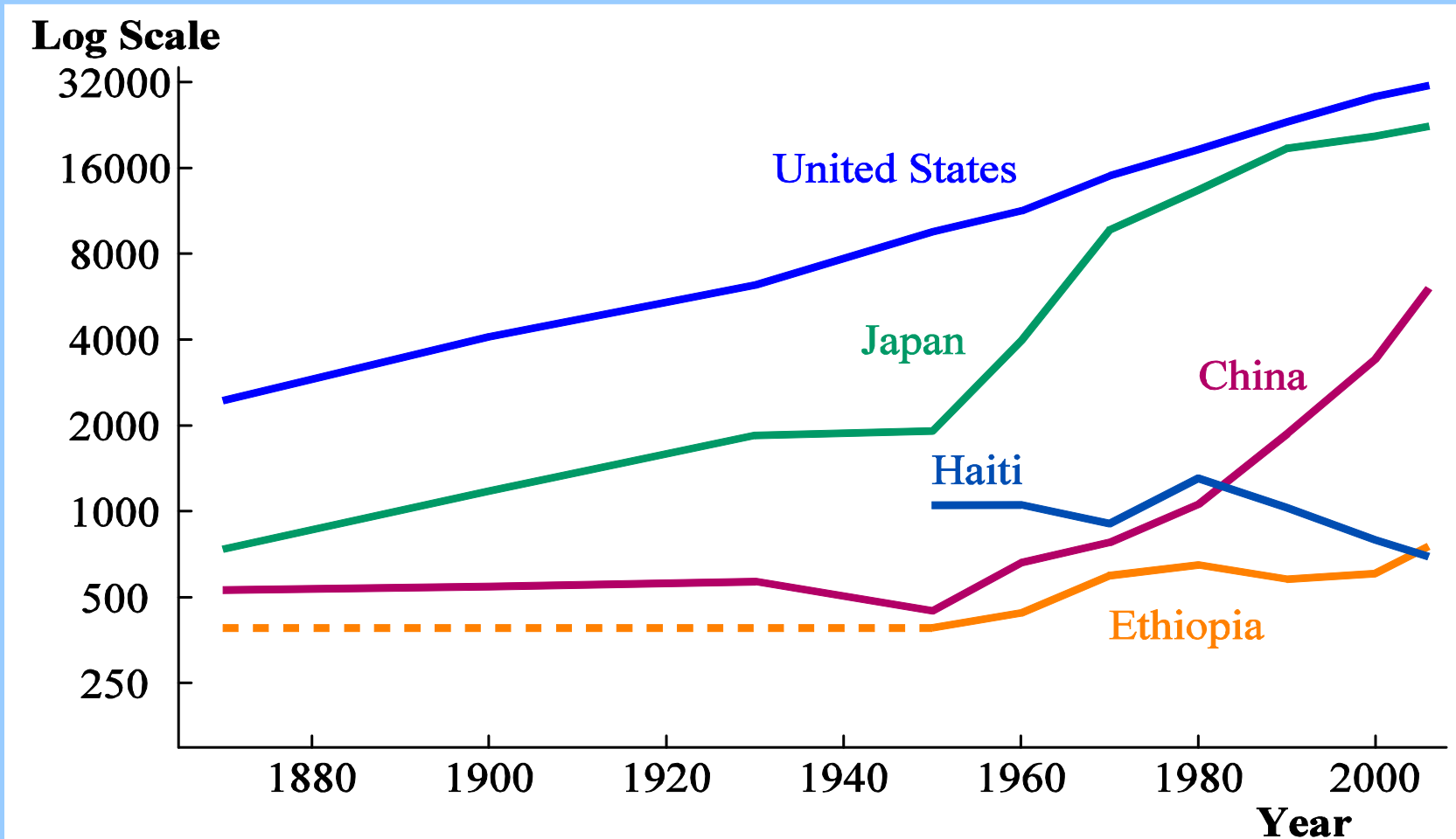
- **Macro:** Productivity varies across nations and over time
 - Robert Solow: TFP growth at least as important as growth of inputs in explaining economic growth
 - Cross country: GDP/capita differences largely due to TFP differences
 - US Productivity slowdown 1973-1995 and broad-based “productivity miracle” post 1995
- **Micro:** Productivity varies hugely across firms

Total Factor Productivity

Multi Factor Productivity 1995-2010
OECD



Catch up Growth



Source: Maddison (2008) Data is smoothed by decade

Productivity matters for Policy

- Increasing productivity (TFP) means that the economic pie is bigger so more room for:
 - *Consumption increases*
 - *Tax cuts*
 - *Increases in public goods (e.g., Environmental quality)*
- Harder to achieve if productivity stagnant
- But what can be done to increase productivity?

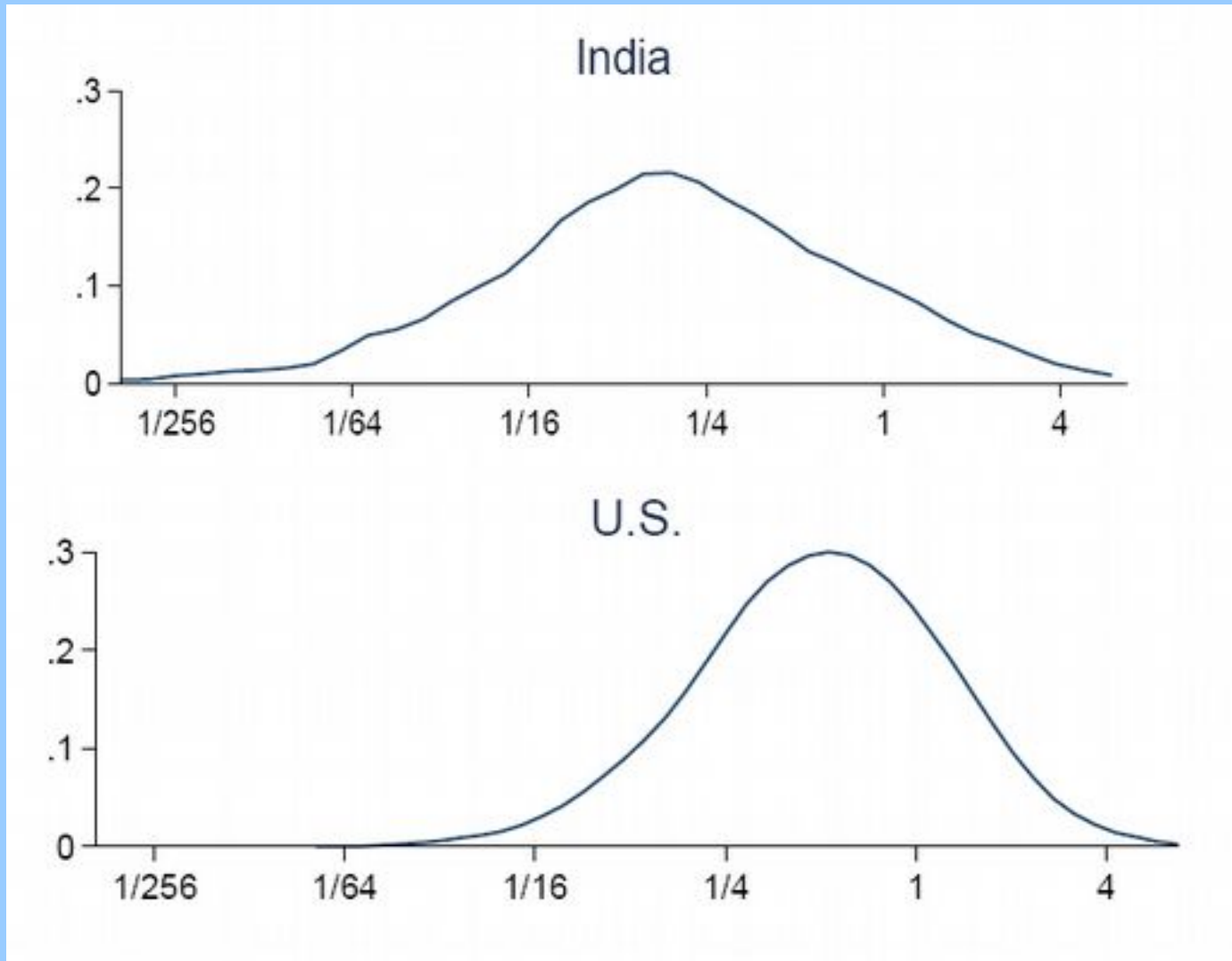
Factors increasing Productivity

- Proximate factors:
 - Human Capital
 - “Hard” technology (e.g., Research & Development)
 - Skills (e.g., college education)
 - Management (technology & skill)
- Some deeper factors “driving” the above
 - Competition
 - Globalization
 - Regulations & government policies
 - Culture

Productivity Differences across Firms within Countries is huge

- US Census data on population of plants
 - Plant at 90th percentile productivity 2x plant at the 10th percentile (Syverson, 2004)
- Not just mismeasured prices: in detailed industries (e.g., boxes, bread, block ice, concrete, plywood, etc.)
- These firm-level productivity differences could account for large part of cross country differences.

Distribution of plant TFP differences: US-Indian productivity gap related to US having far fewer low productivity plants



Source: Hsieh and Klenow (2008)

How TFP increases

□ **Within Firms (Traditional view)**

- The same firms become more productive (e.g., new technology spreads quickly to all firms, like Internet)

□ **Between Firms (“Schumpeterian” view)**

- Low TFP firms exit and resources are reallocated to high TFP firms
 - High TFP firms expand (e.g., more jobs) & low TFP firms contract (e.g., less jobs)
 - Exit/Entry

Example of How Total Factor Productivity increases – Firm A twice as productive as firm B

Period 1

	A	B	Total
Productivity -output/jobs	2	1	
Jobs	10	10	20
Output	20	10	30
Aggregate productivity			1.5 (=30/20)

Aggregate (weighted) productivity is 1.5

How Total Factor Productivity increases: both firms increase TFP by 0.5

	Period 1			Period 2		
	A	B	Total	A	B	Total
Productivity	2	1		2.5	1.5	
Jobs	10	10	20	10	10	20
Output	20	10	30	25	15	40
Aggregate productivity			1.5 (=30/20)			2 (=40/20)

Aggregate productivity increases from 1.5 to 2 (one third)

How Total Factor Productivity increases: both firms increase TFP by 0.5

	Period 1			Period 2		
	A	B	Total	A	B	Total
Productivity	2	1		2.5	1.5	
Jobs	10	10	20	10	10	20
Output	20	10	30	25	15	40
Aggregate Productivity			1.5 (=30/20)			2 (=40/20)

Aggregate productivity increases from 1.5 to 2 (one third)

How Total Factor Productivity increases - reallocate all jobs & output to firm A

	Period 1			Period 2		
	A	B	Total	A	B	Total
Productivity	2	1		2	1	
Jobs	10	10	20	20	0	20
Output	20	10	30	40	0	40
Aggregate Productivity			1.5 (=30/20)			2 (=40/20)

Aggregate productivity increases from 1.5 to 2 (one third)!

How Total Factor Productivity increases - reallocate all jobs & output to firm A

	Period 1			Period 2		
	A	B	Total	A	B	Total
Productivity	2	1		2	1	
Jobs	10	10	20	20	0	20
Output	20	10	30	40	0	40
Aggregate Productivity			1.5 (=30/20)			2 (=40/20)

Aggregate productivity increases from 1.5 to 2 (one third) just by reallocation and with productivity remaining the same (at level 2)!

Some Empirical Evidence on Reallocation

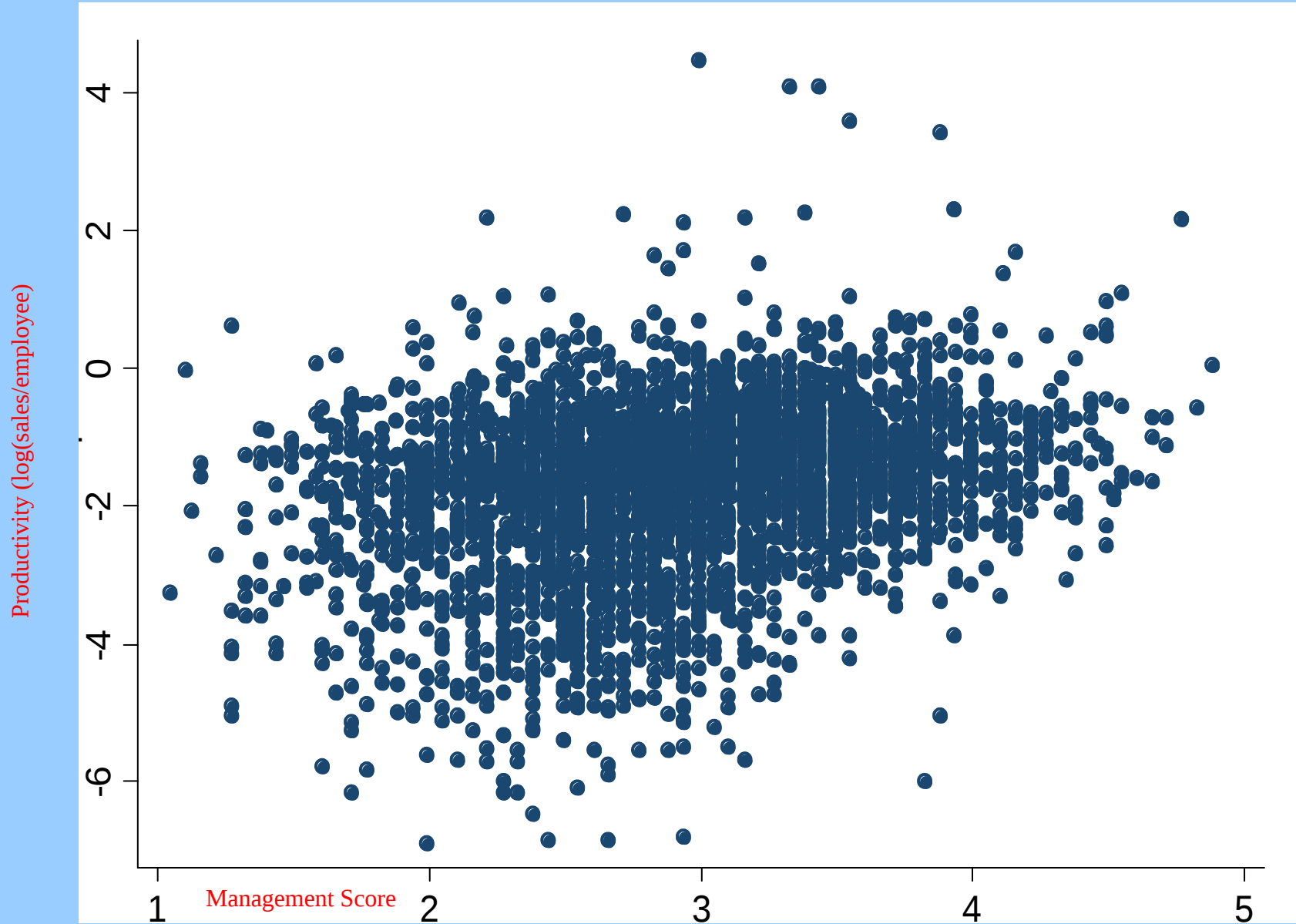
- Reallocation appears to be an important factor:
 - In aggregate US productivity growth: ~half of aggregate TFP growth in a 5 year period in typical industry due to reallocation
 - For certain sectors: In retail trade, almost *all* of labor productivity growth is due to exit/entry of stores (Foster et al. 2006).
 - Reallocation improves TFP as the inputs , e.g., labour as used in a more efficient environment, e.g. organization, management, institutions more conducive to efficiency.

Why Care about Management and Productivity?

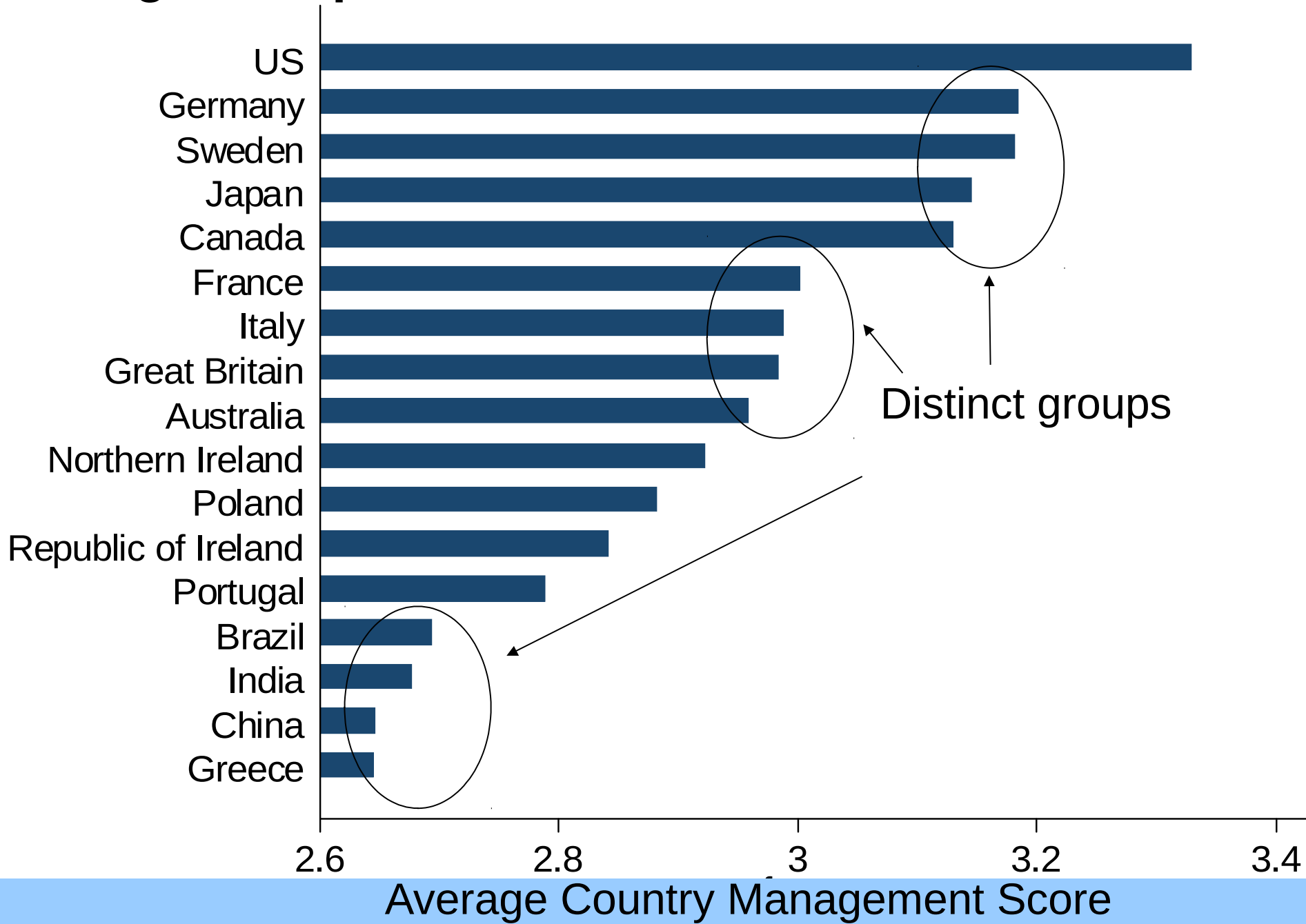
Measuring Management

**Differences in Management Practices Causes
Differences in Performance**

Management Practices and Performance



Management practices across countries



Total Factor Productivity in the World

Total Factor Productivity Growth by Major Region, 1997-2013					
Countries/Regions	1997-2006	2007-2011	2011	2012	2013
US	0.8	0.1	0.6	0.7	0.4
Europe	0.6	-0.5	0.5	-0.7	-0.5
of which Euro Area	0.4	-0.4	0.5	-0.8	-0.6
Japan	0.2	0	-0.6	1.1	0.7
Other Advanced Countries	0.9	0.6	1.4	-0.8	-0.2
Advanced Countries	0.6	-0.1	0.5	0	0
China	2.8	3.1	2.2	0.6	0
India	1.6	2.7	1.4	-0.4	-1.2
Other Developing Countries Asia	-0.1	-0.1	-0.1	1.1	0
Latin America	-0.2	-0.7	0.3	-0.9	-1.5
Middle East and North Africa	1.4	0.3	0.5	-1.4	-2.1
Sub-saharan Africa	1.4	-0.3	0.3	-0.9	-0.8
Russia, central Asia and South East Europe	3.8	-0.2	2.9	0.5	-0.2
Developing Countries	1.6	1.2	1.5	0.1	-0.5
World	1	0.6	1.1	0.2	-0.1
Addenda:					
EU-15	0.4	-0.6	0.4	-0.9	-0.4
EU-12	1.6	-0.3	1.2	0	-1.1
EU-27	0.6	-0.5	0.6	-0.8	-0.5
OECD	0.6	-0.2	0.5	-0.1	-0.2

The Conference Board Total Economy Database™, Summary Statistics 1997 - 2014, January 2014

Total Factor Productivity in MENA Countries

Total Factor Productivity Growth, Middle East and North Africa, 1997-2013					
Countries	1997-2006	2007-2011	2011	2012	2013
Middle East and North Africa	1.4	0.3	0.5	-1.4	-2.1
Algeria	0.8	-1.2	-1	-0.6	
Bahrain	0.9	-5	-3.7	-0.1	
Egypt	1.6	0.3	-0.7	-2.2	
Iran	1.1	1	-0.4	-5.5	
Iraq	7.7	4	6.2	5.4	
Jordan	1.4	1.1	-1.1	-1.2	
Kuwait	4.2	-0.1	7.4	7.2	
Morocco	0.5	-0.6	0	-1.9	
Oman	0.2	-0.1	2	3.9	
Qatar	3.3	2.7	4.7	-0.4	
Saudi Arabia	0.2	1.3	3.5	-0.2	
Sudan	9.1	-2.7	-7.3	-8.4	
Syria	0.2	1.2	-3.3	-2.1	
Tunisia	1.8	-0.3	-4.9	-0.3	
United Arab Emirates	1.2	-3.4	-0.8	-0.5	
Yemen	-1.1	-3	-15.4	-0.3	

The Conference Board Total Economy Database™, Summary Statistics 1997 - 2014 January 2014

Total Factor Productivity in MENA Countries

- Productivity growth in the Middle East and North Africa **slowed** as output growth in the region declined in 2013, partly as a result of weakening oil prices and partly due to political and social unrest in much of the region, while employment growth remained stable.
 - 2014 The Conference Board
- A number of **structural economic indicators can help explain the reasons for which, in many countries of the South Mediterranean, TFP is relatively lower than in other emerging economies, and in particular those located in Asia and Europe.** While South Mediterranean countries have implemented substantial economic and institutional reform, based on the Global Competitiveness Index or on the World Bank's structural indicators, this has not been enough to bridge the gap separating the institutional framework of South Mediterranean countries from those of other economic regions.
- There is a positive **correlation linking TFP growth and the Global Competitiveness Index (GCI) in 21 emerging economies in the South Mediterranean, Asia, and Europe.** The lowest GCI levels in the sample are concentrated in countries of the South Mediterranean Rim. Algeria, Egypt, Libya, and Morocco all have a GCI no higher than 4, and rank between 70th (Egypt) and 88th (Libya) in the overall ranking of the 134 countries considered by the GCI. Israel, Tunisia, and Jordan, on the other hand, show an index of between 4 and 5, ranking between 27th (Israel) and 50th (Jordan).

