

Globalization and the Arab World: Threat or Opportunity

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The threats and opportunities presented by globalization are particularly acute for the Arab world, especially as it comes to terms with the move away from dependence on finite natural resources. Integration with the world economy is not only desirable for this group of nations; it is essential, if widespread economic and social breakdown are to be avoided.

At the same time, as news headlines are showing us, the political volatility of the region cannot be ignored. Arab foreign ministers met recently specifically to discuss the aftermath of the election of Ariel Sharon as Prime Minister of Israel. From the Arab point of view, his election represents a tragic turning-point, moving the entire region further away from peace. And the force of continuing hostility among Arab populations towards Israel and the West puts ever-increasing pressure on governments in the Arab world, especially as they come to terms with the forces of globalization.

Despite the planned visit by Colin Powell to the Middle East at the end of this month, the governments of Arab countries are noting the clear indications from the new U.S. administration that it is not prepared to spend as much time on Middle Eastern issues as the Clinton administration did, and they are looking uneasily at the implications of this, not only for the Arab-Israeli peace process but for their own domestic issues.

The Arab world consists of some 22 countries, which share a common religion, culture, and language, despite wide variations in income and resources. It is also an area where huge demographic changes are taking place. For example, the population is estimated at 280 million in 2000, compared with a projection of 385 million in 2015. This represents an annual growth rate of 3.0% compared with a world-wide annual growth rate of 1.7%.

Moreover, the proportion of the population that is of working age (15-64) accounts for over 55% of the current total, with those who are of school age the second largest group 40%. By 2030, the Arab population is forecast to be 514 million and 75% of it (around 332 million) will be of working age compared to 160 million in 2000. Worryingly, growth in population has not been matched by economic growth. During the 1960s and 1970s, the Arab economies were among the fastest-growing in the world. Since the second part of the 1980s, however, growth performance has been dismal. Unemployment has risen and become more widespread. Real wages have declined, and more and more of the population is close to poverty level. Coupled with the increases in population outlined above, the scenario is frightening.

The reasons for the decline in growth are the same reasons as led to the boom in the 1960s, 1970s and the early 1980s. Because these economies were based primarily on the exploitation of natural resources, they were dependent on the world market for those resources. When oil prices were at their peak, in 1980, government revenue and private sector income alike were extremely high, and between 1960 and 1985, the growth rates of the Arab world were among the highest in the world. Unemployment was virtually nonexistent, and the social payoffs were enormous. Primary school enrolment shot up from 61% in 1965, to 98% in 1991, and adult literacy

improved from 34% in 1970 to 53% in 1990. But the initial drop in oil prices in 1982 and their subsequent collapse in 1986 marked the end of the oil boom era. After the shocks of 1982, when the price of oil fell sharply, recession ensued. Arab oil revenues declined from \$213 billion in 1980 to \$53 billion in 1986, with devastating effects on economic growth.

At the same time, globalization has created a new and potentially threatening environment. No longer is it enough to be extremely rich in natural resources and to have in abundance the means to exploit them. Instead, what determines the growth and development of a nation is a variety of factors, including the quality of its domestic investment climate, the skills of its workforce, and the ability of its producers to respond quickly to opportunities in the global economy. Oil revenue alone will not provide a basis for sustained economic expansion. It certainly provided a powerful engine for growth during the 1970s and early 1980s, but over-dependence on it in the last fifteen years is contributing to a decline in prosperity in the Arab world that will only get worse unless radical changes are made. These changes require that Arab nations implement policy measures designed to maintain a stable macroeconomic environment, attract foreign capital, and increase non-oil exports. They also need to ensure that their political structures are stable, to create favorable conditions for private sector, and to enhance human capital.

If they are not to be left behind, the countries of the Arab world need to be poised to take advantage of the new opportunities in the global economy - trade in a wider markets, large private capital inflows, and improved access to technology. Especially given the population pressures outlined above, the need for Arab countries to integrate with the world economy is imperative. Not to do so will result in marginalization and stagnation, economically and politically. Moreover, failure to address the problems posed by the expansion of their populations could lead to widespread social disorder and breakdown.

The ability of Arab countries to make the most of the opportunities offered by globalization will depend to a great extent on the quality of their domestic policies. In making the switch from dependence on oil revenue to integration in the global economy, they will be making a new social contract with their populations. This new social contract fits in better with new realities, fully utilizing and expanding human potential, and to stabilizing social tensions, as it relies on markets for the things they do best such as encouraging investment and productivity growth. Such a scenario not only requires the recognition of growth and integration as mutually reinforcing, it also calls for political stability, including increased participation by an educated population in the processes of government.

Although the changes I am outlining here will be challenging for Arab countries, many of which are still hoping to rely on the oil wealth they enjoyed in the 1970s and 1980s, the overall outlook need not be gloomy. The forces of globalization mean that no country needs to be poor on account of a poor endowment of natural resources, an isolated location, or concentration on certain products. It is now the case that human resources are more important than natural ones, and innovation is more important than mass production. It is crucial that the Arab world, and especially its oil-producing countries, diversify away from reliance on natural resources, in order to grow, develop, and provide for its hugely increasing population. Globalization, coupled with social change, offers rich opportunities to do so.

