Crisis, Globalization and Governance

Crisis, Globalization and Governance: How to Draw Lessons?

Edited by

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Table of Contents

LIST OF TABLES AND FIGURES

FOREWORD

The articles that comprise this volume are a selection from the valuable contributions of scholars to the ‘Crisis, Globalization and Governance: How to Draw Lessons?’ International Conference hosted, on the 2nd to the 3rd of April 2012, by the Holy Spirit University of Kaslik and the Arab Society of Faculties of Business, Economics and Political Sciences.

The seven contributions focus on specific forms of governance in the private and public sectors which aim to redirect the globalization process in a healthier and more efficient way. Globalization has turned a fully diversified world into a huge melting pot where innovations and technological breakthroughs play a fundamental role in restructuring the governance of organizations. Organizations have to adapt to the best practices that fit into their culture, and to prevent changes happening on the global level in order to avoid the risk of losing their competitive advantages.

The contributions focus on issues of globalization from a cross-cultural perspective. The articles relate to the following fields: Globalization, Leadership and Governance, Corporate Social Responsibility, University Governance, Management of Information Systems, and Social Entrepreneurship. Dealing with a multidisciplinary conference, this book will be of interest to a wide readership: academics, administrators and business executives, as well as management students. It highlights the diversity of development experiences and suggests that there cannot be a single path to progress in spite of globalization.

THE IMPACT OF GLOBALIZATION ON ISLAMIC COUNTRIES: A BRIEF ASSESSMENT

KHAN HABIBULLAH

Abstract

After briefly discussing the various issues pertaining to globalization and the global economy, this paper presents the comparative economic performance of Islamic countries by using appropriate statistics, and discusses the challenges, mainly the economic ones. It is stressed that Islamic countries, or at least a subset of them, have great potential and would benefit from globalization, if they can successfully upgrade their young labour force through various education and training programmes. Although steps are being taken in the right direction in some Islamic countries (particularly GCC countries), more comprehensive measures are required for human capital formation to meet the needs of today's knowledge-based economy.

Keywords: Globalization, Knowledge-based economy, Indicators of globalization, Islamic countries, GCC countries, Education, Life-long learning.

Introduction

Globalization can be defined as the process through which the free flow of ideas, people, goods, services and capital leads to the integration of economies and societies. The world has experienced successive waves of globalization going back as far as Marco Polo in the thirteenth century. The term 'globalization' here is viewed strictly in terms of relevant economic indicators.[1] The focus is on the impact of the most recent (after the 'Information and Communications Technology' or ICT revolution) wave of globalization. The ICT revolution in the 1970s greatly facilitated the exchange and processing of information by expanding the range and quality of services that can be traded, moving us towards a 'global village'.

While traditional economic theory (based on the assumptions of free trade) suggests that a fully integrated world economy provides the greatest scope for maximizing human welfare, the contemporary literature highlights the benefits of knowledge sharing and dissemination through information technology. The importance of a knowledge-based economy (KBE) was emphasized by the World Bank (1998):

> *'For countries in the vanguard of the world economy, the balance between knowledge and resources has shifted so far toward the former that knowledge has become perhaps the most important factor determining the standard of living – more than land, than tools, than labor. Today's most technologically advanced economies are truly knowledge-based. And as they generate new wealth from their innovations, they are creating millions of knowledge-related jobs in an array of disciplines that have emerged overnight.'* (*The World Development Report: Knowledge for Development* 1998/99, p. 16)

Knowledge is power; with the help of cross-border sharing of knowledge, the global economy is becoming more integrated and countries cannot be reluctant in this regard. Multinational corporations (MNCs) are becoming too dominant in the global landscape, and approximately one-third of global trade is now between MNCs and their affiliates. More than 50% of GDP in major OECD countries is based on the production and distribution of knowledge. Information technologies are advancing at a