Total Factor Productivity in MENA Countries

- A business-friendly regulatory framework and an efficient judicial system are necessary conditions to encourage private investment. Among other factors, the ease of establishing a business plays a key role in deciding the destination of foreign direct investments.
- A wide range of strategies have been pursued to improve the business climate, embracing measures aimed at sector-specific issues as well as actions geared to strengthening institutions which offer support to all business sectors.
- Many sectors have seen privatizations. In Morocco, considerable efforts have been made to liberalize the aviation and gas exploration sectors. The banking sector has also undergone significant reform geared to increasing liberalization in the industry. In Algeria, for instance, 13 foreign banks have established a local presence since the liberalization process began. Egypt is one of the South Mediterranean countries to have implemented the most exhaustive reform of trade regulations, introducing for instance laws on bankruptcy (voluntary liquidation is now possible), or on the resolution of business disputes (via a dedicated court).
- In general, however, despite the progress made by single countries, the South Mediterranean Rim on the whole still ranks behind other emerging regions.

Human Capital

The focus on human capital as a driver of economic growth for developing countries has led to undue attention on **school attainment**.

Developing countries have made considerable progress in closing the gap with developed countries in terms of school attainment, but recent research has underscored the importance of **cognitive skills for economic growth**.

This result shifts attention to issues of school quality, and there developing countries have been much less successful in closing the gaps with developed countries. Without improving **school quality**, developing countries will find it difficult to improve their long run economic performance.

□ Eric A. Hanushek. 2013. Economic Growth in Developing Countries: The Role of Human Capital. Economics of Education Review December

Human Capital

- Empirical papers, such as Benhabib and Spiegel (1994), have argued that the relationship between human capital and income growth is best viewed in the context of the **positive effect that human capital has on TFP**, rather than its direct effect as an accumulable factor in the production function.
- Bils and Klenow (2000) argue that microeconomic evidence on returns to schooling is inconsistent with the large and positive coefficients on human capital found in growth regressions by Barro (1991); this, too, suggests that human capital impacts income through the separate channel of TFP.
- Borensztein, De Gregorio and Lee (1998) regress GDP growth rates on both foreign direct investment (FDI) and a term that interacts FDI with human capital. They find that while the coefficient on FDI by itself is negative, the coefficient on the interactive term is positive and significant, suggesting that **human capital is essential to the process of technological diffusion through FDI**.

Human Capital

- Young people **under the age of 25 make up over 60% of the Middle East's population**. The wave of young people temporarily moving abroad to further their education is not a new phenomenon.
- However, despite tough international visa restrictions, more and more young people are choosing **migrate permanently**. A **study** by Silatech showed that **a staggering 26%** of young people across the region want to migrate and leave their countries in search of better opportunities.
- The loss of local and regional human capital means that the regions **brightest minds are being lost** to the international arena, i.e., growth potential, ideas, and possible discoveries made by these young Arabs who migrate from their homeland are lost by their respective countries.
- The revolutions have created a culture of entrepreneurialism, but **it is the employed, educated, and entrepreneurial who are most** likely to want to migrate abroad, according to the study.

Human Capital

- *The truth is, young people are not searching for the American Dream and are most definitely not flying out on the wings of freedom; they're fleeing tyranny*

Yara al-Wazir, Yara al-Wazir is a humanitarian activist. She is the founder of The Green Initiative ME and a developing partner of Sharek Stories.

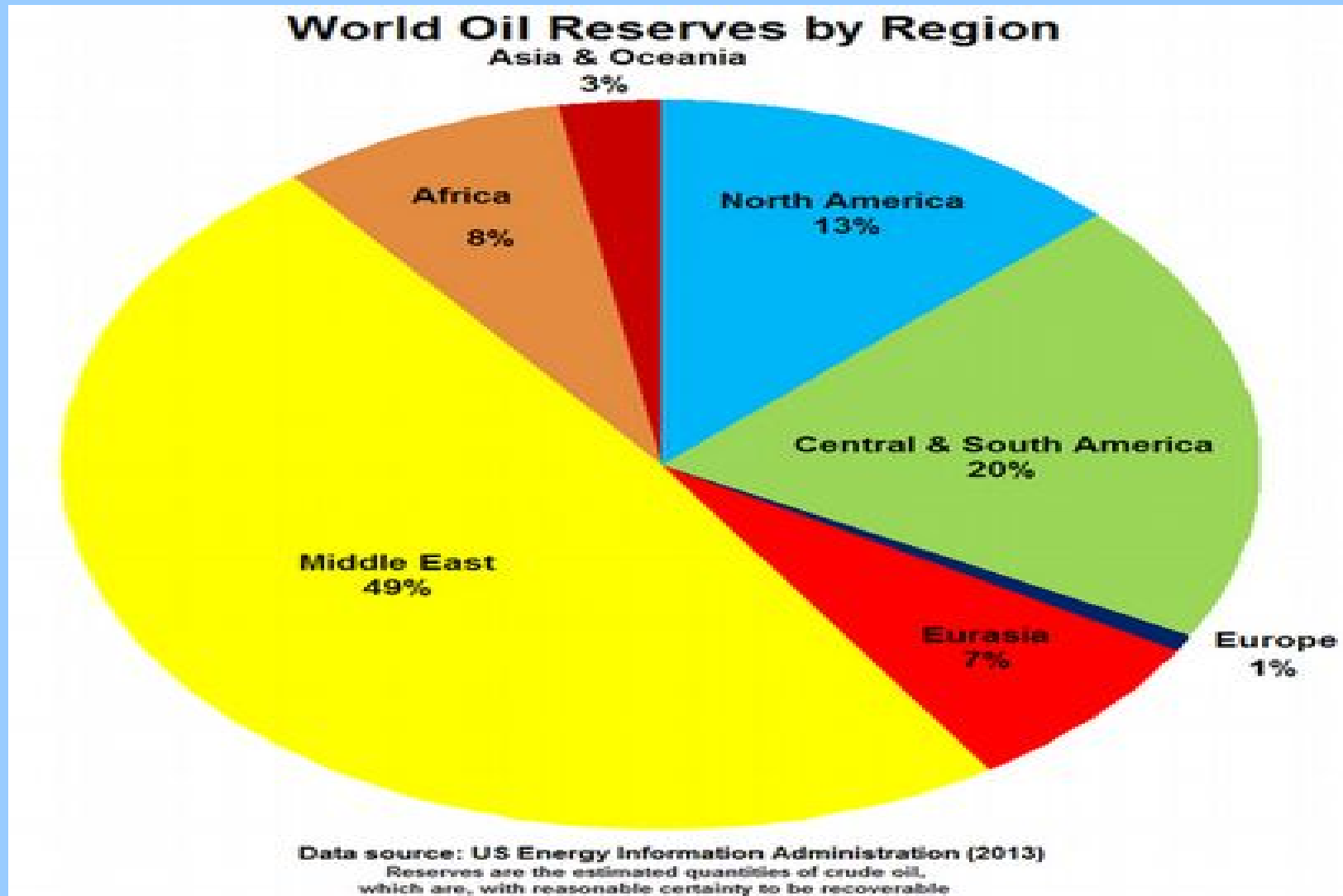
- However, one of the biggest downsides is that young people would not go back in what they perceive to be **dead-end countries**.
- Ultimately, this means that when the region does decide to grow, if ever, it will have face extra challenges: filling the labor gap without relying on international labor, and the challenge of convincing their won people to come back to their own countries.
- **Diaspora** refers to a scattered population with a common origin. Diaspora also refer to the movement of the population from its original homeland. Many diasporas, e.g., Jews, Turkish, Italian.
- The **Arab Diaspora** like the diasporas of many other countries.

Human Capital

Brain Drain in Italy: anecdotal evidence; empirical and statistical evidence; OECD e Ministero Interno <http://oriundi.net/site/oriundi.php?menu=noticiasdet&id=17058> 2010).

- Brain drain in Italy è significant and permanent, and there is a low propensity to come back (Monteleone and Torrasi, 2010).
- The highly skilled exchange rate, that is the ratio between inflows and outflows of highly educated people, is **-1.2% in Italy**, 2.8% in France; 2.2% in Germany; 0.,9% in Spain; 1.1% in UK; and almost 20% in US (Beltrame, L. 2007).
- Italy is not an exception in Europe, but only regarding flows towards other countries, i.e., the Italian exception is **the inability to attract highly skilled migrants**. Brain drain in Italy is not compensated by “brain inflows”.
 - Balduzzi Paolo. 2012. Brain Drain: Again or In Vain? Research Project
- Since 2007 the situation is even worse: the steep decline of the number of young people (under 30) who become entrepreneurs slide from 278 thousands (2002) to 212 thousands (2011).
- A young MBA in USA finds a job at a NGO with an entry salary **20-30% greater than that of a middle manager in Italy at the end of his/her carrier!!!!**

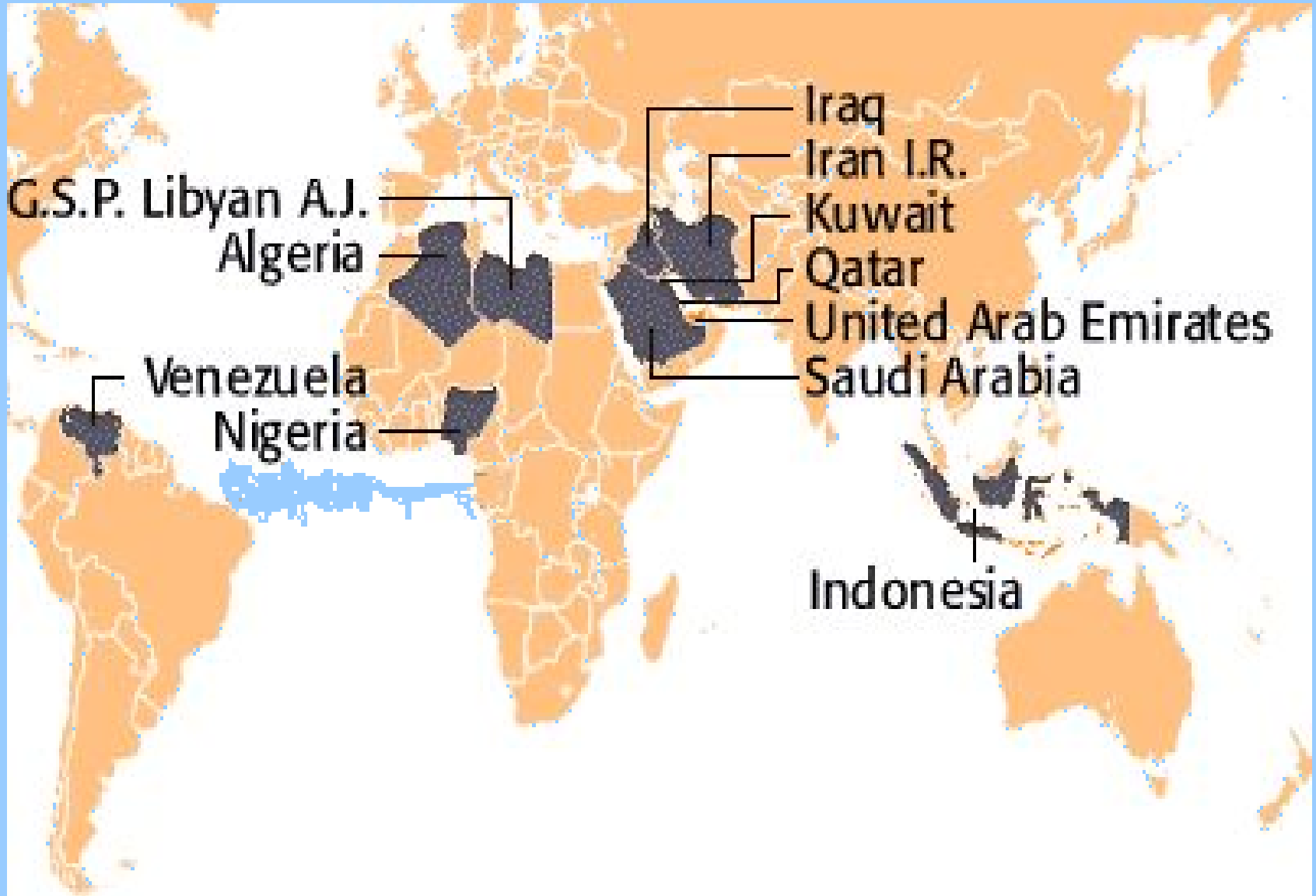
World Proven Crude Oil Reserves by Region, 2013



Middle East Countries can be divided

- Large petroleum suppliers
 - Rich, relatively sparsely populated nations with conservative regimes (e.g., Saudi Arabia)
- Little or no petroleum
 - Poor, heavily populated nations with socialist governments (e.g., Jordan, Syria)

Organization of Petroleum Exporting Countries (OPEC)



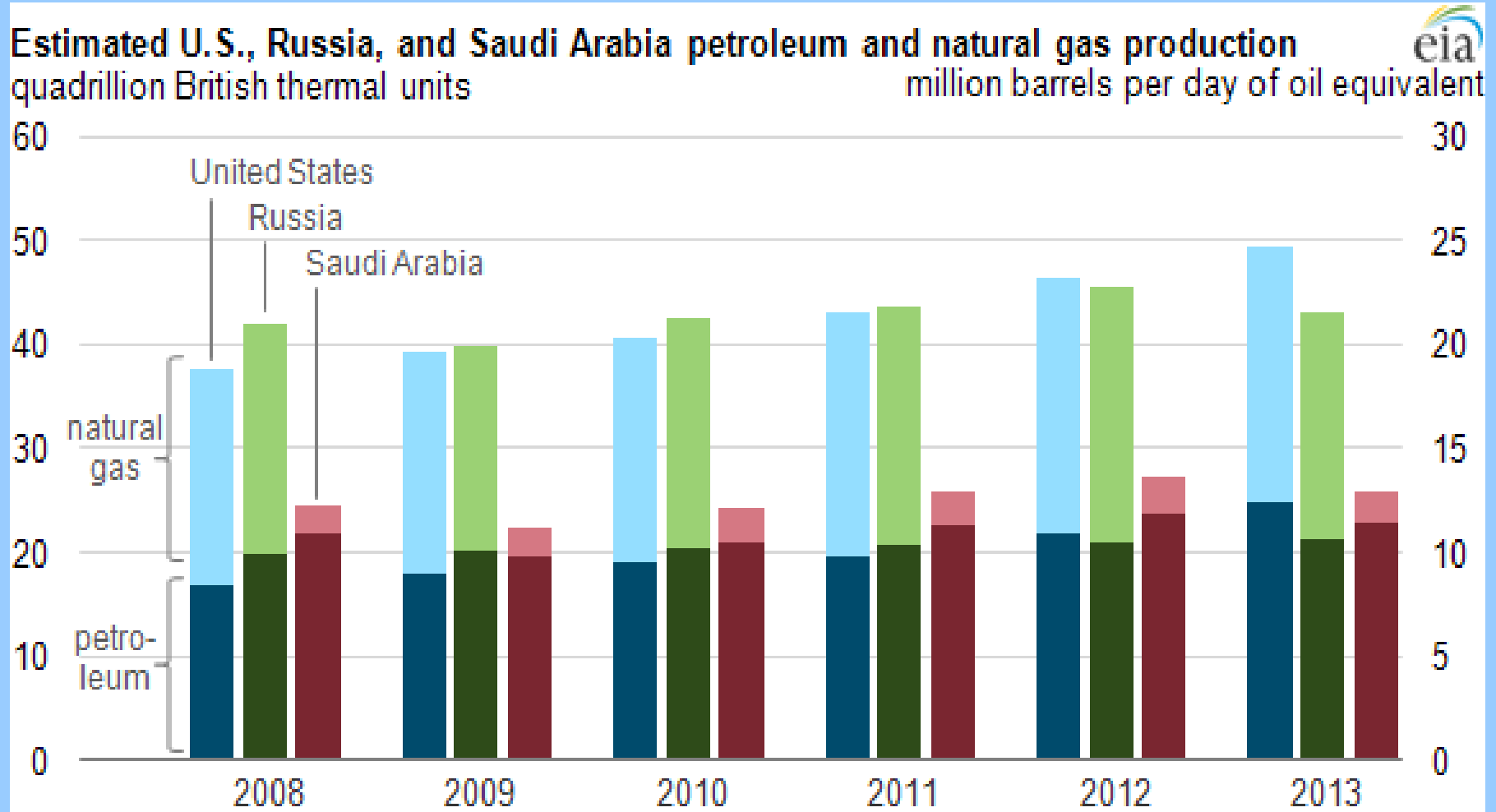
Leading U. S. Oil Suppliers

The U. S. imports 30% of its oil needs from the Middle East.

The US Energy Revolution

- Between 2007 and 2012, **U.S. shale gas production rose by over 50 percent each year**, and its share of total U.S. gas production jumped from five percent to 39 percent. Terminals once intended to bring foreign liquefied natural gas (LNG) to U.S. consumers are being reconfigured to export U.S. LNG abroad. Between 2007 and 2012, fracking also generated an 18-fold increase in U.S. production of what is known as light tight oil, high-quality petroleum found in shale or sandstone that can be released by fracking. This boom has succeeded in reversing the long decline in U.S. crude oil production, which grew by 50 percent between 2008 and 2013. Thanks to these developments, the United States is now poised to become an energy superpower. In 2013, it surpassed Russia as the world's leading energy producer, and by 2015, according to projections by the International Energy Agency, **it will overtake Saudi Arabia as the top producer of crude oil.**
- The **American energy revolution does not just have commercial implications; it also has wide-reaching geopolitical consequences.** Global energy trade maps are already being redrawn as U.S. imports continue to decline and exporters find new markets. Most West African oil, for example, now flows to Asia rather than to the United States. And as U.S. production continues to increase, it will put downward pressure on global oil and gas prices, thereby **diminishing the geopolitical leverage that some energy suppliers have wielded for decades.** Most energy-producing states that lack diversified economies, such as Russia and the Gulf monarchies, will lose out, whereas energy consumers, such as China, India, and other Asian states, stand to gain.

