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MENA Region Economic Inequality

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Abstract

The purpose of my paper is to find out why there is such a difference in the economic development between the Arab countries surrounding the Persian Gulf and the rest of the Arab world. Seeing the projects of fellow students in our class do projects on the Gulf countries and their beautiful architecture and high GDP per capita statistics was interesting. I had previously seen Born in Gaza for our film assignment and saw the poverty in the people there. How their homes and businesses were destroyed and how poverty was the rule and not the exception. As a finance major, economics and history are very important to me. Finance considers economics and history when performing fundamental analysis on a business. Economics is a science. As a result, an objective analysis of the policies implemented across the MENA region is possible. I aim to determine if there is a correlation between the geographic position of the nation and their ranking on ease of doing business indices. The easier it is to do business, the wealthier a society is. It should be relatively easy to judge the various factors affecting this divide between the Gulf region and the other parts of the greater MENA region. Further factors that must come into consideration in our analysis include demographic trends, and geography. Moreover, economic analysis can be used to determine just how wide the gap is between the Gulf region and everyone else. For better or worse, much analysis of the MENA region focuses on culture, which is beautiful. However, a consequence of this is the under examination of the economies and disparities in the region. In my research paper, I aim to delve into the economics of the region and analyze any economic disparities in the MENA region.

Keywords: MENA, the Middle East, North Africa region.

MENA Region Economic Inequality

Everybody needs to eat. However, not everyone likes the same foods. Moreover, there is not always enough of every type of food to ensure that everybody gets what they want. This is little example illustrates two of the fundamental rules of economics: that resources are scarce, and that everyone has unique tastes (no pun intended) and preferences. It is the job of each economy to allocate scarce resources with alternative uses. In the Middle East and North Africa (MENA) region, there is a significant economic disparity between the Gulf states (Oman, Qatar, Bahrain, Kuwait, UAE and Saudi Arabia) and the rest of the region (e.g. Morocco, Libya, Syria, Egypt). This is striking because the nations in this region are united by the Arab culture. They share a common language and the majority are Sunni Muslims. However, despite their shared culture, there is a significant economic difference. But why is that? Are the Gulf states oppressing their fellow Arab neighbors? Or, is this a case where different nations with similar cultures are dealt different cards and have different results? It is the goal of this paper to analyze why there is any economic disparity between the Gulf states and the rest of the MENA region. When analyzing economies, there are multiple factors to take into account.

To start, different groups of people throughout history have attempted different routes when it comes to allocating scarce resources with alternative uses. Typically, most economies fall on a spectrum ranging from less government control to more government control over the economy. Next, the resources that make up the economy are also important. There are many types of resources (e.g. iron, oil, pearls) and capital (e.g. human capital) that an economy must efficiently utilize. Yet another important factor when evaluating an economy is the geography. Are there rivers? Is there fertile soil? Is it flat or mountainous? These are just a few of the many pertinent questions involved when examining the geography of a nation and its impacts on the economy. Moreover, the climate of the region is also important and can provide valuable insight on important economic factors such as agriculture output and even saving habits. The last major factor we will examine in this paper when comparing the Gulf states to the rest of the MENA region is demographics. In other words, there is a plentitude of important factors that have a sizeable impact on economies. In summary, the goal of this paper is to investigate why there is economic disparity between the Gulf states and the rest of the MENA through examining the resources that make up the economies, the systems used to allocate those resources, the geography of the economies, and the demographics of the region.