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[1] Globalization may have a mixed impact on the welfare of the members of society. According to Johnson (2002), economic liberalization, or globalization in a broader context, is expected to bring benefits to the developing countries, in terms of both static and dynamic gains. For instance, trade reform through diffusion of knowledge and technology in the past benefited the world's poor enormously (e.g. great increase in life expectancy, reduction of child mortality, doubling of grain yield, increase in per capita food supply, etc.). However, trade liberalization may not be welfare-improving in all cases. Bannister and Thugge (2001) emphasized the possibility of gainers and losers in trade reforms. They noted that trade liberalization causes restructuring and dislocation, and people with few assets may suffer adverse effects from trade reforms due to adjustment costs.

tremendous rate and a country can create dynamic comparative advantage by improving its distinctive knowledge:

> *'While nature shows a tendency to diminishing return, man shows a tendency to increasing return. Knowledge is our most powerful engine of production; it enables us to subdue nature and satisfy our wants.'* (Alfred Marshall, quoted in *The World Development Report: Knowledge for Development* 1998/99, pp. 20–21)

The World Bank has advised developing countries to acquire and adapt global knowledge and create knowledge locally, to invest in human capital in order to increase the ability to absorb and use knowledge, and to invest in technologies that facilitate both the acquisition and the absorption of knowledge.

The structure for this paper is as follows: after introductory remarks on globalization and the knowledge-based economy in section 1, we discuss Muslims' perception of globalization in section 2; in section 3 we provide a snapshot of the global economy and discuss Islamic countries' share of the global economy; the global economic outlook is discussed in section 4, and the prospect and impact of globalization are discussed in section 5; section 6 concludes the paper.

1. Muslims' Perception of Globalization

Economic liberalization or globalization opens the borders of societies to the culture of foreign markets as well as for the individualism and the consumerism that go with it. Global culture tends to homogenize societies along the lines of a Western model that does not always fit well with local culture. Islamic countries are no exception.

There is a lack of independent scientific and technological research in these countries, and they are reliant on foreign aid/capital. Most Muslim countries are dependent on the West for technological infrastructure (machinery, equipment, medicine, etc.) and high-quality consumer and luxury goods. The liberalization of technological diffusion and innovation guarantees that Muslim countries will be permanently dependent on the West, which is seen negatively by the 'Dependency school of thought'.

There has been a negative perception of globalization in the Muslim world. Globalization/westernization may inculcate young people locally with Western values and ideas (e.g. unacceptable moral standards in movies, music, dance). Islam is seen as being marginalized from global processes as global politics is dominated by the United States. Islamic countries are predominantly state-controlled and Western-style democracy is not seen positively in the Muslim world. The core of globalization, which preaches universalism, inclusiveness and pragmatism, is not consistent with Islamic faith based on Muslim brotherhood and Shariah.

For instance, Islamic teachings prohibit the interest on loans (*riba al-qurud*) and on savings accounts, ban speculation due to the uncertainty and lack of transparency involved (*gharar*), emphasize adherence to risk-sharing and profit-sharing as well as promotion of socially responsible and ethical investments that are conducive to the welfare of society. These are in contrast to Western principles of economic freedom based on materialism.

Is it possible to change the negative perception of globalization in the Muslim world? The answer is perhaps ‘yes’. Islam is the first religion to make acquisition of knowledge obligatory for both Muslim men and Muslim women, even in far-off places like China. Of course, there are challenges, and the lack of ICT infrastructure, manpower and academic resources in the Islamic world makes it difficult to acquire knowledge. Adapting education to the growing needs of the job market is of paramount importance. ‘Freedom’ is necessary to promote creativity within education, and this is in line with Islamic Civilization (Muslim scholars and religious leaders used to hold intellectual discourse/sessions at mosques). The ICT revolution (or global flow of information) can forge closer links with heterogeneous Muslim communities, and more cooperation and understanding between them can be expected as an outcome.

The Quran emphasizes justice, equality, compassion and peace, apart from knowledge and wisdom, and Islamic countries/scholars may seize this opportunity to promote these values worldwide in order to erase current misgivings and help establish a true ‘global village’. Islam does not encourage ‘extremes’, and Muslims are advised to follow the ‘middle path’ (moderation).