Oil and Natural Gas

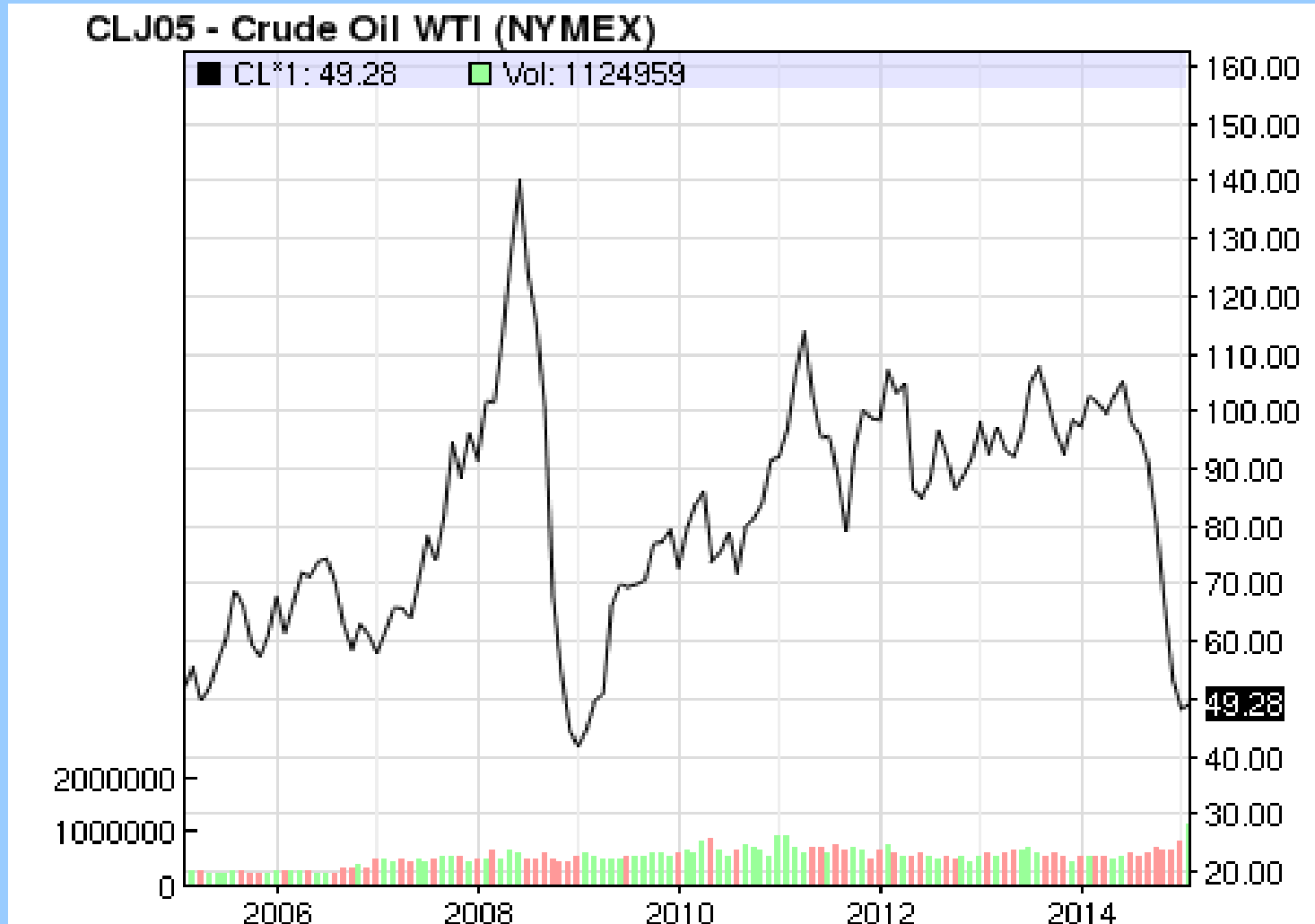


Source: US Energy Information Administration (EIA)

Crude Oil

WTI (NYMEX) Price

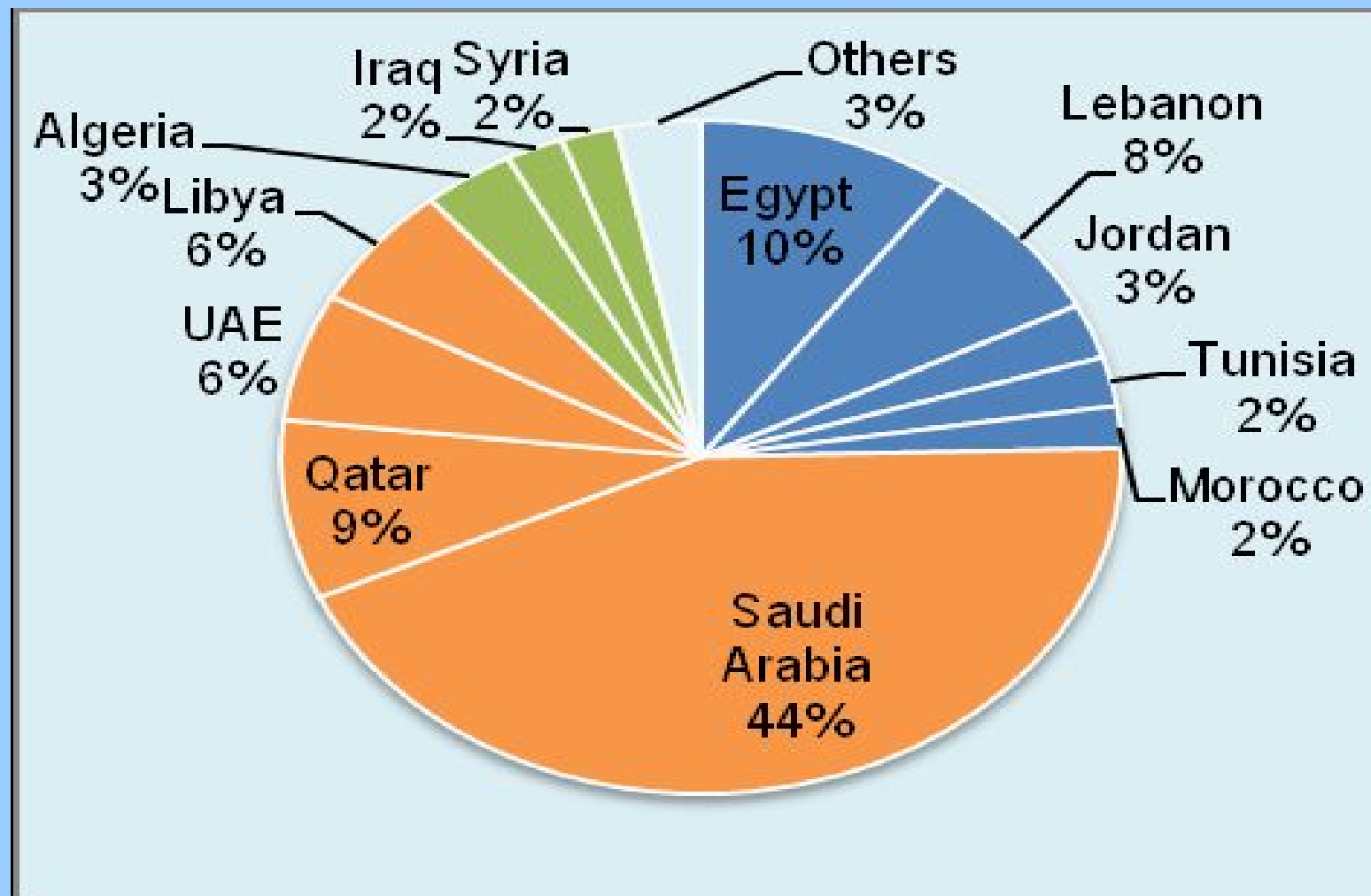
End of day Commodity Futures Price Quotes for Crude Oil WTI (NYMEX)



Exchange Rate US\$/Euro

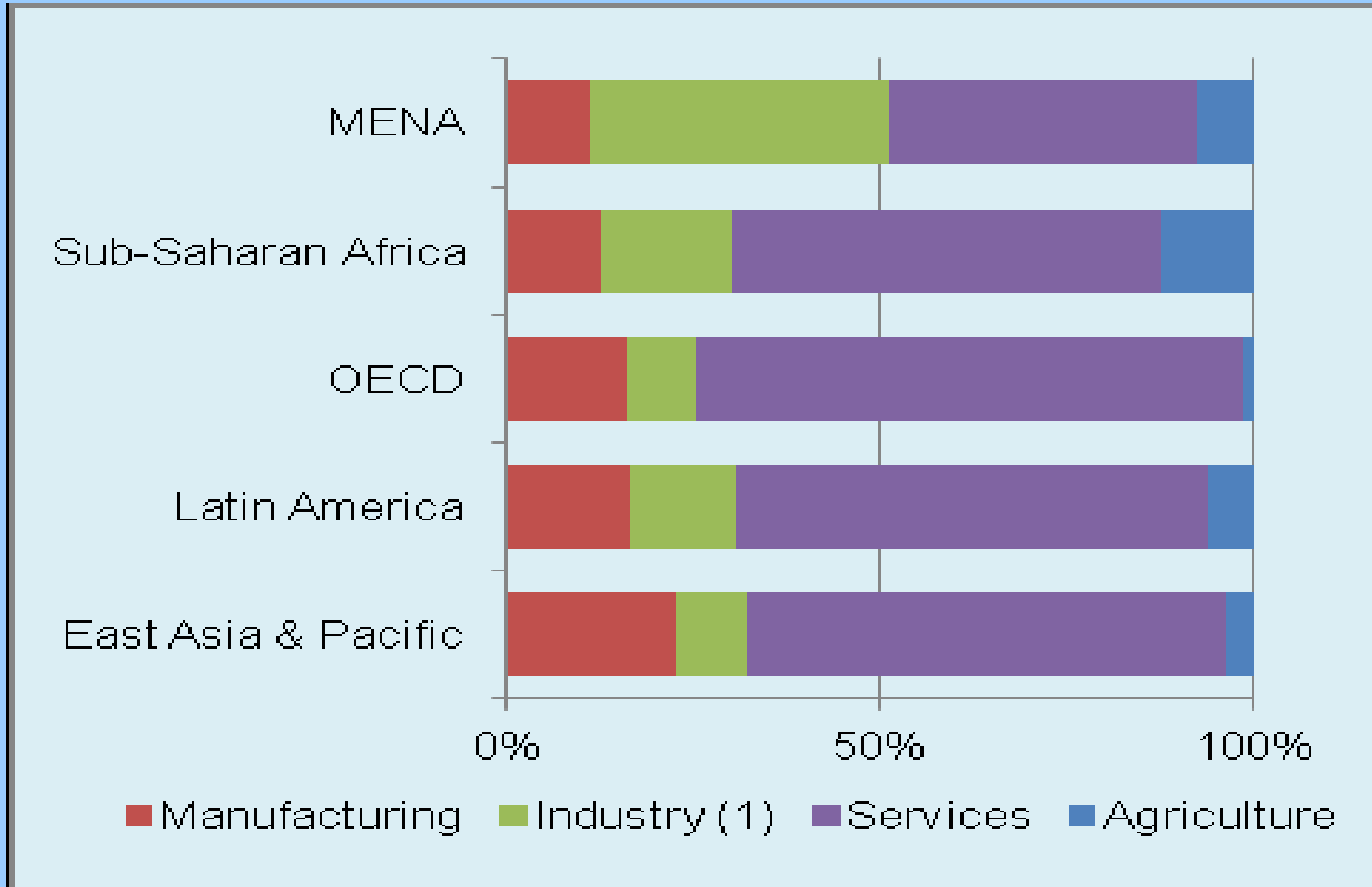


FDI Inflows to the MENA Region, 2010



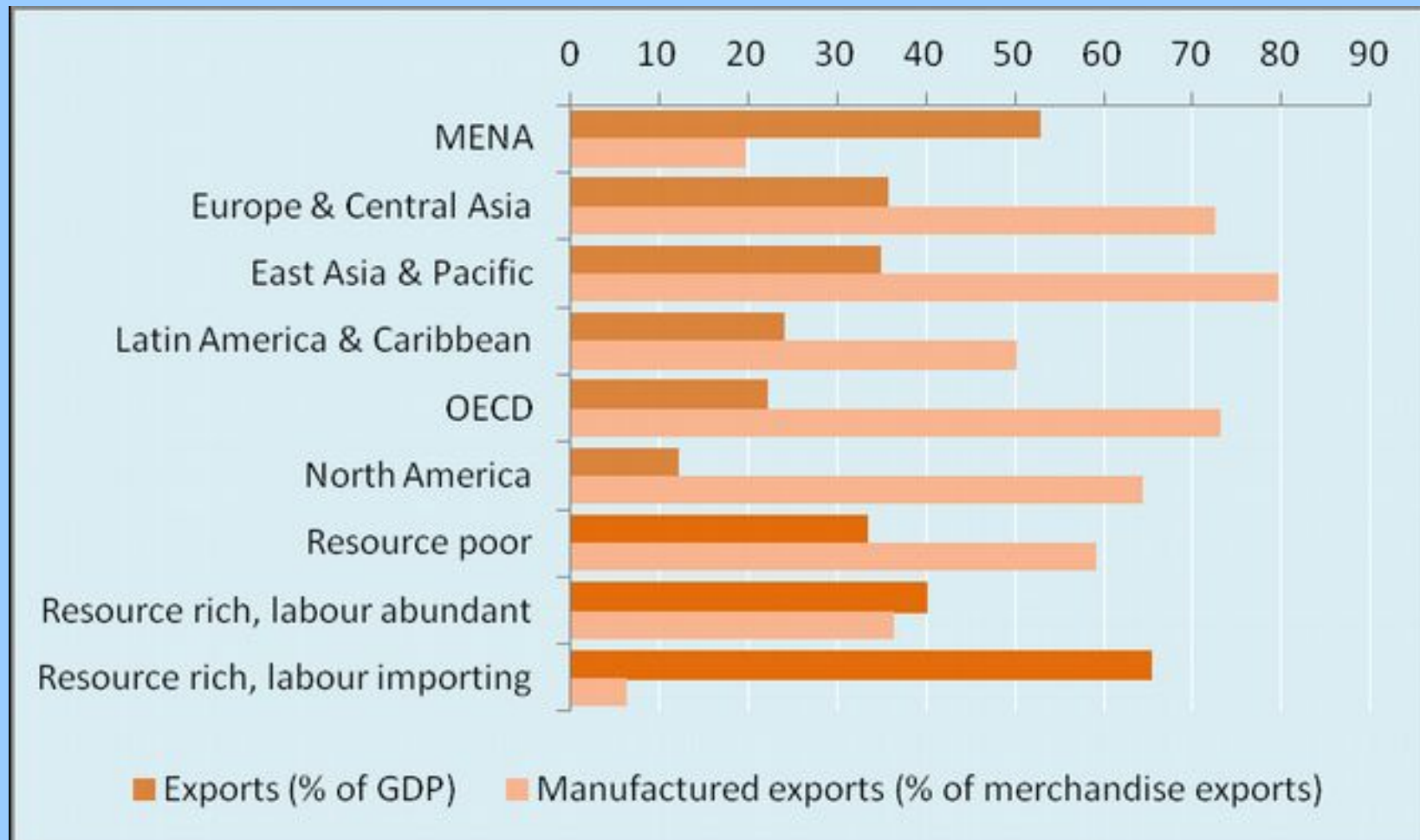
Source: UNCTAD 2011.

Value Added in Selected Regions



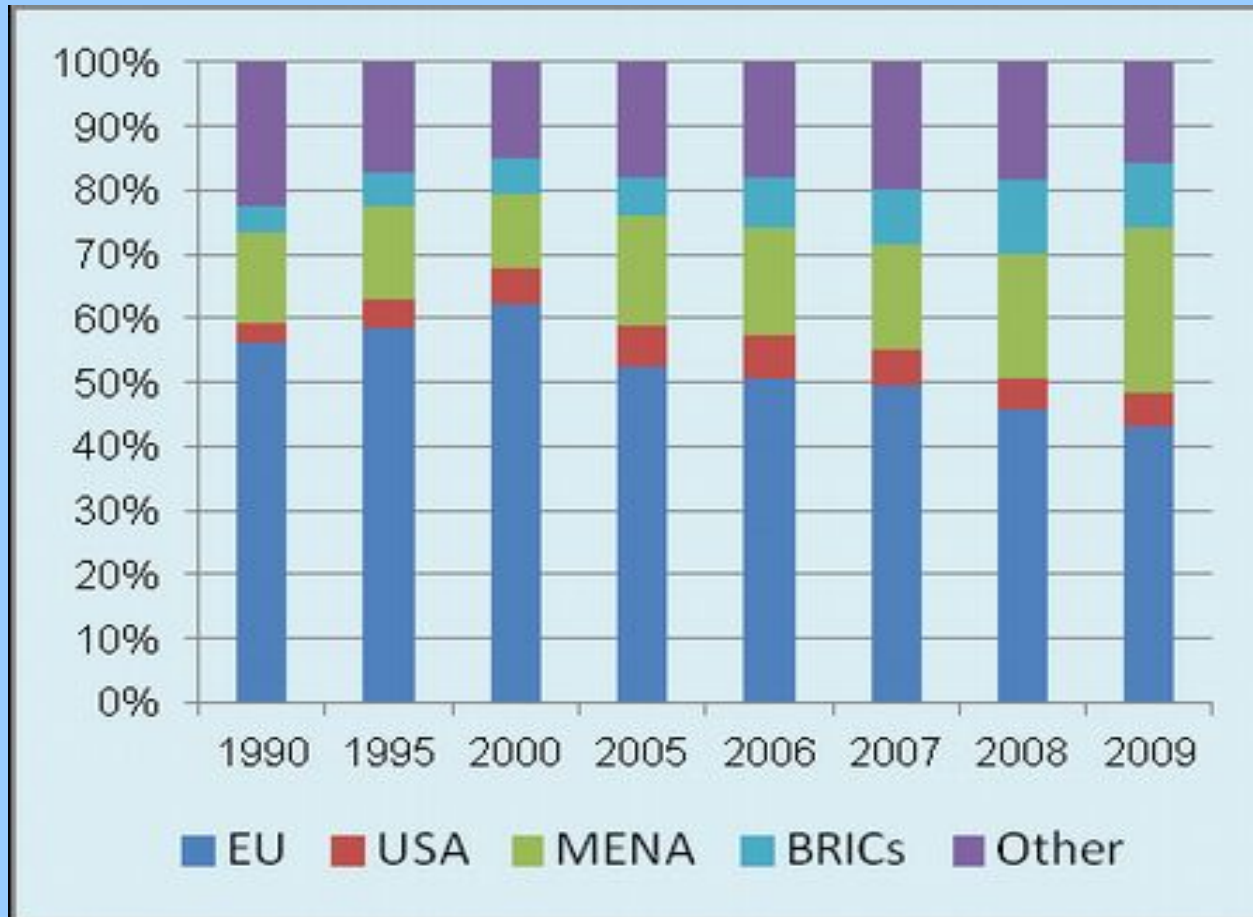
Source: World Bank 2010 and Klapper and Love 2010

Exports as a share of GDP are high in MENA, but manufactured exports are comparatively low