Economic Disparities

First, it is important to understand the MENA region, what ties the Gulf states to the rest of the MENA region, and to establish the economic disparity. As mentioned earlier, the MENA region encompasses the Middle East and North Africa, from Morocco all the way across North Africa, east through Egypt and into Syria and the Levant. It also includes the western portion of the states surrounding the Persian Gulf. The majority of the people in the nations that comprise the MENA region are Sunni Muslims who are also Arabs. However, there is much diversity in the region. There are many different cultures and religions, such as the Berber culture in North Africa and the many Maronite Catholic Christians in Lebanon. Despite all this diversity, the majority of the culture is very much Arab. The key that holds together the Arab identity and culture is the use of the Arab language. While the Arab language is used by many who do not identify as Arab or practice the Muslim faith, it is a language that is closely woven into the social fabric of the Arab culture in the MENA region, to the point where the Arab culture and language are almost inseparable. The Arab culture is what unites the Gulf states to the rest of the MENA region. Despite also residing in the same geographic region as the MENA nations, Israel is not included in the MENA region because it does not share the Arab culture.Now, what is striking is the significant economic difference between the Gulf states and everyone else. The Gulf states have an average GDP per capita of $24,467 (GCC - Cooperation Council for the arab states of the gulf 2021, 2021). Meanwhile, the GDP of the rest of the nations in the MENA region (Morocco, Algeria, Tunisia, Libya, Egypt, Yemen, Jordan, Syria, Iraq, and Lebanon) have an average GDP per capita of just $6,919.38 (Stats for country grouping: Middle East and North Africa). To put that into perspective, the global average GDP per capita is $10,909.29 (World Bank GDP per capita (current US$)). This means that, not only do the Gulf states handily outperform their cultural and geographic neighbors in the MENA region, but they also more than double the global GDP per capita. GDP is a general measure of total economic output of a nation. It measures the size of an economy based off the total production and consumption of goods and services, imported and exported, in a nation over the course of one year. It can increase or decrease depending on many factors. GDP per capita divides the total economic output of a nation, as measured by GDP, and divides it by the total population of that nation in the same year. This is done to enable the comparison of nations with vastly different sizes. For example, it would be impossible to understand why citizens in the United Kingdom are much wealthier nation than Chinese citizens, on average, and enjoy a much better standard of living when China's total economic output, as measured by GDP alone, is multiple times that of the United Kingdom. It is only when you account for vast difference in the sizes of the two populations that you can more fully understand how citizens in the United Kingdom enjoy a better standard of living. While GDP per capita can give us an estimate of the standard of living in a nation, it is not the complete picture. GDP per capita measures the total output and consumption of all the goods and services in an economy (GDP) and simply divides it by the population.

It does not accurately show the distribution of the production and consumption of those goods and services among the population. Even after for taking the imperfection of the GDP per capita statistic into account, the Gulf states still pull well ahead of the rest of the MENA region as measured by other statistics such as on the Human Development Index (HDI). The average HDI of the six Gulf states is .83. Meanwhile, the highest of the rest of the nations in the MENA region is Algeria with .748, with many scores far below that number. In summary, the Middle East and North Africa region stretches from Morocco in the West to the Persian Gulf in the east. It is united by the Arab culture and language. However, there is a significant economic disparity between the six Gulf states and everyone else in the region, as measured by GDP per capita and by the Human Development Index.

Economic Systems

Nobel prize winning economist Milton Friedman once joked that if you put the United States Federal Government in charge of the Sahara Desert, there would soon be a shortage of sand. An economy might be blessed with all the resources in the world, but, if they are not allocated efficiently, it amounts to nothing. The systems used to allocate scarce resources with alternative uses are just as, if not more, important than the resources that an economy has available at its disposal. Every single economy in history is unique in the way in which it has managed itself. But what is there to manage? Resources, of course! Every resource, from milk to iron to uranium, is scarce. Most, if not all, resources can be used for many things. On top of that, each individual has his or her own unique tastes and preferences. Every individual has a unique understanding, a unique level of knowledge, etc. As such, each new potential use for a resource adds a new level of difficulty to the problem of allocating it because there is only so much of the resource to go around, and different people want to use the same resource for different purposes and in different quantities. What a mess! The most existential problem each society tries to solve is the allocation of its scarce resources. It is also the most complicated problem ever to be attempted to solve. As Dr. Thomas Sowell said, “Economics is more than just a way to see patterns or to unravel puzzling anomalies. Its fundamental concern is with the material standard of living of society as a whole and how that is affected by particular decisions made by individuals and institutions. One of the ways of doing this is to look at economic policies and economic systems in terms of the incentives they create, rather than simply the goals they pursue. This means that consequences matter more than intentions—and not just the immediate consequences, but also the longer run repercussions of decisions, policies, and institutions”(Sowell, 2015). Now, how is all this context relevant to the question of the economic disparity between the Gulf states and the rest of the MENA region? It is entirely relevant, but it will become a little more clear in just a moment. Next, every year, the Fraser Institute publishes a list of all the nations in the world and, after evaluating all the laws and edicts of the various potentates in each country, they try their best to assign as objective as possible a value, 0 to 10, higher the better, representing how free, economically or individually, each nation is. Basically, a nation with a score of 2.3 is not very free and a nation with a score of 9.2 is very free. While the people at the Fraser Institute might not be experts at every culture around the globe, they can look at things like, how long does it take to open a business? How easy is it to start a restaurant? Etc. and they try to quantify the difference in economic freedom with their scores. It is a solid way of comparing the economic freedom across many nations. The six nations comprising the Gulf states have an average economic freedom score of 6.8. Of all the other nations in the MENA region, one of the only ones to have a higher economic freedom score was Jordan, with a score of 7.6. Meanwhile, nations like Egypt fall behind with scores in the 5’s. As mentioned earlier, the systems used to allocate scarce resources with alternative uses in an economy are on a spectrum ranging from less freedom (meaning more government control) to more freedom (less government control).Why does this matter? It matters because no one group of people can efficiently manage the allocation of scarce resources with alternative uses. Central planning is not the most efficient way to run an economy. In a market economy, each individual is tasked with only knowing what is pertinent to their industry. An advancement in the production of milk will not require as much attention from a painter as from a dairy farmer.