Modern education and religious practices can be combined to create prosperous Muslim societies, while research in science and technology can be encouraged as far as they contribute to peace and prosperity. Islam believes in the peaceful coexistence of all (including people of other religions) rather than the ‘Islamization’ of the whole world. It is important that we understand the distinction between ‘Fundamentalism’ (based on ‘five’ fundamental ‘pillars’ of Islam) and ‘fanaticism’ (radicalization of Islamic beliefs to ‘extremes’ that could lead to hatred of other religions).

2. Islamic Countries in the Global Economy

The global economy is dominated by high-income countries. In terms of real GDP (PPP-based), they account for 57% of world output (the US alone captures 21%; Japan 6%), whereas China contributes 12 % to global GDP and India's share is about 5%. In terms of growth rates, China and India have accounted for more than one third of global GDP growth in recent years. The Chinese economy was worth US$7.9 trillion in 2008 PPP terms. The Indian economy was equivalent to US$3.4 trillion. In per capita real terms, the average income in China is US$ 6,020 ($2,940 in 2010 market prices) and that of India is only US$ 2,960 ($1,070 in market prices). Both are classified as 'Lower-middle income' countries (World Bank, *The World Development Report 2010*, pp. 378–79).

Muslim countries are spread across regions: the Middle East and North Africa, Sub-Saharan Africa, South Asia, East Asia, and Europe and Central Asia. The bulk of Islamic countries fall into the category of low-income countries (LIC) with income of $975 or less, and lower-middle income countries (LMC) with income ranging between $976 and $3,855. Only a few Islamic countries are classified as 'upper-middle income' (UMC) with an income range of $3,856 to $11,905, or 'high-income' (above $11,906) (World Bank, 2010). Table 1 shows the World Bank classification of Islamic countries.

Table 1.1 World Bank Classifications of Islamic Countries

Categories	Countries
Low-income (LIC) US$975 or less	Afghanistan, Bangladesh, Benin, Burkina Faso, Chad, Comoros, Gambia, Guinea-Bissau, Mali, Mauritania, Mozambique, Niger, Senegal, Sierra Leone, Somalia, Togo, Yemen Republic.
Lower-middle income (LMC) US$ 976 to 3,855	Albania, Cameroon, Cote d'Ivoire, Djibouti, Egypt, Iran, Iraq, Jordan, Morocco, Nigeria, Sudan, Syria, Arab Rep. Tunisia, West Bank and Gaza, Indonesia, Maldives, Pakistan, Turkey.
Upper-middle income (UMC) US$ 3,856 to $11,905	Algeria, Azerbaijan, Gabon, Kyrgiz Republic, Lebanon, Libya, Malaysia, Tajikistan.
High-income countries Above US$11,905	Bahrain, Brunei Darussalam, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates.

Source: World Bank, *The World Development Report 2010.*

The Islamic share of the global economic pie is quite low. The current share of the Middle East and North Africa (MENA) to global real income

(PPP$) is 3.4% (with an average per capita income of $7,308), and that of Sub-Saharan Africa is only 2.3% (with an average per capita income of $1,991). The whole of South Asia (including India, which has a large Muslim population) contributes only 6% to world GDP (with an average per capita real income of $2,734). Hassan et al. (2010) show that OIC (57 countries with roughly 20% of world population) contributed only 4.7% to total world real GDP during 1980–2007; the average income of OIC during this period was only $1,139 – far below the world average of $4,786. Noland and Pack (2004), citing Egypt as an example, also conclude that Islamic countries are far behind their rivals in the export of manufacturing products:

> *'Although Egypt has a population more than South Korea's and Taiwan's combined the Asian countries export more manufactures in two days than Egypt does in an entire year.'* (Noland, M. and Pack, H. 2004)

There has been some encouraging performance, too. The per capita wealth (produced capital and urban land, intangible capital, and natural capital) in some Islamic countries is quite respectable: Algeria ($18,491), Ivory Coast ($14,243), Egypt ($21,879), Indonesia ($13,869), Iran ($24,023), Malaysia ($46,687), Morocco ($22,965); these figures compare well with Asian giants such as China ($9,387) and India ($6,820). Intangible capital (raw labour, human capital, social capital, and quality of institutions) plays a critical role in Ivory Coast, Indonesia, Malaysia, Morocco and Egypt.[2]

We now turn our discussion to the success stories of some Islamic countries compared to developed nations. The Asian 'high-fliers' include Japan (US$38,210 and PPP $35,220), Hong Kong (US$31,420 and PPP $43,960) and Singapore (US$34,760 and PPP $47,940). Swiss income stands at a staggering US$65,330 (PPP $46,460), and that of the US is $47,580 (PPP $46,970). The per capita average income of 'High-income' economies (mostly OECD countries) is US$39,345 (PPP $37,141) (World Bank, 2010, pp. 378–79).