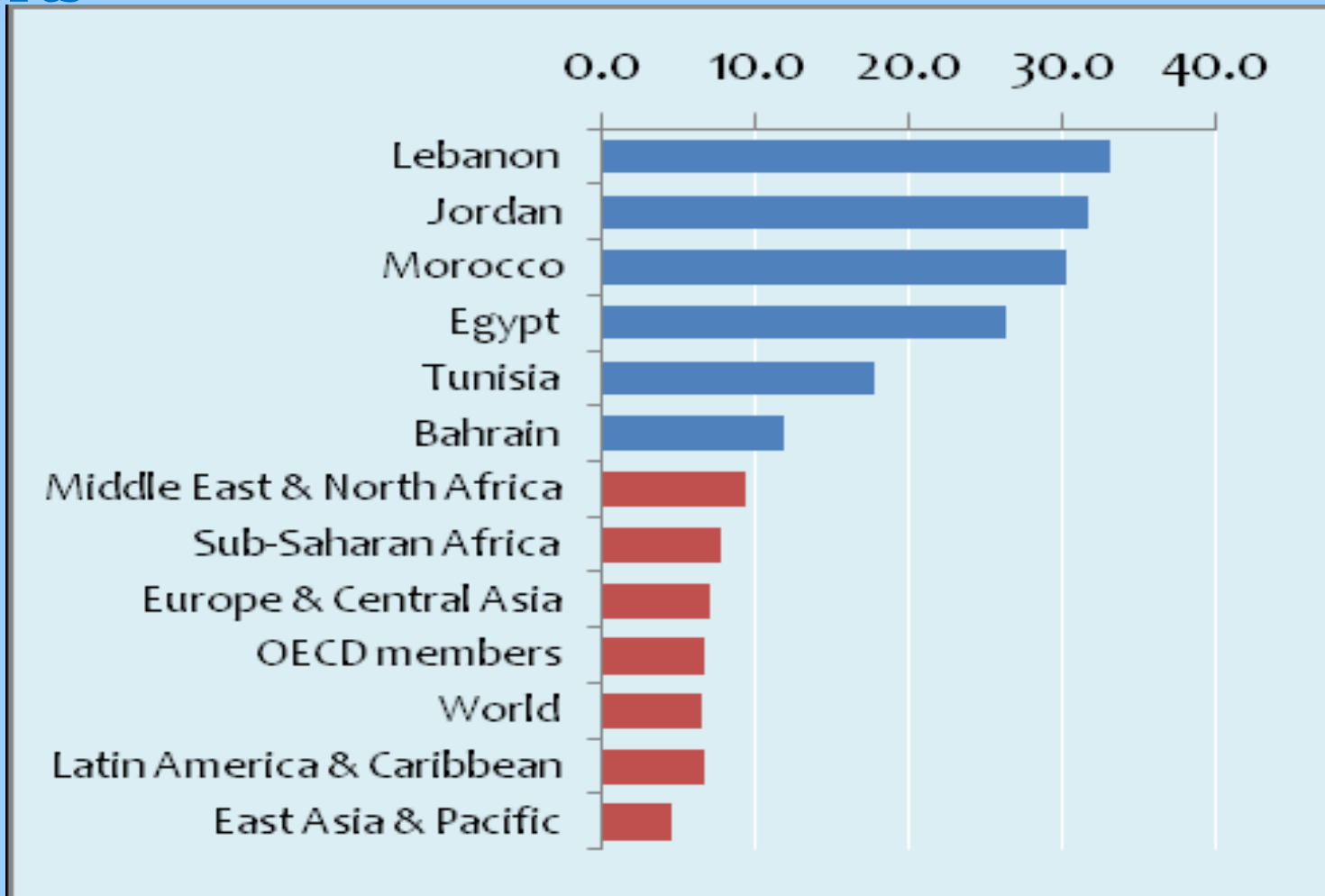
Source: World Bank 2011

Resource-poor Countries' main Export Market is the EU



Source: IMF 2011

International Tourism Receipts as percent of Total Exports



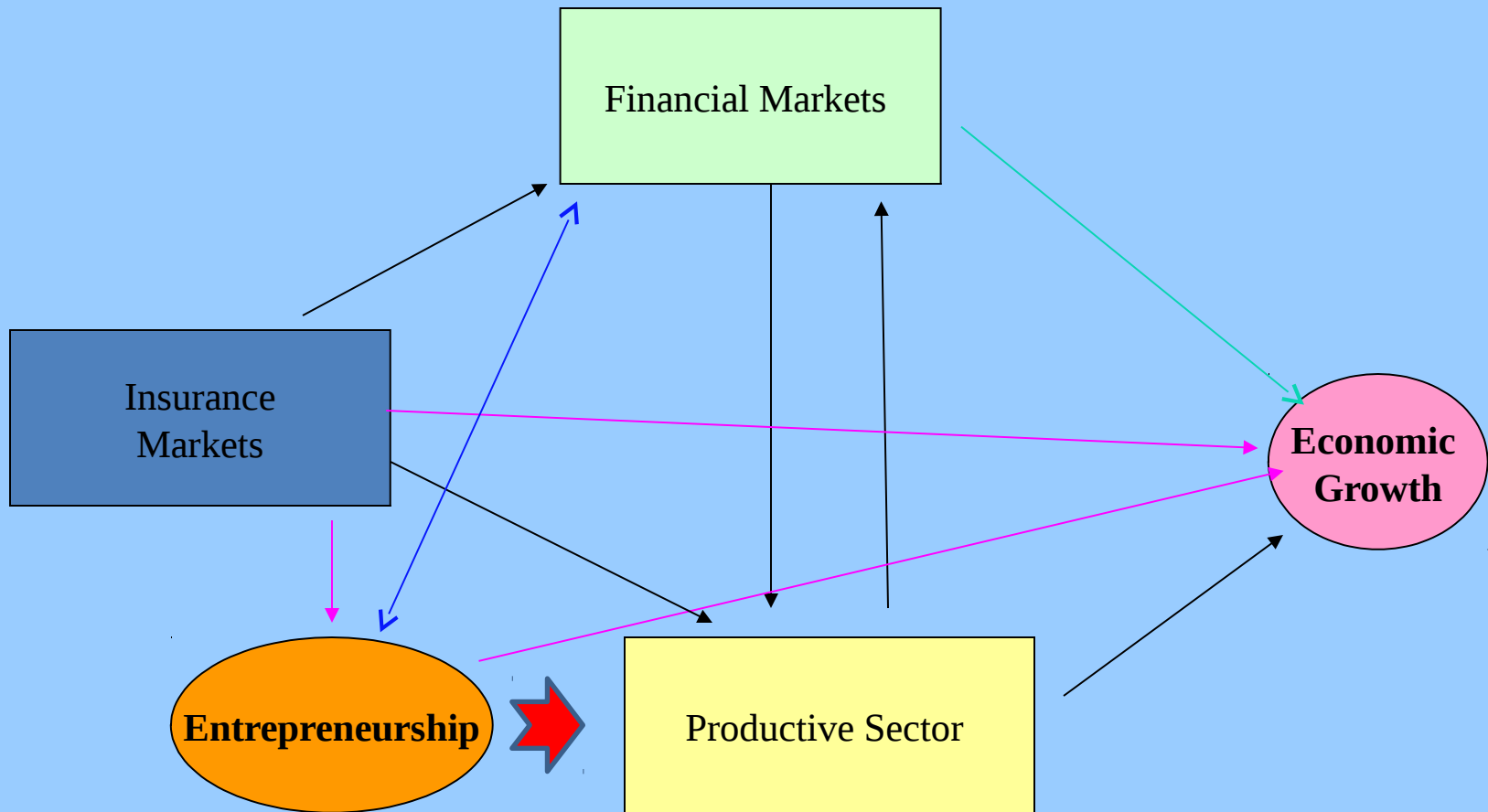
Sources: IMF 2011d and World Bank 2011

Trade and FDI

- A growing literature has begun considering **trade and FDI** not as two separate and distinct functions, since the two are more inter-related than autonomous. Over the past decade, global FDI has become increasingly associated with the creation of integrated international production networks of firms, whereby companies spread their activities regionally or globally across various production sites. While FDI is often thought of as a substitute for trade, the reality is that FDI can both substitute and complement trade.
- Referring to MENA countries and EU partnership, in spite of the EU-MED Agreements, **the share of FDI received by MENA countries is very small** both in absolute terms and relative to the size of their economies.
- Two explanations are possible: one is related to the nature of the MENA region as being a newcomer to the international market of capital flows; the other is related to the substitution issue between FDI and trade. Some research suggests that **the weak FDI record of the region can largely be explained by the lack of economic reforms rather than to the presence of a substitution relationship between FDI and trade.**
- What about **trade**? Trade in goods between the EU and Mediterranean area has increased over the last 10 years but MENA countries score one of the lowest ratios of export to GDP among all regions of the world, but Sub-Saharan Africa, and imports from Europe grew more strongly than exports. The Euro-Med Agreements have not increased the trade shares of the Southern Mediterranean partner countries in EU markets because of many reasons, which include **restrictions on trade in agriculture, services and labor, the lack of harmonization of standards, and the stringent rules of origin for some manufactured goods that have high export potential, such as textiles and clothing.**

11. Entrepreneurship and Finance

Framework for Entrepreneurship and Insurance



The Process of Development

- According to Schumpeter (1934), the **entrepreneur** is the innovator who **implements change and produces growth** by initiating new combinations, which can take several forms:

- 1) the introduction of a new good or quality thereof,
- 2) the introduction of a new method of production,
- 3) the opening of a new market,
- 4) the conquest of a new source of supply of new materials or parts, or
- 5) carrying out the new organization of any industry.

- The basic contention is that small firms, start-ups - home of the independent entrepreneur and the independent inventor- constitute the primary source of the technical ideas and innovations that serve as the foundation for the unprecedented growth performance of the world's industrial economies.

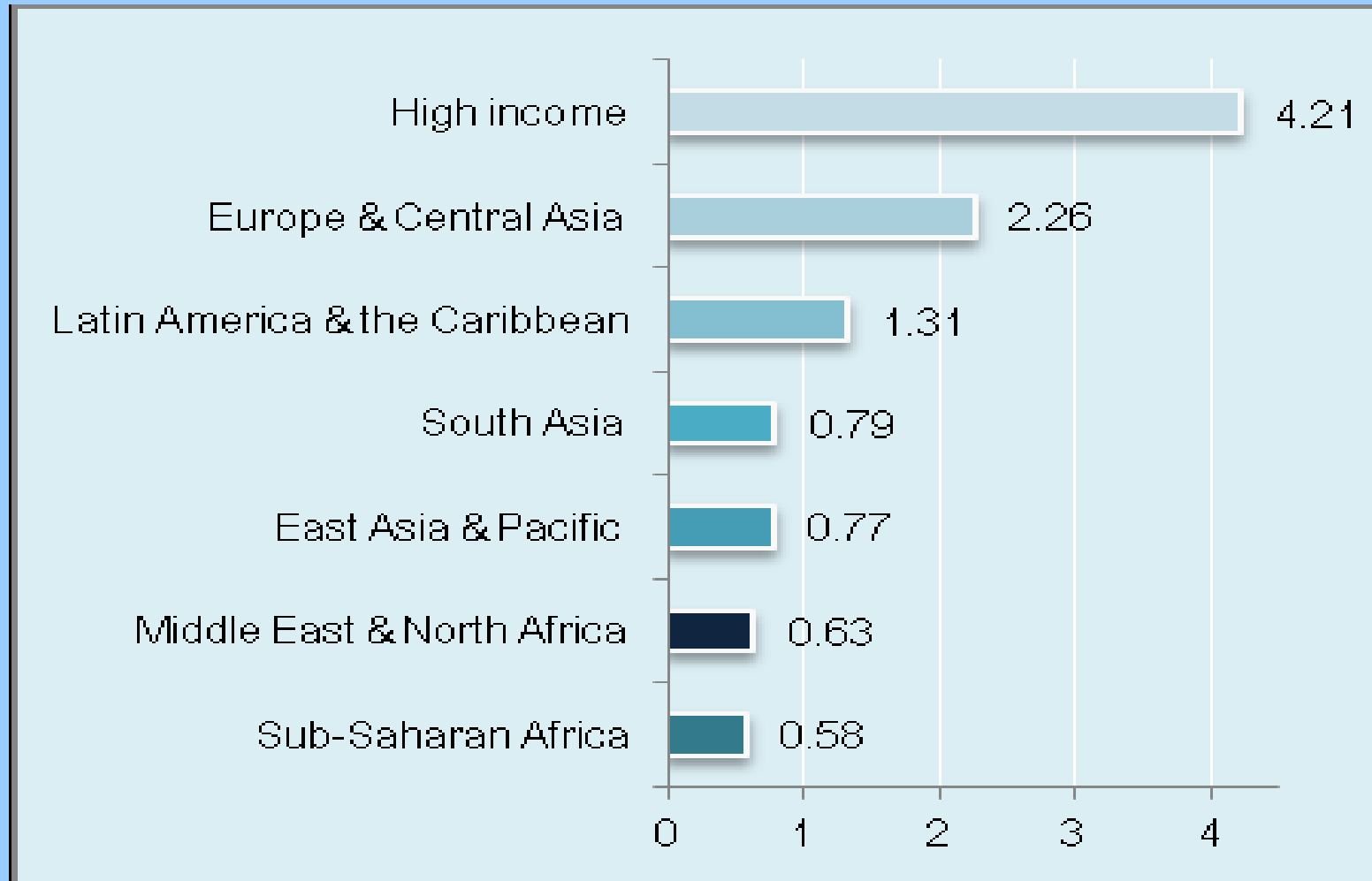
□) Baumol W., The Free-Market Innovation Machine: Analyzing the Growth Miracle of Capitalism, Princeton: Princeton University Press, 2002

The Process of Development

Role of Financial Markets and financial services

- Allocation of credit according to efficiency criteria, rewarding the “creative destruction” of the Schumpeterian entrepreneur, and therefore facilitating opportunities and economic growth.
- For entrepreneurs and businessmen, access to finance and availability of financial services, including insurance, is crucial.
- Financial markets and services have to be available and provide an effective service to scrutinize projects: the greater the effectiveness, the more uncertainty will be reduced.

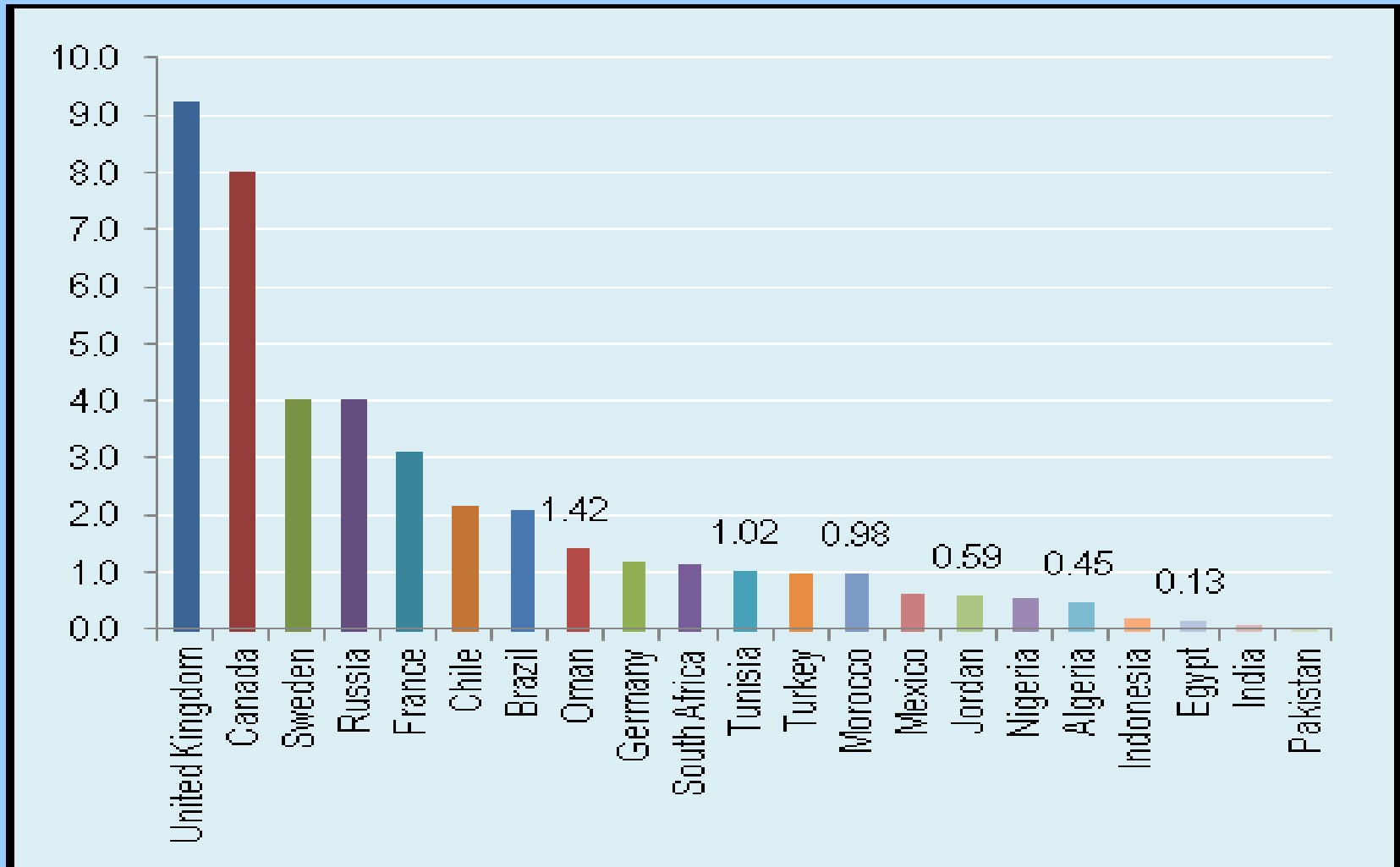
Firm Entry Density by Region 2004–2009 averages



Entry density rate is the number of newly registered corporations divided by the number of total registered corporations

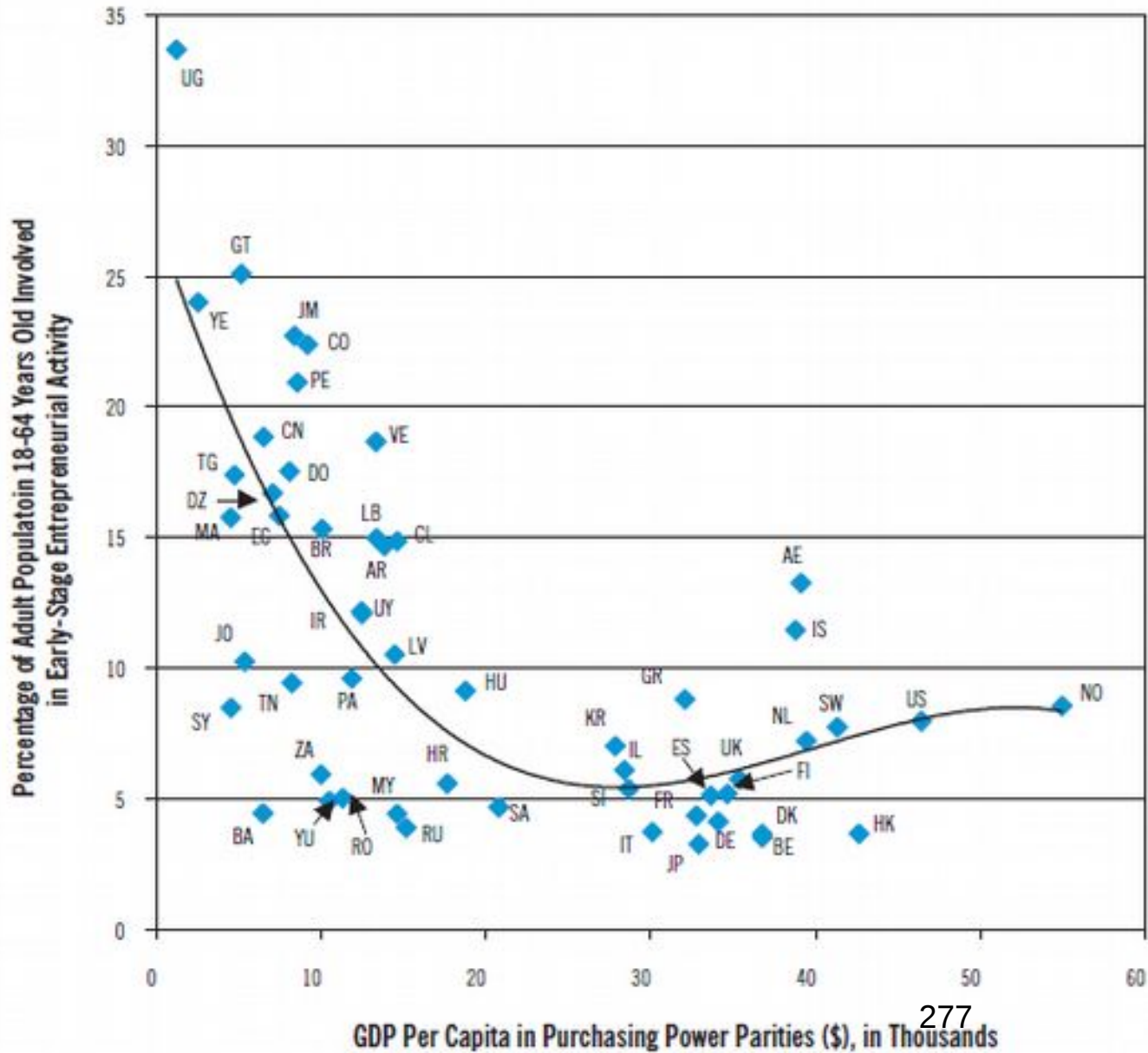
Source: World Bank 2010, and Klapper and Love 2010

Firm Entry Density in Selected Economies 2004–2009 Averages



Source: World Bank 2010, and Klapper and Love 2010

Total Early-Stage Entrepreneurial Activity in 2009



Source:
GEM
Global
Report
2009

The chart indicates that for countries with **low levels of per capita** income, the national economy is characterized by the existence of **many very small businesses**. As per capita income increases, industrialization and economies of scale allow larger and established firms to satisfy the increasing demand of growing markets and increase their relative role in the economy.

An important factor for achieving growth is the presence of **macro-economic and political stability, which is reflected by the development of strong institutions, commonly accepted norms of behavior, transparent and respected legal and regulatory systems.**

The increase in the role of large firms may be accompanied by a reduction in the number of new businesses, as a growing number of people find stable employment in large companies.

Domestic Credit Provided to the Private Sector

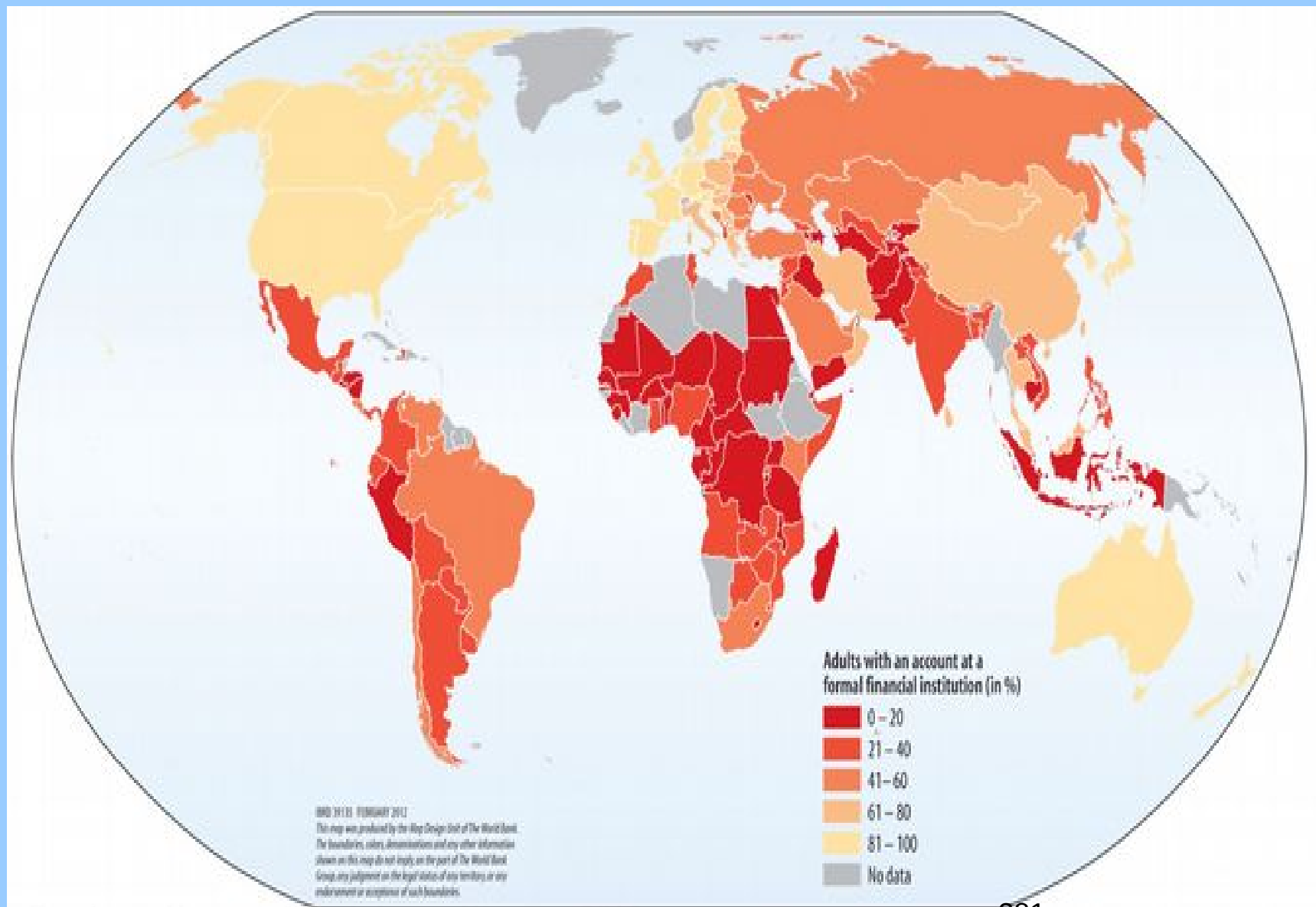
Domestic Credit provided by financial sector (% of GDP)													
Country Name	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
East Asia & Pacific (all income levels)	226.25	218.77	221.61	225.96	217.32	213.08	200.46	189.82	187.83	206.87	202.39	202.56	206.54
Latin America & Caribbean (all income levels)	44.78	44.20	47.62	47.91	47.18	48.75	54.42	58.65	61.33	63.47	66.62	70.56	74.80
Middle East & North Africa (all income levels)	53.67	57.83	57.25	55.71	49.27	43.53	40.63	42.24	37.12	47.06	40.30	41.03	38.98
Sub-Saharan Africa (all income levels)	70.53	79.92	67.95	77.01	80.57	80.99	78.39	77.21	62.95	77.63	80.39	76.45	76.65
South Asia	48.41	50.47	53.72	52.82	55.14	56.40	57.71	58.32	64.30	66.04	68.13	69.41	71.10
Euro area	119.31	120.03	119.08	121.07	122.21	127.25	131.16	138.21	142.65	152.46	155.83	153.26	153.35
North America	185.79	198.85	192.16	205.54	211.50	215.22	225.73	228.38	213.12	231.37	228.11	227.88	229.87