Instead of one group trying frantically to make decisions for everybody, each individual makes a decision for themselves because they are best equipped to handle themselves and not other people far away. As Dr. Thomas Sowell said, “Many intellectuals are so preoccupied with the notion that their own special knowledge exceeds the average special knowledge of millions of other people that they overlook the often far more consequential fact that their mundane knowledge is not even one-tenth of the total mundane knowledge of those millions. However, to many among the intelligentsia, transferring decisions from the masses to people like themselves is transferring decisions from where there is less knowledge to where there is more knowledge. That is the fatal fallacy behind much that is said and done by intellectuals, including the repeated failures of central planning and other forms of social engineering which concentrate power in the hands of people with less total knowledge but more presumptions, based on their greater average knowledge of a special kind”(Sowell, 2012). Moreover, “The state should confine itself to establishing rules applying to general types of situations and should allow the individuals freedom in everything which depends on the circumstances of time and place, because only the individuals concerned in each instance can fully know these circumstances and adapt their actions to them. If the individuals are able to use their knowledge effectively in making plans, they must be able to predict actions of the state which may affect these plans. But if the actions of the state are to be predictable, they must be determined by rules fixed independently of the concrete circumstances which can be neither foreseen nor taken into account beforehand; and the particular effects of such actions will be unpredictable. If, on the other hand, the state were to direct the individual’s actions so as the achieve particular ends, its actions would have to be decided on the basis of the full circumstances of the moment and would therefore be unpredictable. Hence the familiar fact that the more the state “plans”, the more difficult planning becomes for the individual”(Hayek, 1944). As such, there is a noticeable difference in the level of economic freedom between the Gulf states and the rest of the MENA region. The Gulf states have a significant degree more of economic freedom. While this may not account for the entire difference in economic development, it is a significant factor. Other nations with more oil and less freedom, such as Venezuela, have massive food shortages and horrendous economies. Meanwhile, nations with little to no resources at all, such as Israel in the Middle East, Singapore, and Hong Kong have almost no natural resources but score very well on their levels of economic freedom and economic development. In summary, a contributing factor to the disparity in economic development between the six Gulf states and the rest of the MENA region is the level of economic freedom, with Gulf states attaining a higher level of freedom and a correspondingly higher level of economic development.

Economic Resources

When people think of the Middle East, one of the very first things that comes to their mind is oil. While it is true that the Middle East has plenty of oil, it is not evenly distributed amongst the nations in the MENA region and it hasn’t always been there. Many of the states surrounding the Persian Gulf used to be very poor states indeed. Their economies were based on trade and their primary export was pearls. Their position near the Indian Ocean made their ports convenient for traders between the Middle East and Asia. However, after the discovery of the Americas, the Silk Road declined in importance as the flow of trade began to bypass the Middle East. It was only with the discovery of oil in the late 19th century and the subsequent production in the following century that the Middle East started to gain its reputation for oil. Even then, nations like the United Arab Emirates (the UAE, one of the wealthiest Gulf states), had to wait until 1958 to find oil and to start exporting it commercially. Of the five countries with the most proven oil reserves in the Middle East, three of them are Gulf states (Top Five countries with the largest oil reserves in the Middle East, 2019). The other two are Iran and Iraq (Iran is not part of the MENA region as it is not Arab and is not part of this comparison and Iraq produces less oil per capita than most of the Gulf states). As mentioned before, just having natural resources alone is not enough to make a nation wealthy. There are many nations that are resource rich yet remain poorly developed. Conversely, there are many nations with few natural resources but manage to become very developed. Some more examples of such nations (in addition to the ones given earlier) are the Netherlands, Denmark and Taiwan.