In comparison, the rich Gulf States (with the exception of Saudi Arabia and UAE) are classified by the World Bank as 'Other high income economies'. The latest per capita income figures are: Saudi Arabia US $15,500 (PPP $22,950), UAE $45,200 (in terms of PPP $), Bahrain PPP

[2] Sweden ($513,424) tops the list in per capita wealth followed by the US ($512,612); other wealthy countries include Germany ($496,447), Japan ($493,241), Austria ($493,080) and France ($468,024). World Bank, *The World Development Report 2010*, p. 368.

$23,100, Brunei Darussalam $26,740 (PPP $50,200), Kuwait $38,420 (PPP $52,610), Oman $12,270 (PPP $20,650), and Qatar PPP $26,300. Wikipedia ranks 57 OIC countries in terms of per capita real GDP, and UAE is at the top of the chart (followed by Qatar and Brunei; Somalia, Comoros and PLA are at the bottom, with PPP $600 per capita income).

In terms of HDI, Norway, Australia, Iceland, Canada and Ireland are the top five countries. Japan ranks 10, Hong Kong 24, and Singapore 23 (Human Development Report, 2009). China ranks 92 and India's position is 134 (within a total of 182 countries). GCC countries have achieved 'High human development' status (HDI index is above 0.80 for the first 83 selected countries) (United Nations Development Programme 2009, *Human Development Report: Overcoming Barriers – Human Mobility and Development*, New York). Table 2 shows the top 10 Islamic countries in real GDP and associated HDI.

Table 1.2 Top 10 Islamic Countries in Real GDP

Countries	GDP (PPP $)	HDI 2007 (Rank)
UAE	45,200	0.903 (35)
Qatar	28,300	0.910 (33)
Brunei	23,600	0.920 (30)
Bahrain	23,100	0.895 (39)
Kuwait	20,300	0.916 (31)
Oman	13,500	0.846 (56)
Turkey	13,138	0.806 (79)
Saudi Arabia	13,100	0.843 (59)
Malaysia	12,000	0.824 (66)
Libya	11,800	0.847 (55)

Source: United Nations Development Programme, *Human Development Report*, various issues, New York.

In terms of the Global Competitiveness Index (GCI) 2010–11, the top 5 countries are Switzerland, Sweden, Singapore, US and Germany. China and India ranked 27 and 51 respectively (out of 139 countries included in the survey). Nine OIC countries are within the top-50 list: Qatar ranks 17 (position improved by 5 places over 2009–10); Saudi Arabia ranks 21 (improved by 7 places over the previous years); UAE (25); Malaysia (26); Brunei Darussalam (28); Oman 34 (improved by 7 places over 2009): Kuwait 35 (improved by 4 places); Bahrain (37), and Indonesia ranks 44 (improved by 10 places over 2009–10) (World Economic Forum, *Global Competitiveness Report 2010–11*, Geneva). In terms of the Global Innovation Index (GII) 2009–10, the top 10 countries (out of 132 included in the study) are: Iceland, Sweden, Hong Kong, Switzerland, Denmark, Finland, Singapore, Netherlands, New Zealand and Norway. Asia's fastest-growing countries, China and India, occupy positions 43 and 56 respectively. There are a few Islamic countries in the list of top-50 innovators: UAE (24), Malaysia (28), Kuwait (33), Qatar (35), Bahrain (40), Brunei Darussalam (48), Saudi Arabia (54) and Oman (65) (INSEAD 2010, *Global Innovation Index Report 2009–10*, France). Table 3 shows the top 10 Islamic countries with their GCI and GII score (ranked in GCI):

Table 1.3.Top 10 Islamic Countries (ranked in GCI)

Countries	GCI 2010–11 Rank	GII 2009–10 Rank
Qatar	17	35
Saudi Arabia	21	54
UAE	25	24
Malaysia	26	28
Brunei Darussalam	28	48
Oman	34	65
Kuwait	35	33
Bahrain	37	40
Indonesia	44	72
Turkey	61	67

Sources: World Economic Forum, *Global Competitiveness Report 2010–11*, Geneva; and INSEAD, *Global Innovation Index Report 2009–10*, France.