Access Indicators

Access Indicators by Region			
Regions	Banks Deposits Accounts per 1000 adults	Bank Loan Accounts per 1000 adults	Private Credit as % of GDP
Sub-Saharan Africa	315.5	87.5	23.7
South Asia	653.8	54.2	43.9
Middle East and North Africa	744	213.3	50.6
Europe and Central Asia	1395.4	325.2	45.8
East Asia and Pacific	1169.9	343.9	58.4
Latin America and Caribbean	1227.5	366.8	44.7
High Income non-OECD	1865	851.5	83.4
High Income OECD	2383.7	702.4	130.8

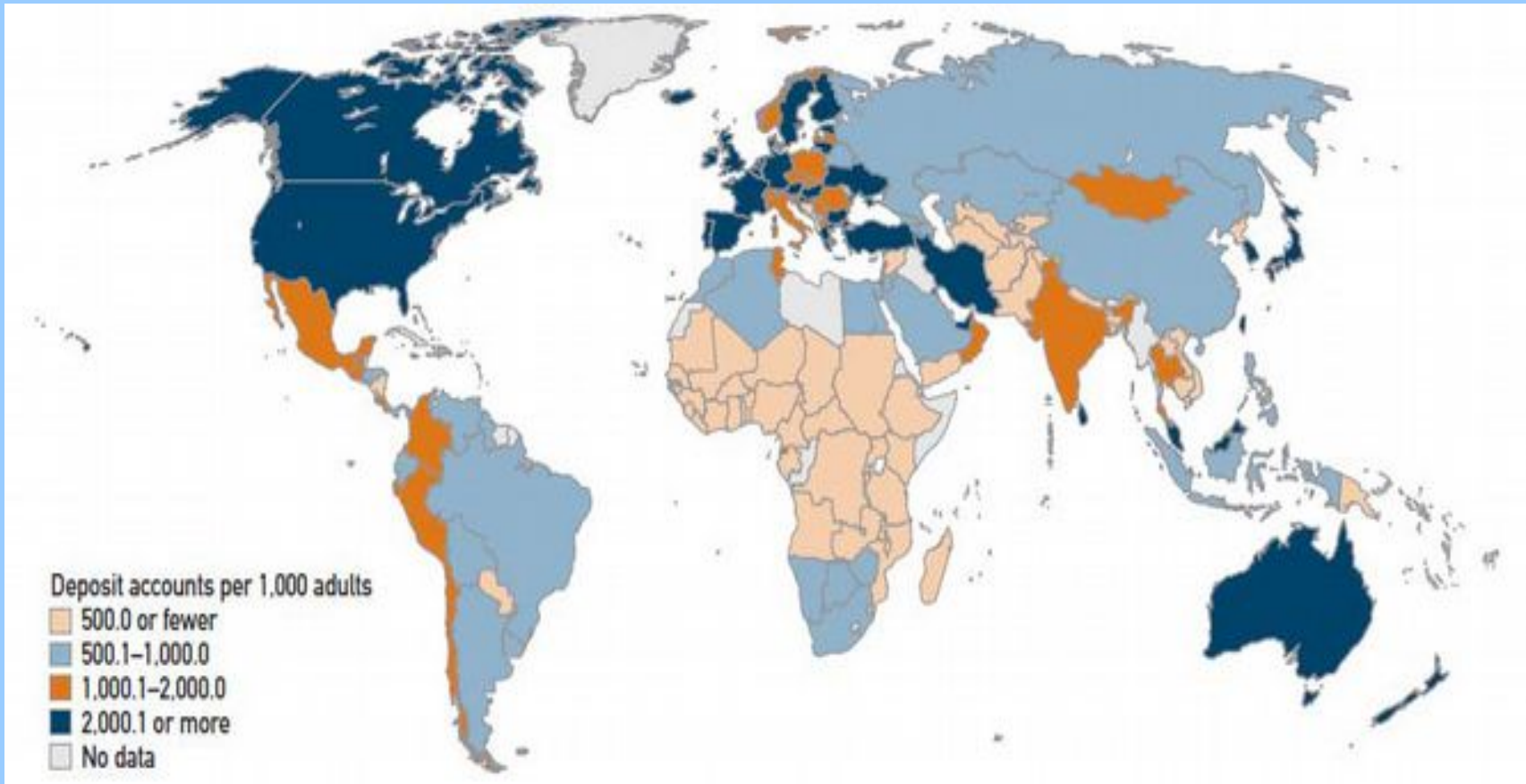
Source: CGCP and World Bank Financial Access 2010. International Financial Statistics

Account Penetration



A. Access to Financing:

Number of deposit accounts in banks and regulated non-bank financial institutions per thousand adults

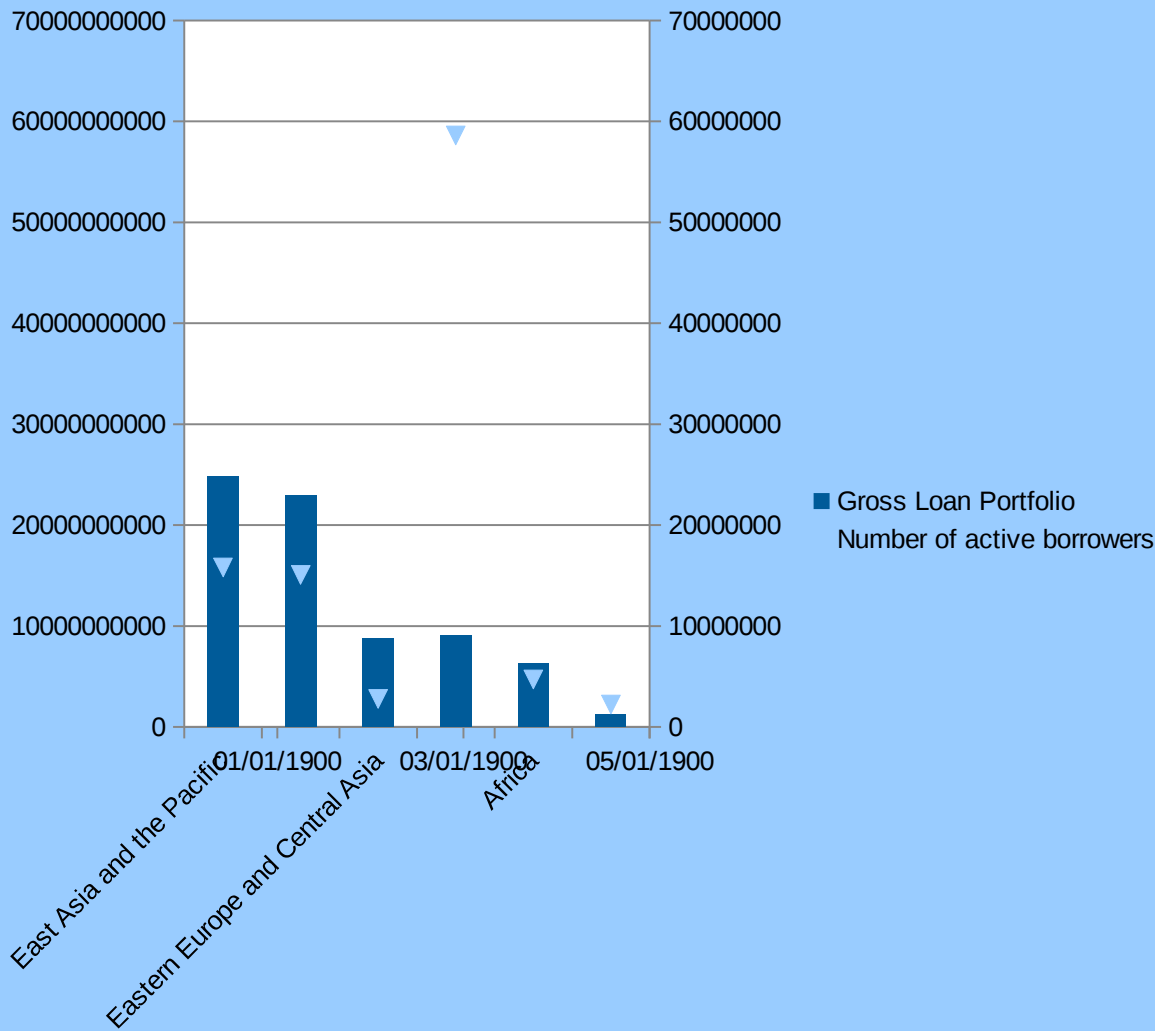


Micro Finance Indicators

Microfinance Scale in the Region					
Regions	MFI Providers	Number of Active Borrowers	Active Borrowers/Working Age Population(%)	Gross Loan Portfolio (GLP)	GLP/Total Credit
Sub-Saharan Africa	208	6,732,155.00	1.48	3,162,740,041.00	4.71
South Asia	148	39,274,147.00	5.9	4,293,510,584.00	4.72
Middle East and North Africa	40	2,807,116.00	1.99	1,505,414,132.00	0.47
Europe and Central Asia	263	2,603,513.00	4.11	9,375,908,169.00	5.37
East Asia and Pacific	160	11,294,660.00	4.74	5,195,228,561.00	6.1
Latin America and Caribbean	327	12,781,340.00	4.93	15,334,944,785.00	7.14

Source : CGCP and World Bank Financial Access 2010. International Financial Statistics

Lowest Outreach in MENA



In terms of total outreach and scale, the Arab region recorded the lowest compared to its global peers. The Arab region recorded the lowest compared to its global peers.

The region has among the lowest average loan balances, at 16 percent of GDP per capita, following South Asia and East Asia.

<http://www.mixmarket.org/profiles-reports/crossmarket-analysis-report?rid=MwzqVtDK>

Insurance

Life Insurance Growth, Penetration and Density by Region					
Region	Premiums in US\$ m (2009)	Real Growth 2009	Share of World Markets in %	Premiums in % of GDP 2009	Premiums per capita in US\$ (2009)
America	579,626.00	-12.20	24.86	2.97	6,315.00
North America	536,001.00	-13.50	22.99	3.44	1,572.80
Latin America and Caribbean	43,625.00	7.80	1.87	1.11	75.60
Europe	953,515.00	3.50	40.90	4.52	1,111.00
Western Europe	935,520.00	4.10	40.12	5.24	1,811.00
Central and Eastern Europe	17,995.00	-20.10	0.77	0.58	55.80
Asia	732,267.00	1.80	31.41	4.51	1,803.00
Japan and newly Industrialized Asian Economies	538,067.00	-1.20	23.08	7.97	2,553.80
South and East Asia	187,355.00	11.40	8.04	2.45	52.90
MENA Countries	6,845.00	0.50	0.29	0.37	22.10
Africa	32,564.00	-15.00	1.40	2.15	32.30
Oceania	33,592.00	-19.40	1.44	3.12	930.70
World	2,331,566.00	-2.00	100.00	4.01	341.20
<i>Industrialized Countries</i>	2,046,957.00	-2.80	87.79	5.01	1,979.90
<i>Emerging Markets</i>	284,609.00	4.20	12.21	1.54	48.80
<i>OECD</i>	1,975,474.00	-3.20	84.73	4.69	1,606.60
<i>G7</i>	1,573,924.00	-3.20	67.51	5.06	2,131.80
<i>Euroland</i>	628,772.00	11.50	26.97	4.64	1,765.10
<i>EU,27 countries</i>	906,784.00	3.50	38.89	5.22	1,720.10
<i>NAFTA</i>	543,690.00	-13.30	23.32	3.30	1,207.10
<i>ASEAN</i>	28,252.00	2.00	1.21	1.97	55.40

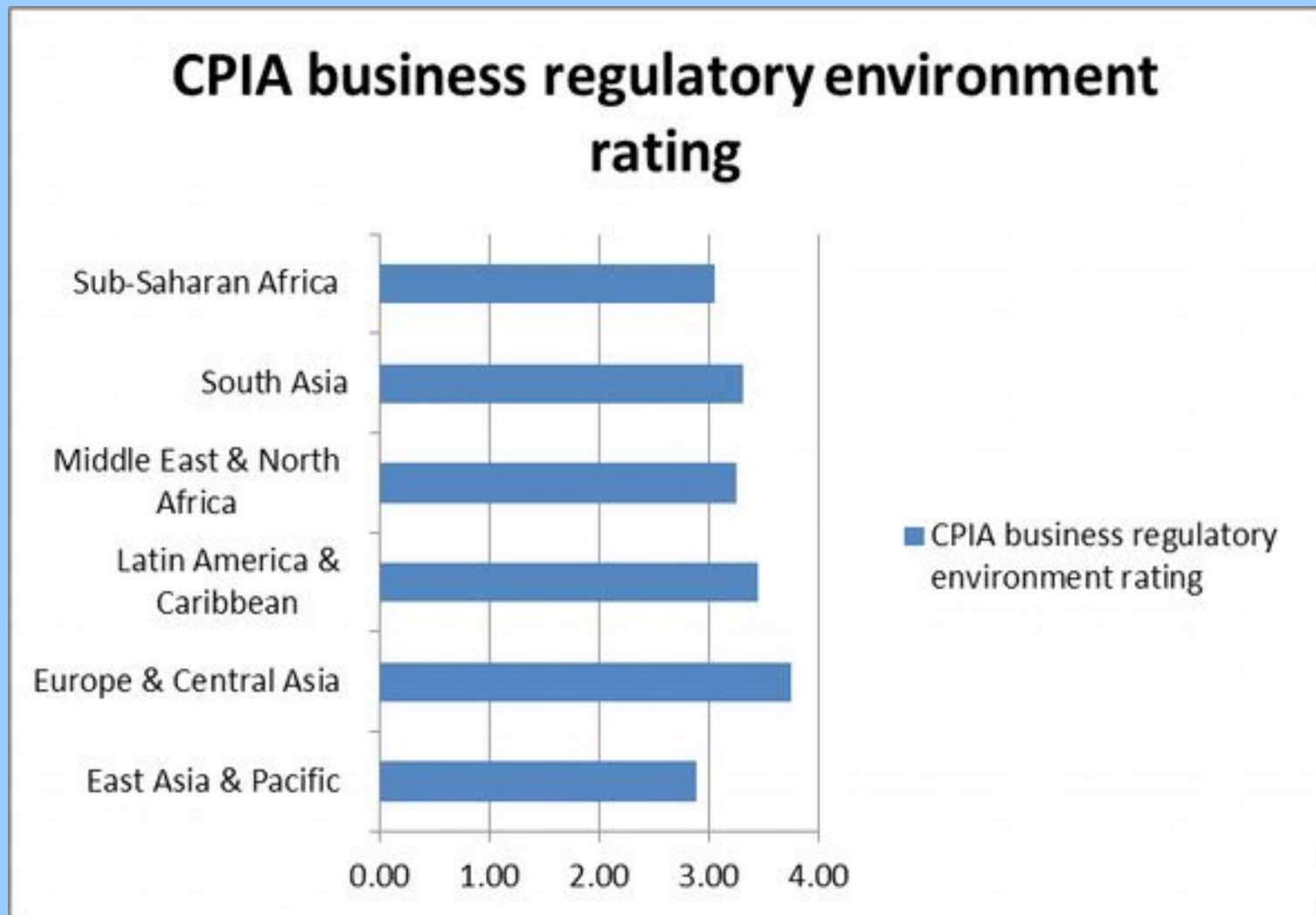
Source: Swiss.Re Sigma 2/2009

Technology Penetration Rates

2009	World	Western Europe	Sub Saharan Africa	North America	Middle East and North Africa	Latin America	East and Central Europe
Telephone main lines (per 100 people)	17.5	36.5	2.5	40.4	15.0	19.7	24.3
Mobile subscribers (per 100 people)	73.7	126.0	62.4	88.3	92.0	89.9	123.0
Internet users (per 100 people)	30.7	71.2	21.1	76.9	25.0	38.6	53.5
Broadband subscriber lines (per 100 people)	8.8	28.0	0.4	26.0	4.4	7.5	14.7
Personal computers (stock per 1,000 pop)	271.0	671.0	79.0	955.0	155.0	223.0	453.0

Source: Economist Intelligence Unit

Business Regulation



Corruption

Corruption remains a major issue in many MENA countries....

Transparency International Rankings for 2011

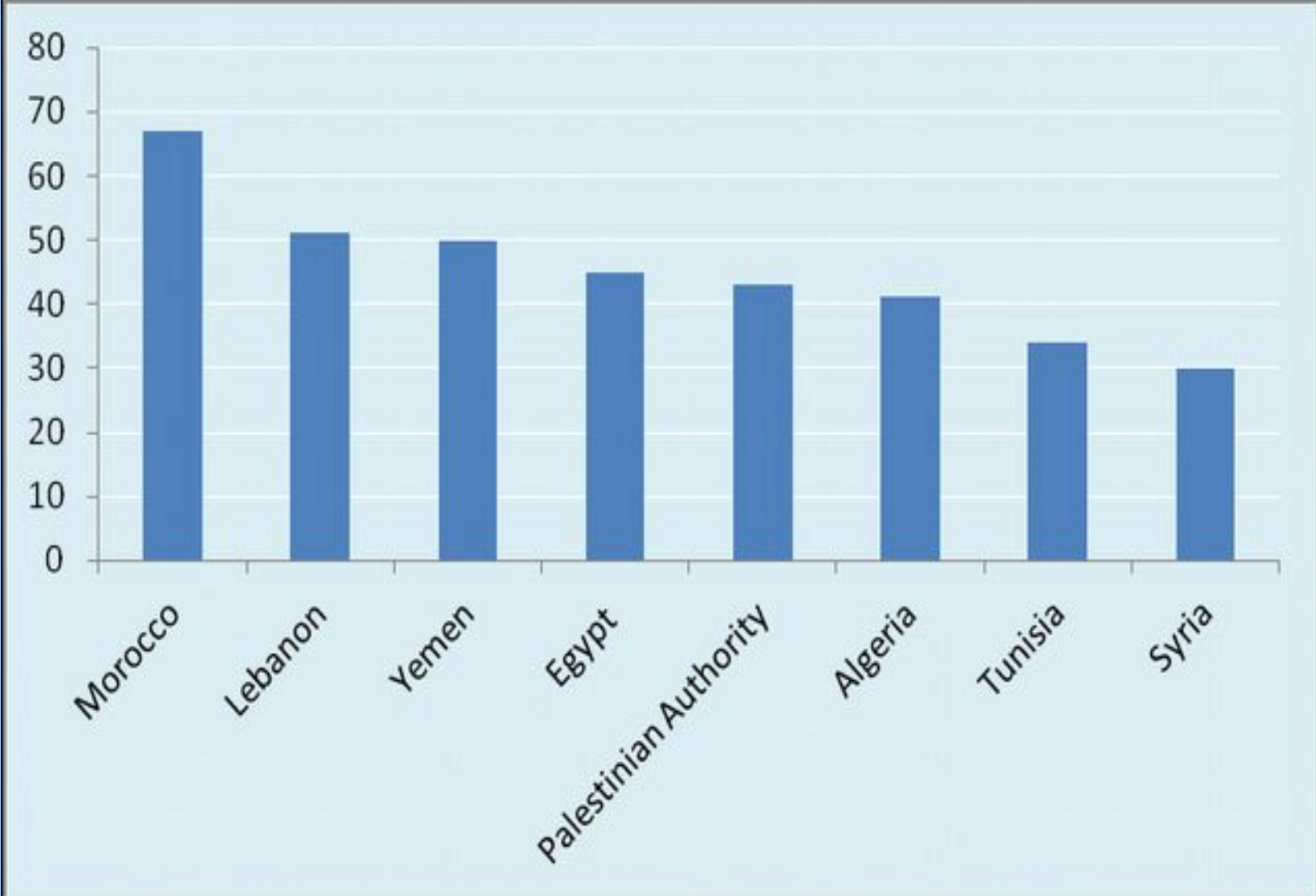
Country Rank	Regional Rank	Country / Territory	CPI 2011 Score
22	1	Qatar	7.2
28	2	United Arab Emirates	6.8
36	3	Israel	5.8
46	4	Bahrain	5.1
50	5	Oman	4.8
54	6	Kuwait	4.6
56	7	Jordan	4.5
57	8	Saudi Arabia	4.4
73	9	Tunisia	3.8
80	10	Morocco	3.4
112	11	Algeria	2.9
112	11	Egypt	2.9
120	13	Iran	2.7
129	14	Syria	2.6
134	15	Lebanon	2.5
164	16	Yemen	2.1
168	17	Libya	2.0
175	18	Iraq	1.8

Source: Transparency International 2011

Informality

Region	Informality
MENA	67.00%
<i>GCC</i>	64.00%
<i>non-GCC</i>	67.20%
Developed Countries	8.90%
Europe and Central Asia (ECA)	39.40%
Latin American and Caribbean (LAC)	61.30%
East Asia and Pacific (EAP)	76.10%
South Asia (SA)	91.00%
Sub-Saharan Africa (SSA)	94.70%
Informality = % of Labor Force nont contributing to Social Security	
Loayza, N., and Wada, T. 2009. Informal Labor in the Middle East and North Africa: Basic Measures and Determinants. Mimeo. World Bank, Washington D.C.	

Informal Employment in some MENA Countries



Source: ILO 2011

12. Institutions and Economic Development

Institutions and Economic Development

By **institutions** we mean rules of structural social interaction (both formal and informal) – they structure incentives in human exchange (be it economic, political or social).

Formal institutions – property rights, legal system, rule of law, constitution.

Informal institutions – how to behave in everyday life (linked to religion, history, social acceptability).

- Institutions are the "rules of the game", consisting of both the formal legal rules and the informal social norms that govern individual behavior and structure social interactions (institutional frameworks).
- **Organizations**, by contrast, are those groups of people and the governance arrangements they create to coordinate their **team** action against other teams performing also as organizations. **Firms**, **Universities**, **clubs**, **medical associations**, unions etc. are some examples.

Douglass C. North (1990). *Institutions, Institutional Change and Economic Performance*, Cambridge University Press.

Institutions are the Fundamental Causes of Growth

Institutions and Economic Development

Political Institutions: encourage participation and democracy, rule of law.