As a matter of fact, there is such a thing as the resource curse, which many economists use to describe nations which are resource rich but are poor. Frequently, the natural resources are controlled by a power, either a public or private monopoly, or some cartel and are exploited with the nation itself only benefitting to the tune of pennies on the dollar. This happens when the government controls the resource and inefficiently uses it, confusing economic incentives with political incentives to remain in power. It also happens when officials are bribed and the system is corrupted, abusing the rule of law and hurting the very framework of the society. Clearly, having the resources alone is not enough to attain economic development. The key to economic development is economic freedom, comprised of property rights, rule of law, market prices, etc. While the Gulf states have more economic freedom than the rest of the MENA region, they still do not have the same level as say, the United States or the United Kingdom. Many of the oil resources are controlled by the government, with only minor partnerships with private international corporations. As much as the oil has benefited many of the countries surrounding the Persian Gulf, oil production is comprising a smaller and smaller percentage of the overall GDP of each nation. The Emirate of Dubai itself proudly proclaims on its website that oil comprises less than 1% of its own GDP: “Most of Dubai's GDP (over 95%) is non-oil-based. So far oil has accounted for less than 1% of Dubai’s GDP and tourism to produce 20% of the GDP. These figures explain why Dubai has become a more dynamic and diversified economy in order to survive the decline of fossil fuels” (Dubai, 2021). The UAE as a whole has received hundreds of billions of dollars in foreign investment over the last twenty years alone. How is it possible that these economies have diversified? It is because they have some of the freest markets in the region, which attracts foreign investment into the Gulf states. Meanwhile, the rest of the MENA region struggles with varying levels of foreign investment, all lower than the Gulf states. For many of the countries in the MENA region, it is difficult to even find data on foreign direct investment. Foreign investment is crucial for a developing economy. It can improve economic growth: “Countries receiving foreign direct investment often experience higher economic growth by opening it up to new markets, as seen in many emerging economies… Most foreign direct investment is designed to create new businesses in the host country, which usually translates to job creation and higher wages… Foreign direct investment often introduces world-class technologies and technical expertise to developing countries”(Kuepper, 2021). Foreign direct investment can be just as important to a developing economy as any resource. With this knowledge in mind, it is possible for the Arab nations of the MENA region to attain a similar or even greater level of development than those of the Gulf states. The wealthiest nation in the entire Middle East is also the one with the strongest property rights, Israel. For the nations of the MENA region to attain a similar level of development as the Gulf states or even Israel, they must adopt more market-oriented policies. Israel does not have any of the oil or natural resources that the Gulf states have, yet it has a relatively free economy that respects private property rights. As such, it attracts lots of investment from investors all around the world. The money pours into the many Israeli startup companies, fueling its economic engine. It is possible for any nation in the world to develop, so long as the nation is willing to protect the rights of its citizens, particularly their property rights, and to uphold the rule of law. Yet another resource that is not yet discussed is human capital, such as knowledge. As Ludwig von Mises put it, “The body of economic knowledge is an essential element in the structure of human civilization; it is the foundation upon which modern industrialism and all the moral, intellectual, technological, and therapeutical achievements of the last centuries have been built. It rests with men whether they will make the proper use of the rich treasure with which this knowledge provides them or whether they will leave it unused. But if they fail to take the best advantage of it and disregard its teachings and warnings, they will not annul economics; they will stamp out society and the human race.” (Mises & Greaves, 2014). Human capital is essential and is best utilized in a free market. In summary, while the Gulf states and the rest of the MENA region have a different distribution of resources, the Gulf states have taken better advantage of their natural and human resources because their economies are more open, allowing for more many advantages (such as greater foreign direct investment).

Geographic Impact.