Economic Institutions: encouraging investment through incentives, human capital, entrepreneurship, innovation, occupational choice, land ownership, property rights.

Market Institutions: permit the efficient allocation of resources, e.g., financial markets; insurance.

Culture: values, beliefs, religions

Geography: climate (affects productivity and worker effort), agricultural (technological) productivity higher in temperate zones than in tropics, burden of infectious diseases, natural endowments, transport costs

Trade and Integration: affects productivity changes.

Human capital: capability of being active and produce wealth

Institutions and Economic Development

Types of Institutions

(i) Institutions that protect individual property rights, e.g., defence against expropriation of resources.

(ii) Institutions related to democratic political rights (Sen A. pp. 178-84)

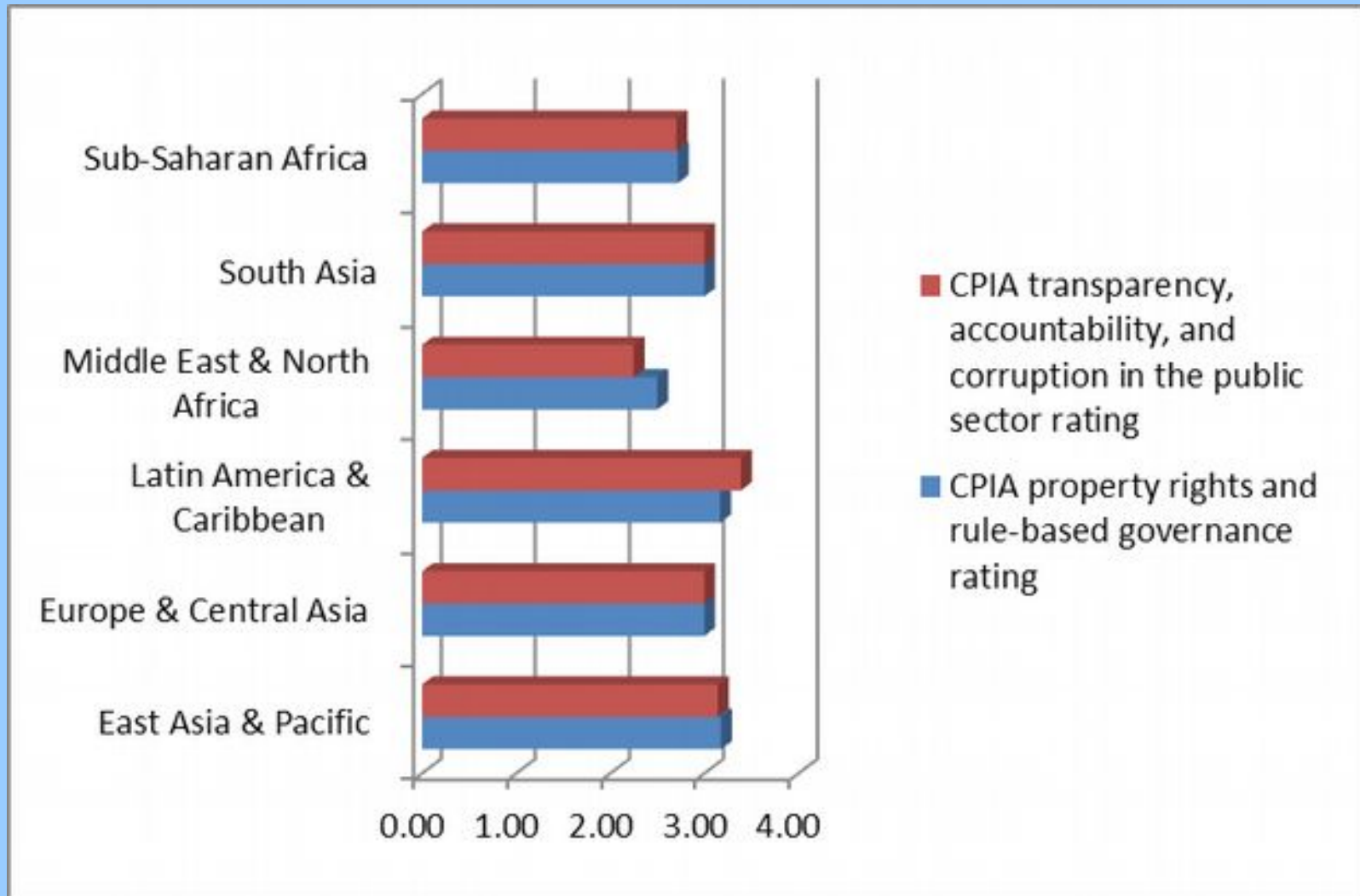
(iii) Institutions correcting co-ordination failure – efficiency of government for example in implementing policy.

Countries can have good and bad institutions, e.g., South Korea used to have one party political system.

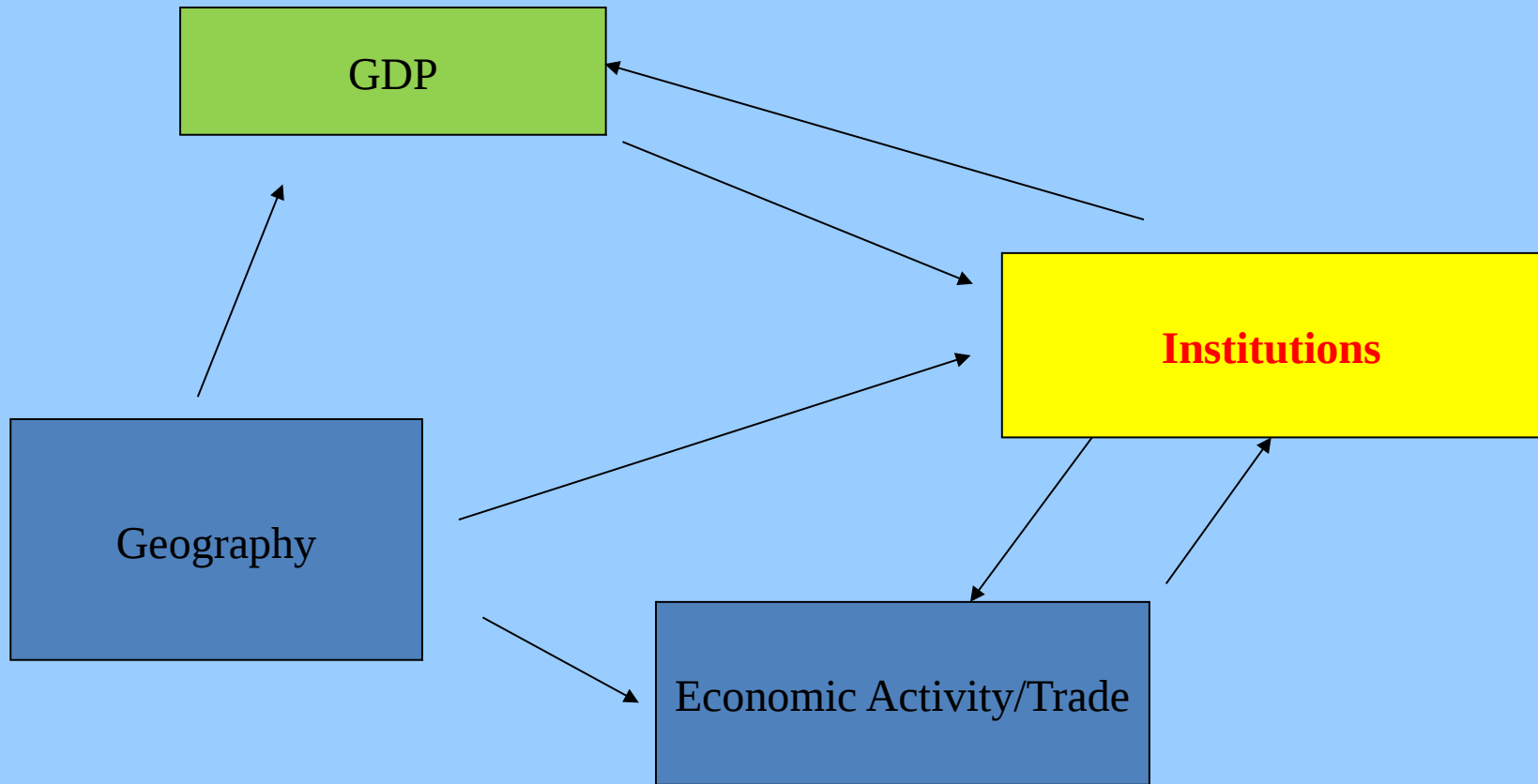
Measurement of Institutions

- The measure of the effectiveness and working of different institutions is a **challenging** undertaking.
- Institutions are normally measured using surveys of sample of people who evaluate the institutions they are dealing with.
- Other form of measurement of institutions is indirect., i.e., the decline of the level of mortality over time is an indicator that the institutional setting in that particular country is improving.

Institutional Indicators



Institutions and Economic Development



Institutions and Economic Development

A. Institutional View of Development

Institutions role in Economic Growth and Development – Endogeneity
(Acemoglu et al. 2001)

How do Institutions form?

Institutions can and will likely result in **élites** who will shape institutions and then also attempt to retain their position of power. There may be successful or not be, but they can be replaced by alternative **élites**.

Acemoglu makes an important distinction between institutions that can be (i) developmental or (ii) predatory

(i) **Developmental Institutions** – encourage investment, growth and productivity.

(ii) **Predatory** – extractive institutions that favour the few.

Institutions and Economic Development

Evidence of Institutions and Economic Growth

Korea – natural experiment since split into North and South Korea in 1948. Same geography, history and culture. North Korea went Dictator and Socialism, South Korea went Dictator and Capitalist that involved private property rights and in 1980 moved to a democracy.

Micro level evidence of importance land property rights have on investment in agriculture in LDCs.

Macro level evidence looking at within country and between country – problem with this is though that **we cannot control for whether “better” institutions cause growth or growth leads to “better” institutions (*endogeneity*)**

Institutions and Economic Development

The issue of *endogeneity* must be solved in most empirical work in economics.

In a statistical model, a parameter or variable is said to be endogenous when there is a correlation between the parameter or variable and the error term. Endogeneity can arise as a result of *measurement error, autoregression with autocorrelated errors, simultaneity and omitted variables*. Broadly, a *loop of causality* between the independent and dependent variables of a model leads to endogeneity.

The solution is to find a variable or a factor that meaningfully can cause **institutions** but does **not** directly affect economic growth.

Acemoglu, Johnson and Robinson (American Economic Review, 2001) addressed this point.....

Endogeneity

□ Endogeneity can come from an omitted uncontrolled confounding variable. A variable is both correlated with an independent variable in the model and with the error term. Equivalently, the omitted variable both affects the independent variable and separately affects the dependent variable.

□ Assume that the "true" model to be estimated is,

$$Y = \alpha + \beta x_i + \gamma Z_i + u_i$$

but we omit Z_i (perhaps because we don't have a measure for it) when we run our regression.

Z_i will get absorbed by the error term and we will actually estimate,

$$Y = \alpha + \beta x_i + \varepsilon_i \quad (\text{where } \varepsilon_i = \gamma Z_i + u_i)$$

i)

If the correlation of x and Z_i is not 0 and Z separately affects Y (meaning $\gamma \neq 0$), then x is correlated with the error term ε_i (one of the assumptions of the regression).

□ Here, x and Z are not exogenous for alpha (α) and beta (β) since, given x , the distribution of Y depends not only on alpha (α) and beta (β), but also on Z and gamma (γ).

Institutions and Economic Development

Primacy of Institutions

Acemoglu et al. control for settler mortality as an instrument to control for endogeneity in their growth model. The variables in the model are

M = settler mortality

S = Colonial Settlements

R = Early Institutions and Modern Institutions

Y = Economic Performance

Settlements lead to the export of colonial institutions such as property rights. Where settlements failed or were not attempted (due to high settler mortality) only extractive institutions were exported.

Institutional Proxy is captured by either *index of protection against expropriation* or by *constraints on the executive*.

Institutions and Economic Development

The Model – 2SLS:

$$\text{Log}Y_i = \alpha + \beta R_i + \gamma X_i + u_i$$

Y = GDP per capita in 1995 in \$ (PPP a day).

64 countries in the sample

R = Institutional Proxy

X = Other controls

$$R_i = a + b \log M_i + c X_i + v_i$$

M = Settler mortality 17th – 19th ce

Institutions and Economic Development

TABLE 4—IV REGRESSIONS OF LOG GDP PER CAPITA

	Base sample (1)	Base sample (2)	Base sample without Neo-Europes (3)	Base sample without Neo-Europes (4)	Base sample without Africa (5)	Base sample without Africa (6)	Base sample with continent dummies (7)	Base sample with continent dummies (8)	Base sample, dependent variable is log output per worker (9)
Panel A: Two-Stage Least Squares									
Average protection against expropriation risk 1985–1995	0.94 (0.16)	1.00 (0.22)	1.28 (0.36)	1.21 (0.35)	0.58 (0.10)	0.58 (0.12)	0.98 (0.30)	1.10 (0.46)	0.98 (0.17)
Latitude		-0.65 (1.34)		0.94 (1.46)		0.04 (0.84)		-1.20 (1.8)	
Asia dummy							-0.92 (0.40)	-1.10 (0.52)	
Africa dummy							-0.46 (0.36)	-0.44 (0.42)	
"Other" continent dummy							-0.94 (0.85)	-0.99 (1.0)	
Panel B: First Stage for Average Protection Against Expropriation Risk in 1985–1995									
Log European settler mortality	-0.61 (0.13)	-0.51 (0.14)	-0.39 (0.13)	-0.39 (0.14)	-1.20 (0.22)	-1.10 (0.24)	-0.43 (0.17)	-0.34 (0.18)	-0.63 (0.13)
Latitude		2.00 (1.34)		-0.11 (1.50)		0.99 (1.43)		2.00 (1.40)	
Asia dummy							0.33 (0.49)	0.47 (0.50)	
Africa dummy							-0.27 (0.41)	-0.26 (0.41)	
"Other" continent dummy							1.24 (0.84)	1.1 (0.84)	
R ²	0.27	0.30	0.13	0.13	0.47	0.47	0.30	0.33	0.28
Panel C: Ordinary Least Squares									
Average protection against expropriation risk 1985–1995	0.52 (0.06)	0.47 (0.06)	0.49 (0.08)	0.47 (0.07)	0.48 (0.07)	0.47 (0.07)	0.42 (0.06)	0.40 (0.06)	0.46 (0.06)
Number of observations	64	64	60	60	37	37	64	64	61

Notes: The dependent variable in columns (1)–(8) is log GDP per capita in 1995, PPP basis. The dependent variable in column (9) is log output per worker, from Hall and Jones (1999). "Average protection against expropriation risk 1985–1995" is measured on a scale from 0 to 10, where a higher score means more protection against risk of expropriation of investment by the government, from Political Risk Services. Panel A reports the two-stage least-squares estimates, instrumenting for protection against expropriation risk using log settler mortality; Panel B reports the corresponding first stage. Panel C reports the coefficient from an OLS regression of the dependent variable against average protection against expropriation risk. Standard errors are in parentheses. In regressions with continent dummies, the dummy for America is omitted. See Appendix Table A.1 for more detailed variable descriptions and sources.

Institutions and Economic Development

The 'b' coefficient (mortality variable) in the first stage of the regression is negative and significant – higher mortality rate the worse institutions are.

The beta coefficient is positive and significant implying institutions have a positive impact on current GDP level.

The introduction of latitude in line with Rodrik's work does not change the main result.

If the US, Canada, Australia and New Zealand are omitted then the results are still robust.

Institutions and Economic Development

Main Issues with Acemoglu et al. (2001)

- I. Colonial Experience – Settler Mortality is an interesting and clever instrument for identifying the Institutional variable. *However, what about differences in growth between Finland, China, Luxembourg who had no colonial history?*
- II. Pre-colonial histories are important. Brazil and India have different histories prior to colonization. Extractive institutions such as the land revenue system attributed to Britain in India were present during the Moghul period.
- III. It fails to consider political institutions.
- IV. Is colonial death rate really capturing the underlying cause of institutions? Decisions to settle maybe caused by whether there is a need to settle in the first place. Other factors influence the decision to settle.
- V. There is also the view that the proxy for institutions (risk of expropriation by the government) is not really picking up any permanent set of rules of a country. Rather this in itself is an outcome of what has gone before.

Institutions and Economic Development

B. The Developmental View

That institutions form and emerge from within countries over time and that economic, political and social development cause institutions to change.

Opposite of Acemoglu et al.

Development and Institutions are **caused by human capital** – Lipset (1960) argued that through greater education people would be likely and more able to resolve differences by negotiation and reach rational solutions to disputes (i.e., so-called Coase-type end game).

Externality of higher initial education of a population is greater political and social stability as well as economic spill overs in terms of productivity and technology.

This view is shown on Glaeser et al. paper Journal of Economic Growth (2004).

Institutions and Economic Development

Glaeser et al. argue that measures of institutional quality such as *risk of expropriation* (used in Acemoglu et al. 2001), *government effectiveness* and *constraints on the executive* are “**outcomes**” and do not represent “**deep**” institutions.

Constraints on the executive is measured as a score between ‘1’ (bad institutions) and ‘7’ (good institutions). If this was a measure of a ‘set of rules’ as North argues institutions are defined as, then why do they change so much?

Because they are **outcomes** from other factors – Haiti gets score of ‘1’ under dictatorship during 1960-89, then a score of ‘6’ when Aristide is elected in 1990, drops to ‘1’ again when he’s ousted between 1991-93 and rises again to 6 when Aristide returns to power and falls to 3 during 2000-01. How can institutions change so quickly? Glaeser argues they cannot.

Institutions and Economic Development

Glaeser et al estimate the following equation...

Growth of GDP per capita (1960-2000) = $\alpha + \gamma_1 \log$ GDP per capita (1960) + γ_2 Log years of schooling (1960) + γ_3 (share of population living in temperate zone (1995) + β Institutional proxies

Results are as follows (2004, pp.35).....

Institutions and Economic Development

Table 4
Economic growth, political institutions and human capital

The table shows OLS regressions for the cross-section of countries. The dependent variable in all specifications is the growth of GDP per capita for the period 1960-2000. The specifications include a constant but we do not report the estimates in the table. Robust standard errors are shown in parentheses. All variables are defined in Appendix 1.

	<i>Dependent variable is growth of GDP per capita 1960-2000</i>							
Log GDP per capita (1960)	-0.0114 ^a (0.0033)	-0.0136 ^a (0.0033)	-0.0112 ^a (0.0033)	-0.0122 ^a (0.0033)	-0.0141 ^a (0.0037)	-0.0130 ^a (0.0037)	-0.0090 ^a (0.0034)	-0.0105 ^a (0.0036)
Log years of schooling (1960)	0.0060 ^b (0.0025)	0.0076 ^a (0.0024)	0.0063 ^b (0.0024)	0.0060 ^b (0.0023)	0.0077 ^b (0.0032)	0.0073 ^b (0.0031)	0.0073 ^a (0.0025)	0.0080 ^a (0.0026)
Share of population living in temperate zone (1995)	0.0175 ^a (0.0049)	0.0132 ^a (0.0041)	0.0179 ^a (0.0046)	0.0104 ^c (0.0055)	0.0242 ^a (0.0049)	0.0231 ^a (0.0047)	0.0175 ^a (0.0050)	0.0184 ^a (0.0052)
Executive constraints (1960-2000)	0.0021 ^b (0.0008)							
Expropriation risk (1982-1997)		0.0040 ^a (0.0014)						
Autocracy -- Alvarez (1960-1990)			-0.0060 ^a (0.0032)					
Government effectiveness (1998-2000)				0.0075 ^a (0.0024)				
Judicial independence (1995)					-0.0041 (0.0057)			
Constitutional review (1995)						0.0047 (0.0064)		
Plurality (1975-2000)							0.0010 (0.0027)	
Proportional representation (1975-2000)								0.0019 (0.0031)
Observations	71	69	71	71	54	54	71	70
R ²	0.44	0.56	0.44	0.48	0.45	0.45	0.41	0.44

a=significant at 1 percent; b=significant at 5 percent; c=significant at 10 percent.

Institutions and Economic Development

Interpretation

Coefficient on Initial level of schooling is always +ve and significant.

So to the coefficients on Initial GDP per capita (-ve and significant) and Share of Population living in Temperate Zone (+ve and significant).

The beta coefficients are only significant when the institutional proxies stand for **outcomes** (expropriation risk (82-90) or government effectiveness (98-2000)).

Other proxies for institutions such as judicial independence or constitutional review are insignificant.

Institutions and Economic Development

What can we say about Institutions and Development?

Measuring institutions is difficult. Popular measures are subject to criticism since they are (i) 'outcomes' rather than anything 'deep' (ii) they are also largely subjective (iii) when non-outcome proxies for institutions are used they are insignificant.

Looking at country specific evidence though both the Institutional View and the Developmental View have strengths but are not universal.

Institutional Primacy View – Countries have similar backgrounds and histories but operate under different institutions and hence diverge onto different growth paths, e.g., North and South Korea, East and West Germany, Burma and Thailand.

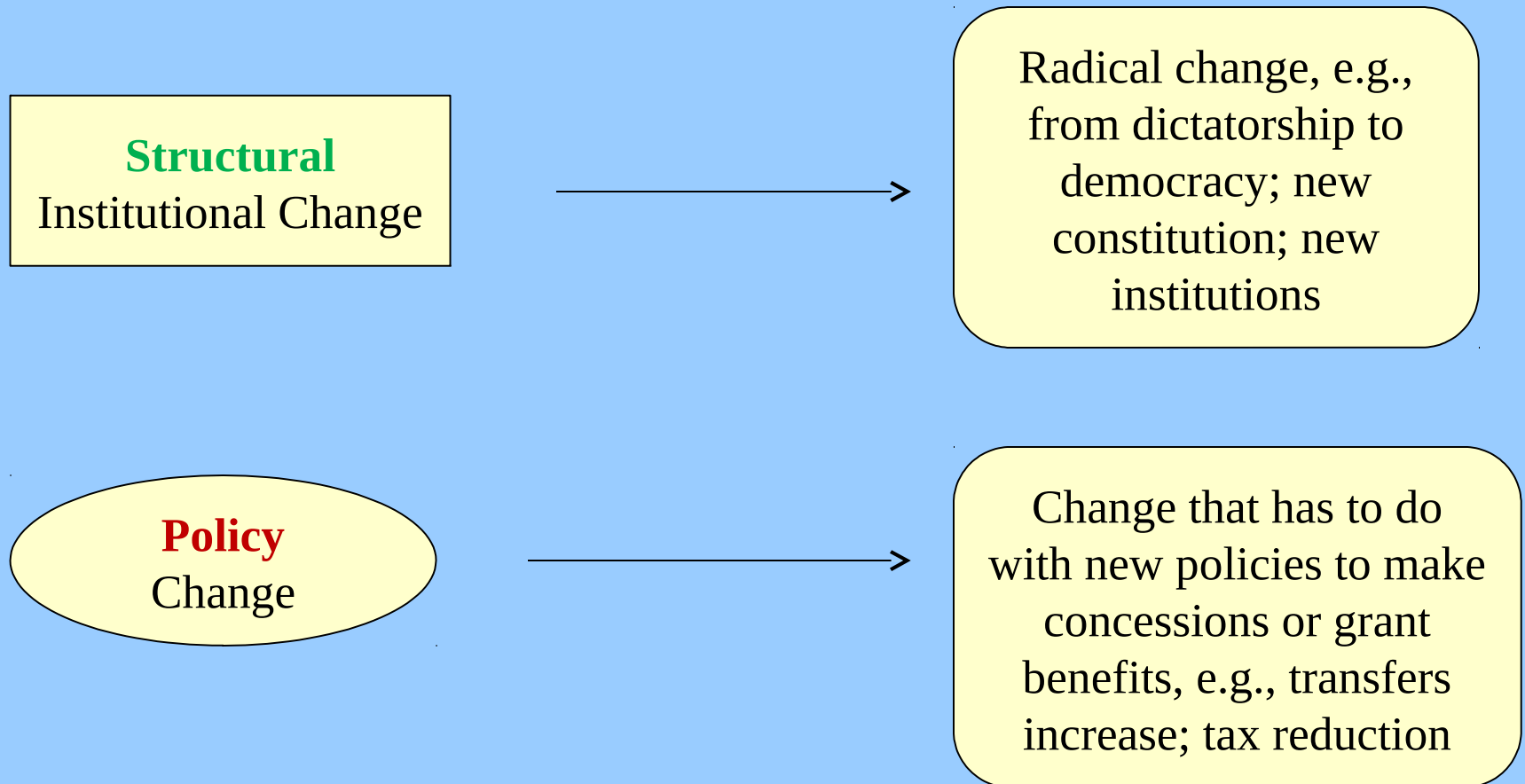
Development View - Some countries have very different initial institutions and different histories, but have the same level of economic development and have very similar current institutions, e.g., Tiger Economies - Taiwan and South Korea with Japanese colonialisation then US occupation compared to Hong-Kong and Singapore with British colonial past and less intervention.

Political Economy – Politics - and Institutional Development

Developments in the political arena are powerful agenda setters and drive change:

- Elites
- Interest groups – national and international- that press (or fail to press) demands on government
- Civil Society
- National mood
- New administrations
- New partisan/ideological distributions in Congress
- Personal Interest

Structural Change and Policy Change



A Model for Institutional Structural Change

Key Parameters

Inequality: benefits of democratization for citizens and costs of democratization for the elite

Civil society: degree of empowerment of citizens

Cost of repression: how costly the repression alternative will be.

Institutional Change

Elites control non-democracy, but citizens can sporadically solve their collective action problem; exercise de facto power; and threaten a revolution or social unrest.

Elites can respond with:

- 1.repression;
- 2.concessions with unchanged political institutions;
- 3.change in political institutions, e.g., democracy.

Institutional Change

Concessions generally “cheapest” option, but may not be credible because: de facto power of citizens often transitory, e.g., citizens can solve their collective action problem with probability q .

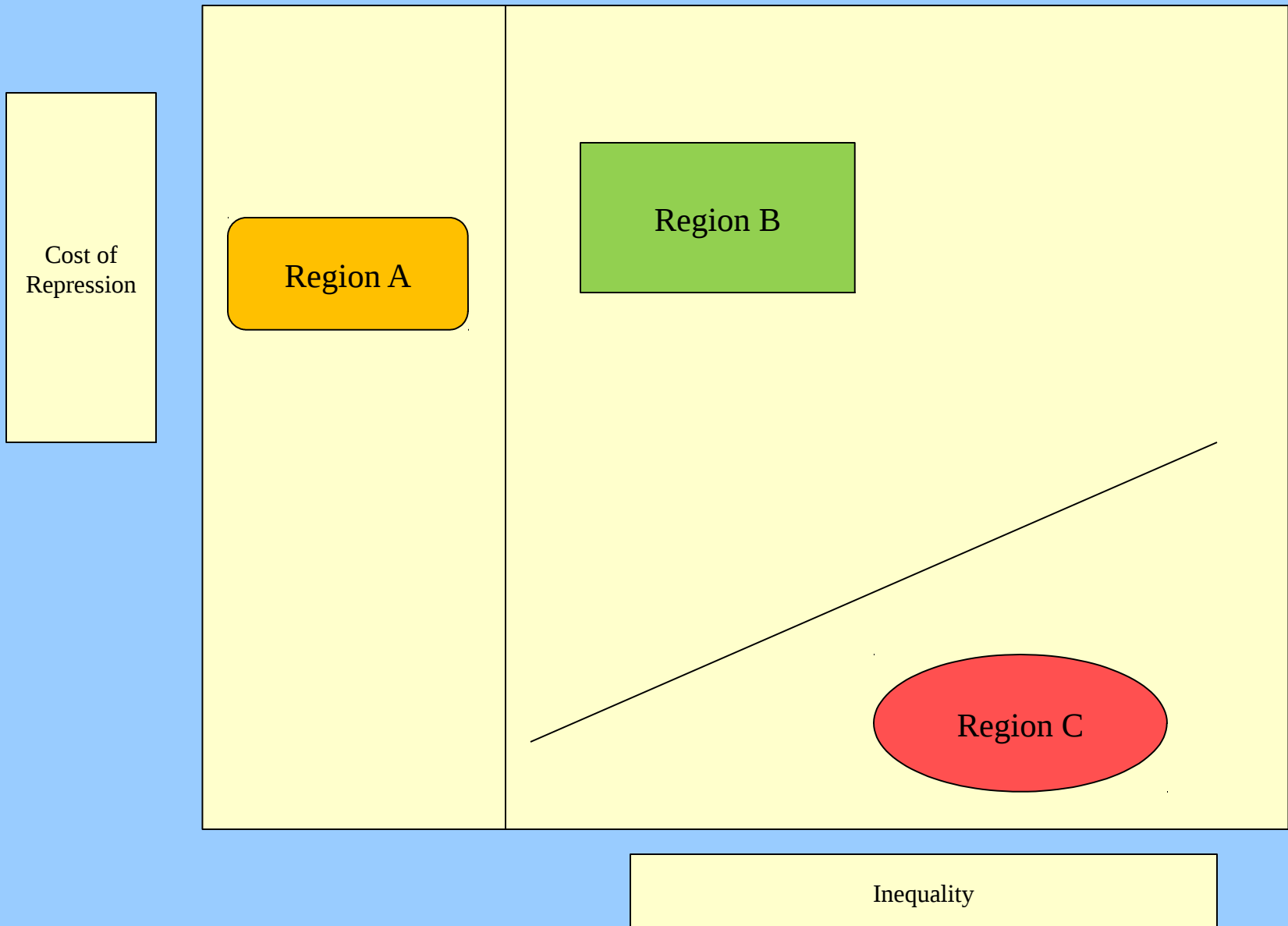
If q close 1, then de facto power of citizens is almost permanent and can balance the power of the elite. Then concessions become credible.

If q is small, then concessions are not credible (in sub game perfect equilibrium).

Democracy – radical institutional change- arises when repression is too costly and concessions are non-credible.

Democracy gives a commitment to future pro-citizen policies! turning temporary de facto power into more durable de jure power.

Democracy in the Middle East



13. Policy and Politics

Policy and Politics

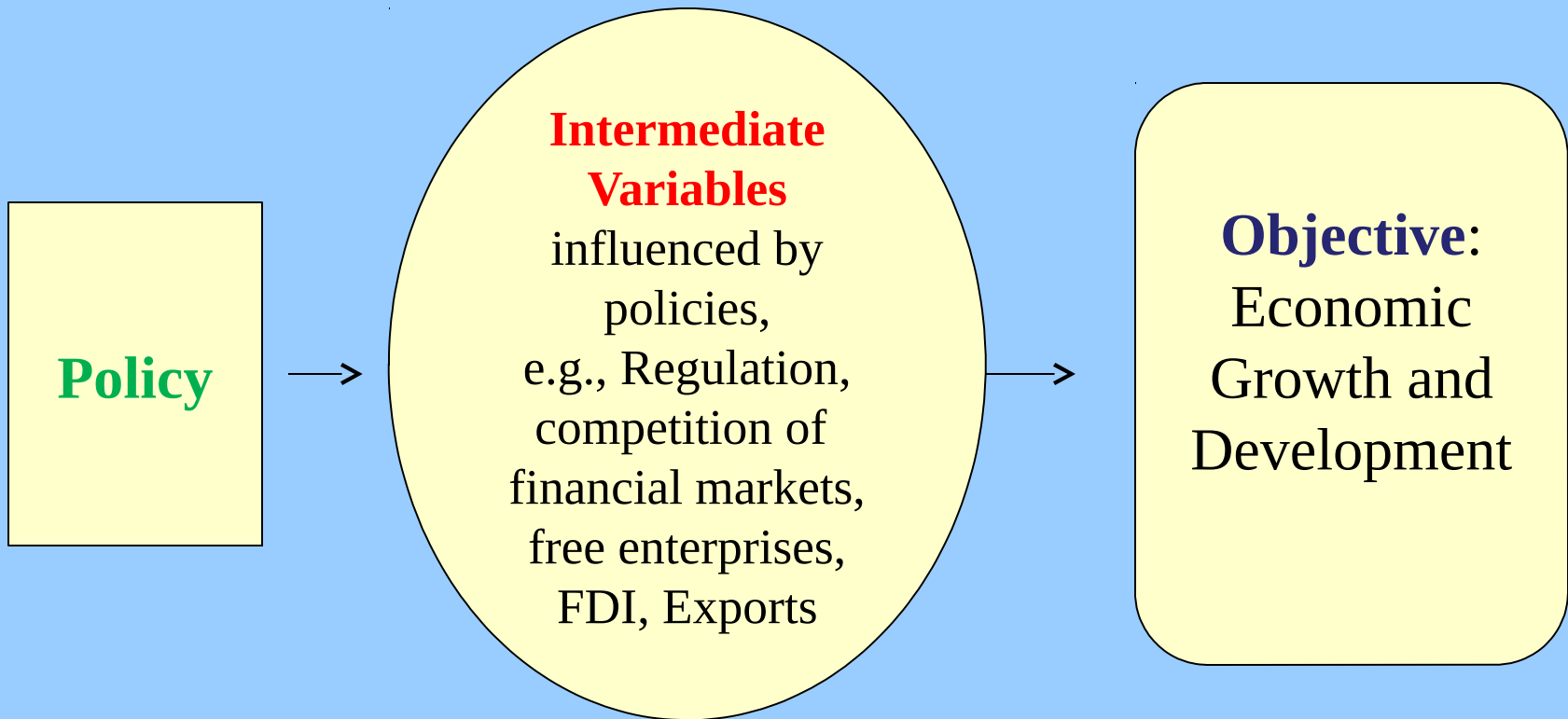
Policy and any public sector intervention and activity given a certain institutional environment:

A definite course of action selected (by government, institution) - based on evidence - from among alternatives and given conditions to meet an objective and to determine present and future decisions.

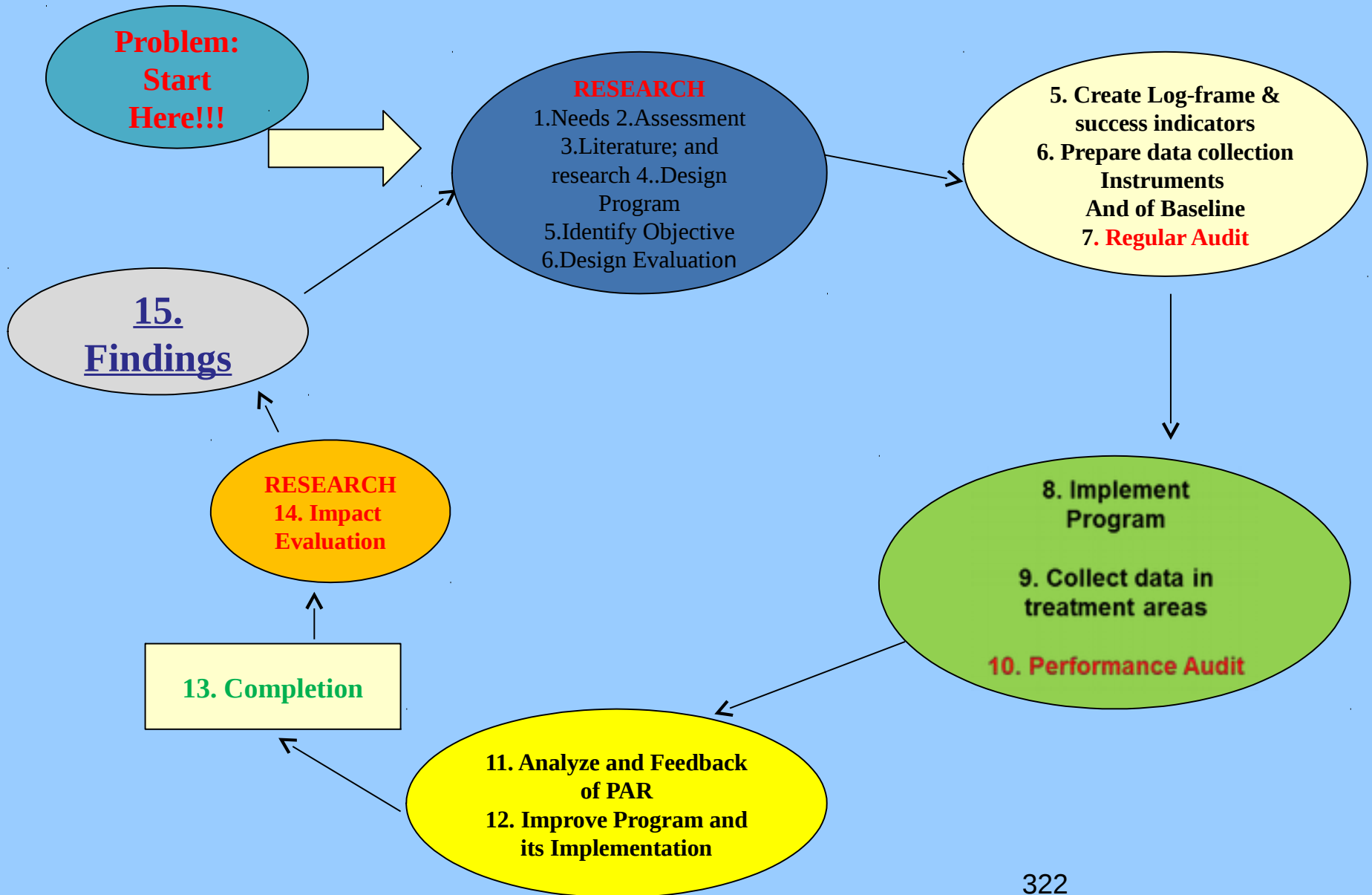
Political economy and Politics:

The art or science concerned with guiding or influencing governmental policy and winning and holding control over a government to promote given interests. 320

Policy, Variables, Objectives



The Sequence of Policy Intervention

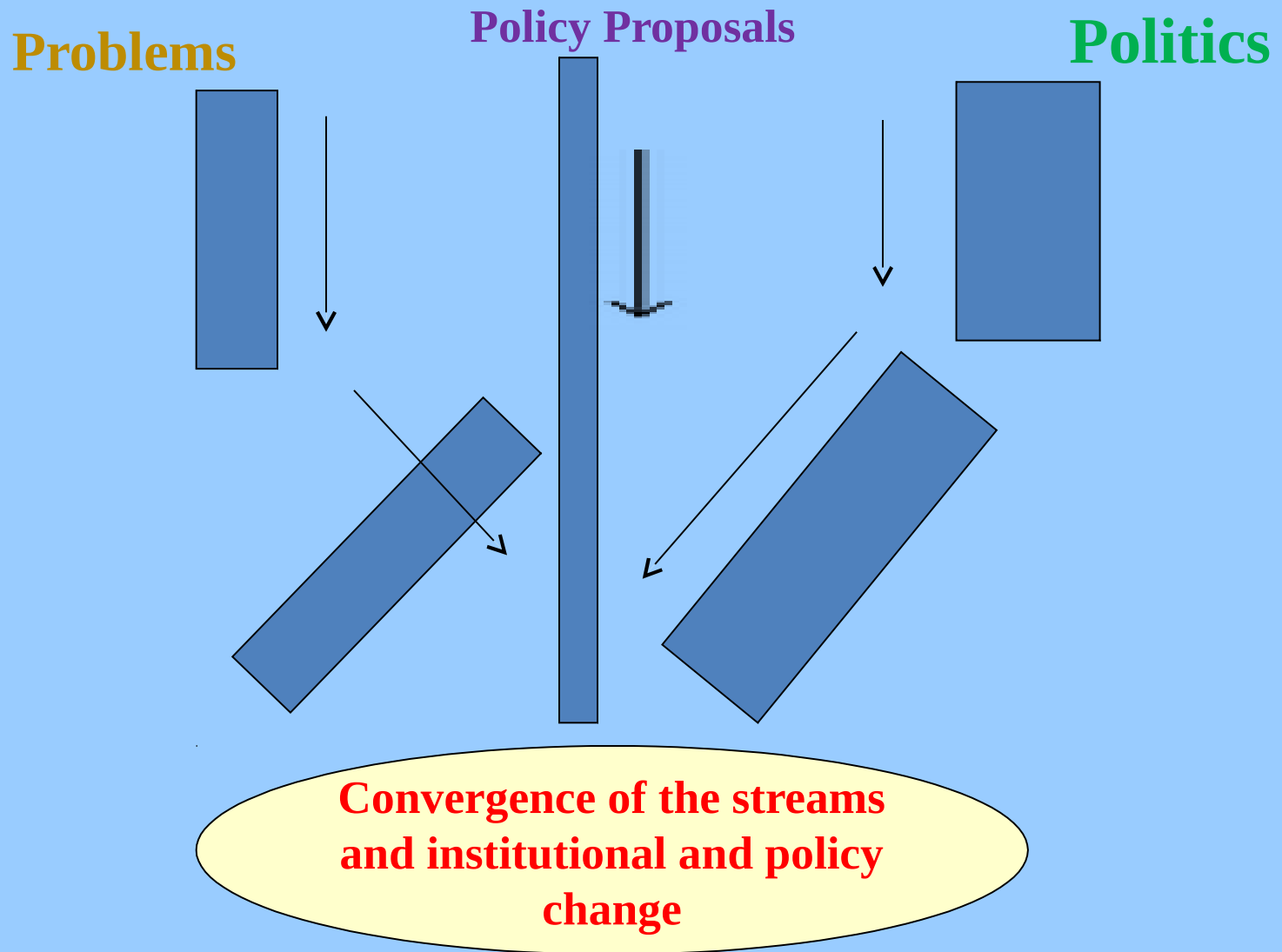


Policy Change: Political Decisions

Agreement is reached by bargaining

- Trading provisions for support “*pork barrel*”
- Adding elected officials to coalitions by giving concessions
- Compromising from ideal positions to those that will gain wider acceptance
- **Corruption**
- **National mood and elected officials more important than interest groups for political decisions**
- **Coalition Governments expand the role of the public sector in the economy**

The Kingdon Model of Policy Change: the Streams



Strategies and Policies

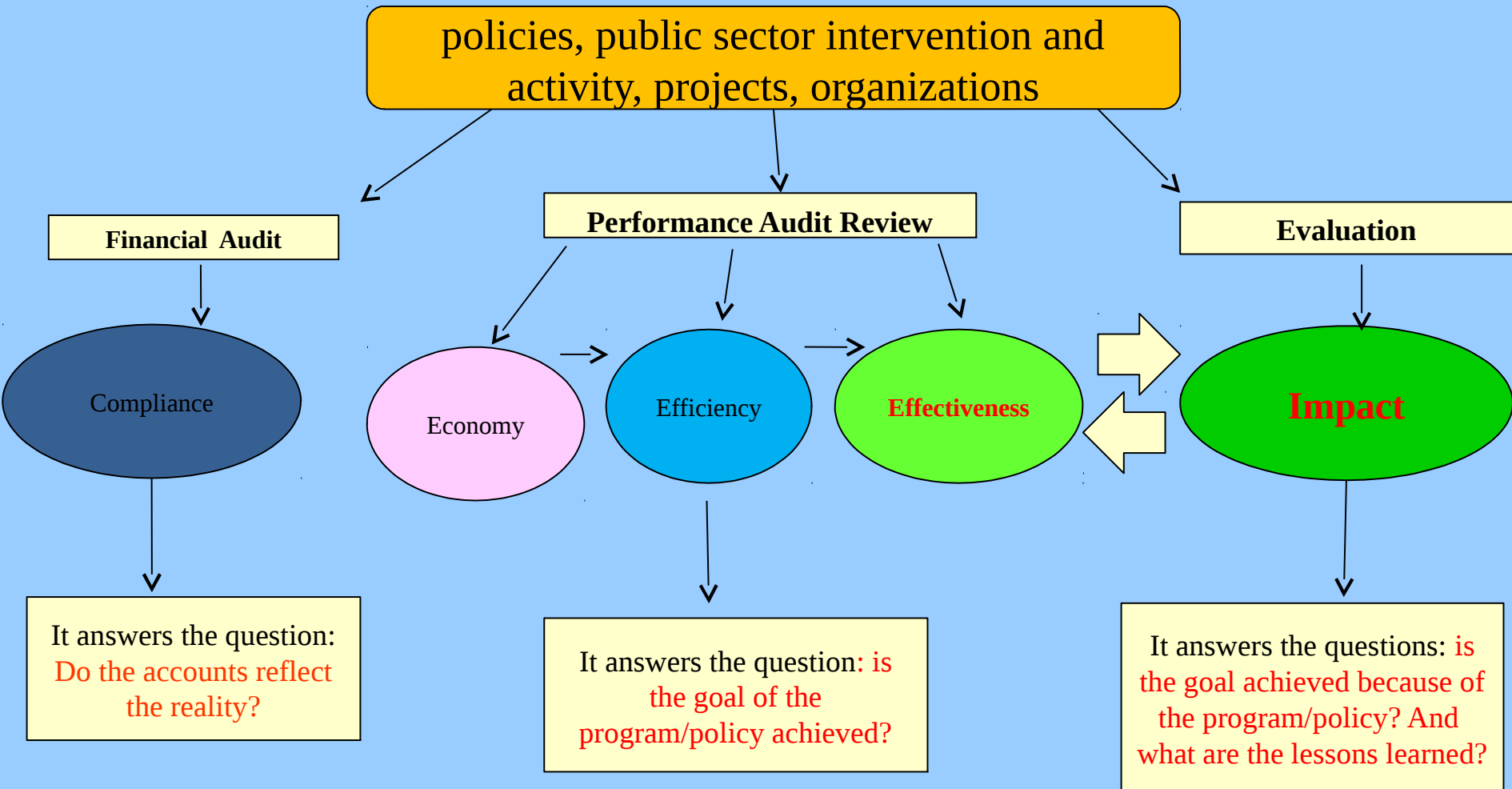
Strategy is constituted by a set of policies to obtain a certain objective over a period of time; it should be not only comprehensive but also adapted to the particular needs, circumstances, and potential of each country.