Similar to natural resources, geography can have a dramatic impact on an economy. In the same way that a country does not need abundant natural resources to succeed in economic development, neither does it need good geography. However, good geography can be a great boon to a sound economy. There are many key components to geography. Ideally, a nation would have flat and fertile land that is easily defendable, with rivers flowing to an ocean, among many other things. To state the obvious, there is only so much land like that in the world, and the vast majority of land is not "ideal." Still, this has not stopped the development of many nations with poor geography from succeeding. As mentioned earlier, Israel did not have many natural resources and it does not have great geography, yet it succeeds because it has economic freedom. Still, good geography can improve an economy in many ways, and one way the nations surrounding the Persian Gulf benefit is through easy access to trade. The Persian Gulf opens right into the Indian Ocean, and the rest of the world. Meanwhile, the Mediterranean is choked by the Suez Canal and the Straights of Gibraltar, vastly limiting the potential of the rest of the MENA region. Geopolitical strategist Peter Zeihan explains "Successful countries find it easy to move people and goods within their territories: Egypt has the Nile, France has the Seine and Loire, the Roman and Inca Empires had their roads. Such easy movement promotes internal trade and development. Trade encourages specialization and moves an economy up the value-added scale, increasing local incomes and generating capital that can be used for everything from building schools and institutions to operating a navy. Such constant interconnections are the most important factors for knitting a people into a nation. Such commonality of interests forms the bedrock of political and cultural unity. With a very, very few exceptions, every successful culture in human history has been based on a culture of robust internal economic interactions, and that almost invariably comes from easy transport" (Zeihan, 2016). Since the adoption of the Bretton Woods agreement, the United States has guaranteed the free flow of trade (e.g. free from interdiction by pirates) with its navy, allowing for the easy export of oil from the Gulf. Access to good harbors and global waterways is crucial for an economy. Dr. Sowell again explains "Almost every great city in the world has risen on navigable waterways — and such waterways are more scarce in Africa than in any other continent. An aircraft carrier can dock on the Hudson River in midtown Manhattan, but there is not a single river where that is possible on the vast continent of Africa, which is larger than Europe or North America. Even smaller boats can travel only a limited distance on most African rivers because of cascades and waterfalls. Most of the continent is more than 1,000 feet above sea level, and more than half of Africa is more than 2,000 feet above sea level. That means its rivers and streams must plunge down from those heights on their way to the sea. Water transport was crucial in the thousands of years before there were trains or automobiles. It was crucial for developing an economy and crucial for developing a culture in touch with enough other widely scattered cultures to make use of advances in the rest of the world. But many African societies have been isolated by that continent's dearth of both navigable rivers and harbors. Isolated regions have almost invariably lagged behind regions in touch with a wider cultural universe. One among many signs of the isolation and cultural fragmentation of much of sub-Saharan Africa is that African languages are one third of all the languages in the world, even though African peoples are only about 10 percent of the world's population" (Sowell, 2005). Much of the same troubles that plague the continent of Africa also apply to the rest of the MENA region. The only significant river that flows there is the Nile. While the Nile is significant, it is no longer a major artery of global trade as it was thousands of years ago. While the Suez Canal connects the Indian Ocean to the Mediterranean, it does not make up for the lack of easy internal transport from waterways. Meanwhile, the Persian Gulf almost acts like a giant like for the Gulf countries to use for trade and for access to global waterways. While the rest of the MENA region and Africa as a whole suffer from a lack of harbors, the man-made harbor at the Port of Jebel Ali in Dubai (UAE) is the busiest port in the Middle East. In summary, while the greater MENA region suffers from a chronic lack of waterways, hampering internal transport and thus economic and technological development, the Gulf states have easy access to the Persian Gulf and international waterways, allowing for easy trade and export of its products and import of foreign products.

Conclusion.

In conclusion, there is a significant economic disparity between the greater MENA region and the Gulf states, as measured by GDP per capita and by the Human Development Index. The Gulf states are significantly more developed than the rest of the MENA region, despite sharing their culture and language. There are many factors that contribute to the economic disparity, such as economic system, resources, and geography. The Gulf states tend to have more market-oriented economies, allowing for greater economic efficiency and attracting much more foreign investment, allowing for more development. Meanwhile, the greater MENA region suffers from a low economic freedom score, hampering their economic development. The Gulf states also benefit from significant oil deposits, but do not rely on them to the extent that most people think they do. Third, the Gulf states benefit from geography. The Persian Gulf gives them easy access to international markets and trade. The greatest take away from all this is easily in regard to economic freedom. You can have all the resources in the world, but it won't matter if your economic system does not allow for their efficient use. After all, "Economics is a study of cause-and-effect relationships in an economy. Its purpose is to discern the consequences of various ways of allocating resources which have alternative uses. It has nothing to say about philosophy or values, any more than it has to say about music or literature." The study of economics is not to say that the Gulf states are inherently superior to the rest of the MENA region. It merely shows how humans, when allowed to use their talents and tap into their work ethic, are capable of great things. It is when the government blocks them from unleashing their potential that there is economic distress. The UAE in particular has succeeded in creating one of the freest economies in the whole of the Middle East and all of Africa. It has by and large rebuked the intellectual and elitist call to control everyone. Too often today, economic inequality is often portrayed as the result of some kind of exploitative relationship between two people or groups of people. It is one of the goals of this essay to prove that there are many factors at play in the economic differences between the Gulf states and the rest of the MENA region and that the success of the Gulf states not only does not involve the oppression of others, but it actually rests on the fact that the citizens of the Gulf states enjoy greater economic freedom than found almost anywhere else in the Middle East (besides Israel). It is a testament to human ingenuity and the principles of economic freedom that wherever human economic liberty is practiced, the standards of living rise and humanity flourishes.

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