Strategy for the Countries of the Mena Region

Strategy for MENA Region and Countries								
Countries	Final Objective	Intermediate Variables	Policies	Actions	Politics	Expected Outcome	Time Frame	Implementation, Monitoring and Evaluation

14. Evaluation

Traditional Audit, Performance Audit and Evaluation



Why Evaluation?

First, it is the cost opportunity!!!!

Public policies and interventions receive taxpayers' money in various forms, direct and indirect. Therefore it is reasonable to ask whether these public sector funds are used effectively and efficiently and if the **desired impact** is reached relative to the next best alternative use of these public funds.

Second, it is learning and evidence based policy:

Impact evaluations provide important information to experts, practitioners and policymakers about the types of products and services that work best for particular types of clients.

How do we Know an Intervention is Working?

- We cannot directly measure effectiveness through “sales” (no market for public sector services, e.g., health services), or profit,
- We cannot simply measure program outputs, which tells how money was spent.
- Effectiveness of Performance Audit does not link the intervention to the outcome.
- What is lacking is an *evidence* around the impact of targeted interventions. This **evidence-based policy** can only be achieved through proper evaluation.

What is Impact Evaluation?

IMPACT = an outcome or a portion of an outcome that can be attributed directly to a policy, program, project, or intervention of the public sector with taxpayers' money.

It measures the effect of a program or intervention on a beneficiary population controlling for all other factors that might have affected the target population during the program period, e.g., Economic downturn, Factory closure, Weather shock, Disease outbreak, Elections, New policy.

It is the difference, for the same target group or beneficiary population, between what happened with the policy, program, project and what would have happened without the program.

Impact evaluation requires the identification of the **counterfactual**.

Quantification of the benefits compared with the cost incurred to introduce the policy, program, project and conclude whether the intervention was warranted.

Impact evaluation can then defines lessons learned to improve the next intervention.

Measuring Impacts

Knowledge about HIV, sexual behavior, reduction of cases

Users at the clinics

Number of Interventions

Resources for HIV Awareness Campaign

IMPACT



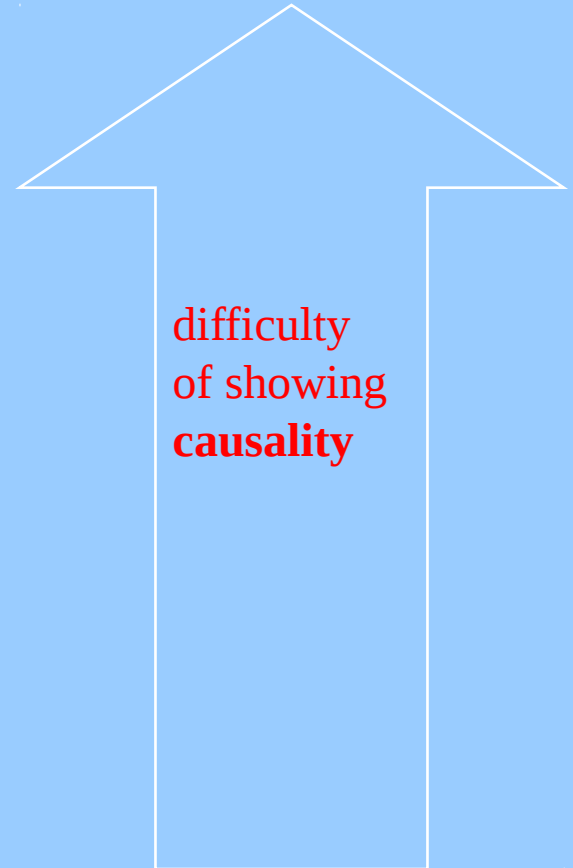
OUTCOMES



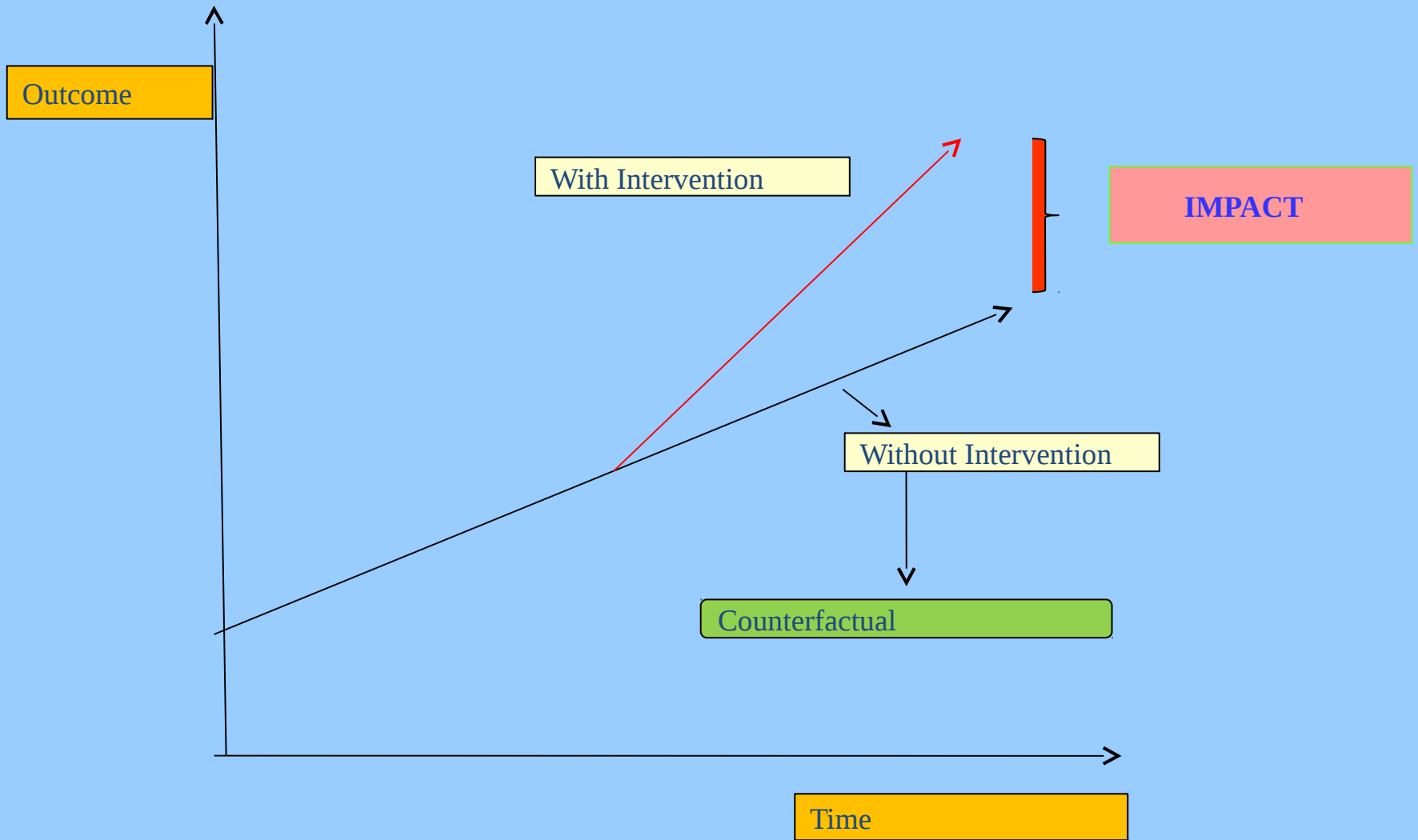
OUTPUTS



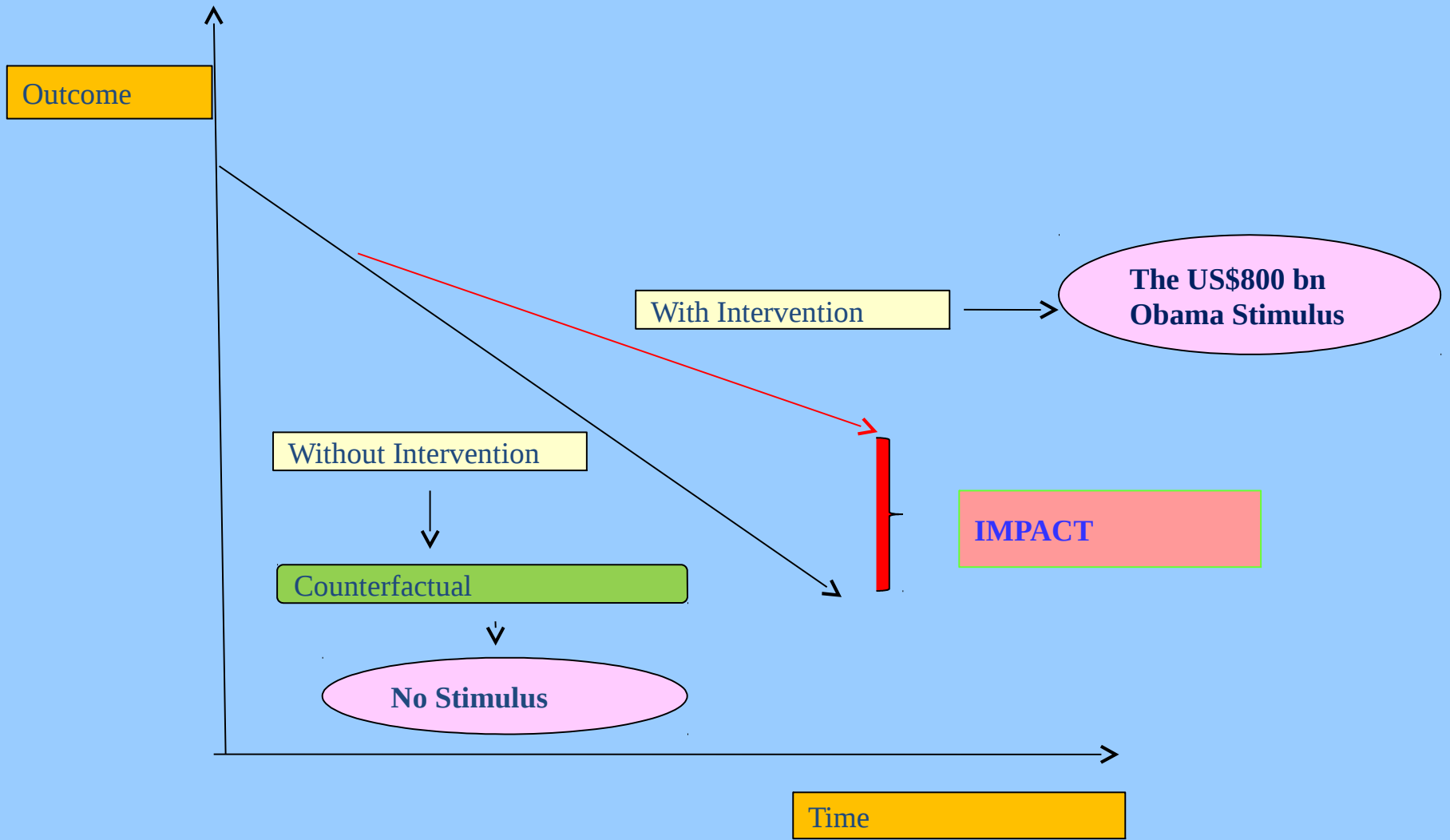
INPUTS



Impact



Impact



Goal of Impact Evaluation: Prove Causality

- Provide evidence that **Y(outcome)** happened because of **X (intervention)**, not for some other reason.
- Therefore, it is reasonable that if we **replicate X** again (possibly with some adjustment due to lessons learned) in a similar setting, **Y would happen again**.

Identification of the Causal Links

We need to know:

- i. The change in outcomes for the **treatment group** (measure them!!)
- ii. What would have happened in the absence of the treatment (“counterfactual”) for the **control group**
- iii. At **baseline**, the control group must be identical (in observable and unobservable dimensions) to the treatment group.

Impact Evaluation

The “final” outcomes are what we care about

- We need to Identify and measure them

The true “causal” effect of the intervention

- *Counterfactual*: What would have happened without the intervention?
- Compare measured outcomes with counterfactual □ Causal effect

Toolbox for Impact Evaluation

Non or Quasi-Experimental

- 1) Before vs. After
- 2) With / Without Program
- 3) Difference –in-Difference
- 4) Discontinuity Methods
- 5) Multivariate Regression
- 6) Instrumental Variable

Experimental Method (Gold Standard)

7) Randomized Evaluation

Attribution and Contribution

A key question in the assessment of policy, program and projects is that of **attribution: to what extent are observed results due to program activities rather than other factors?** What we want to know is whether or not the program has made a difference—whether or not it has added value.

However, experimental or quasi-experimental designs that might answer these questions are often not feasible or not practical.

In such cases, **contribution analysis** can help to come to reasonably robust conclusions about the contribution being made by policy/programs to observed results.

Contribution analysis explores attribution through assessing the **contribution a program is making to observed results**. It sets out to verify the theory of change behind a program and, at the same time, takes into consideration other influencing factors. Causality is inferred from the following evidence:

1. The program is based on a reasoned theory of change: the assumptions behind why the program is expected to work are sound, are plausible, and are agreed upon by at least some of the key players.
2. The activities of the program were implemented.
3. The theory of change is verified by evidence: the chain of expected results occurred.
4. Other factors influencing the program were assessed and were either shown not to have made a significant contribution or, if they did, the relative contribution was recognized.

15. Political or Policy Change in the Middle East?

Political Prospects in Middle East Countries

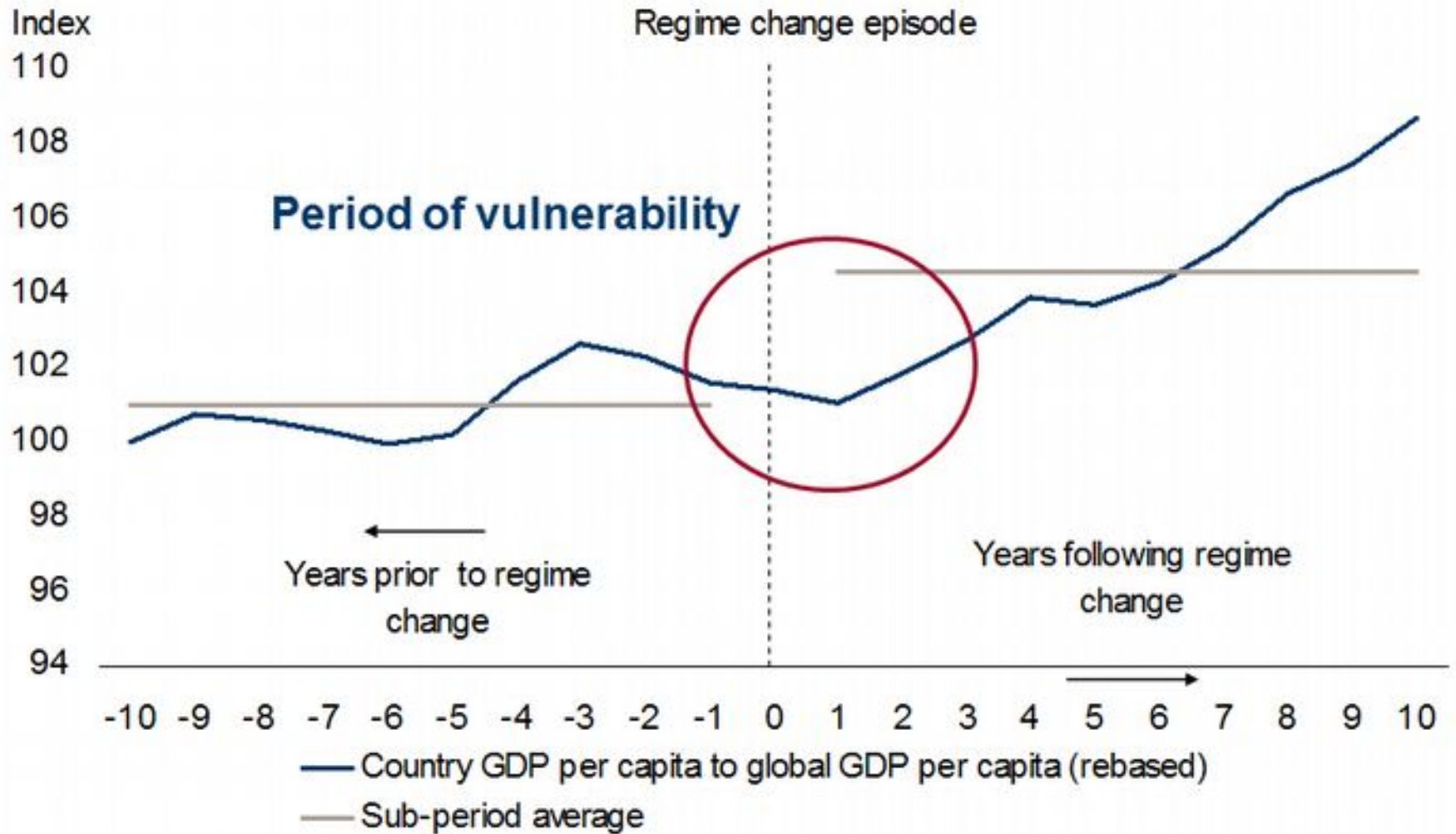
The so – called *Arab Spring* has made the political environment in the Middle East and North Africa not conducive to political and institutional stability and democracy.

After 70 years of broken Western promises regarding Arab independence, it should not be surprising that the populations (as opposed to some of the political regimes) of the Middle East view the West - and particularly the United States- with **suspicion and hostility and also ineffectiveness**.

The threat of radical Islamism and the energy interest of Western countries in the area may continue to make it tempting for the USA and the EU to support non-Islamist authoritarian forces for some time to come.

Such factors by themselves **do not favor democratic development**, and they do suggest that democratization in the Middle East and North Africa will hinge almost entirely on each country's domestic balance of power between pro- and anti-democratic forces; modernity and tradition.

GDP per capita increases post-regime change



Reforms

- Reforms implemented over the past two decades allowed private enterprises to become the principal source of wealth generated in MENA economies outside hydrocarbons and mining sector. However, **the impact of these reforms is limited due to the unequal and unpredictable way in which policies are implemented**, resulting in a lack of reform credibility in the eyes of many investors. Close to 60 percent of business managers surveyed do not think that the rules and regulations are applied consistently and predictably.
- Countries in the region need to **reduce discretion** in the business environment to encourage more entrepreneurs to invest. **Engaging in a reform agenda that signals a credible commitment to reduce discretion will require a change in the way policy making is conducted.** With the necessary regulatory environment, governments can encourage entry in all sectors of the economy by removing formal and informal barriers to competition.

Reforms

- The report calls for a three pillar strategy for building a stronger foundation for longer term growth:
 - **First**, governments need to **remove formal and informal barriers to competition**. Where they exist, privileged positions and conflicts of interests between public servants and private investors should be reduced.
 - **Second**, policy reforms must be supported **by strengthening the institutions** that regulate markets and interact with firms, in order to reduce interference and discretion in the enforcement of rules and regulations.
 - **Third**, the region must foster a new partnership between the private and the public sectors, one that mobilizes all stakeholders in the design, implementation and evaluation of economic policies. Only then will consensus be built around the reforms, and their credibility and effectiveness reinforced. A more open dialogue between governments and the private sector will also help **guard against narrow interests taking over the public interest**.

World Bank. 2009. *From Privilege to Competition: Unlocking Private-Led Growth in the Middle East and North Africa*. Washington, DC. ©

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Role of Government

For governments to perform their spending function well, their public financial management (PFM) practices should meet certain well-established criteria

- Government spending should be **affordable**, in that it takes place within a framework that ensures expenditure is consistent with monetary and fiscal policy objectives and sustainable in the long term.
- Governments should optimize the allocation of public resources between different sectors and expenditure categories in a way that reflects their **policy priorities**, including sustainable growth as well as human and social development.
- Government expenditure should be **efficient**, in that it maximizes output for a given set of inputs, and effective, in that it supports the successful realization of the government's goals.
- Government Expenditure should be **transparent**; conducted in accordance with the relevant laws and regulations; and undertaken with appropriate checks and balances to ensure financial probity.
- **While such objectives are relatively straightforward, the implementation of reforms and the realization of these objectives is challenging.**

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