We observe some surprising results in the Global Innovation Index 2009–10. The highest scorers are all small countries, while the US, the most populous country (with 4.54% of world population) among the first fifteen, ranks number 11. Iceland's performance in infrastructure and ICT pillars was the most outstanding, helping it to clinch the top position. It also did well in indicators related to human capacity, but its performance in investment and credit conditions was somewhat muted. Hong Kong's success can be attributed to the pillars of creative outputs and well-being, market sophistication and institutions. These indices also indicate that the US is losing its innovative edge. From its number-one position in 2009, the US slipped to 11th position in 2010.

Although America is slowly coming out of recession, it is facing stiff competition from other countries in maintaining its supremacy as a global powerhouse of education, science and technology. Paul Krugman recently cautioned that the American education standard is falling, and he asked for more funds to retain good teachers and educate bright children from less affluent families.

Another report adds that about half the engineering doctoral degrees in America are awarded to foreign nationals, and Asian countries like China and South Korea are producing large numbers of engineering graduates that are challenging the US strength in human capital (INSEAD 2010, p. 19).

There are some bright spots in the Islamic world. In the sub-pillar 'Knowledge Application' (growth rate of labour productivity, industry value added, production process sophistication, employment in knowledge-intensive services), the top performers include Qatar (1), Brunei-Darussalam (2) and Azerbaijan (4), along with traditional giants in the application of knowledge like Switzerland (7), USA (6) and Canada (9). Although Oman does not feature prominently in the overall innovation index, it does very well (11^{th} position jointly with Ireland) in the sub-pillar 'Benefits to social welfare' (INSEAD 2010, p. 26).

The project 'Vision 2023: Turkey's Foreign Policy', which aims to build a knowledge-based society dedicated to the development of science and technology, and to hike its research and technology development expenditure to about 2% of GDP, gets special mention in the report (INSEAD 2010, p. 32).

According to the KOF Index of Globalization, Belgium, Austria, the Netherlands, Switzerland and Sweden are the most globalized countries in the world. Singapore ranks number 17 and is the only Asian country within the first 20 most globalized nations. China and India rank 63 and 111 respectively in terms of the overall index.

The OIC countries that are within the top-50 globalized countries include Malaysia (35), Jordan (36), Bahrain (41), Qatar (43) and Kuwait (47). Other Islamic countries that are moderately globalized include UAE (64), Egypt (68), Morocco (72), Saudi Arabia (74) and Indonesia (86) (*KOF Index of Globalization 2010*, ETH, Zurich).

The 5 freest economies in the world, according to the 2010 *Index of Economic Freedom*, are: Hong Kong, Singapore, Australia, New Zealand and Ireland. The USA holds 8^{th} position and Japan ranks number 19 in the chart. The world's fastest-growing economies of China and India are still quite 'closed' and rank 140 and 124 respectively. The Islamic countries that feature prominently in the index are: Bahrain (13), Qatar (39), Kuwait (42), Oman (43), UAE (46), Jordan (52), Malaysia (59), Saudi Arabia (65) and Turkey (67) (*2010 Index of Economic Freedom*, The Heritage Foundation, and Washington, DC). Table 4 shows the top 10 Islamic countries ranked by Globalization.

Table 1.4 Top 10 Islamic Countries (Ranked by KOF Index of Globalization)

Countries	KOF Index of Globalization 2010	Index of Economic Freedom 2010
Malaysia	35	59
Jordan	36	52
Bahrain	41	13
Qatar	43	39
Kuwait	47	42
Lebanon	52	89
Turkey	56	67
UAE	64	46
Egypt	68	94
Saudi Arabia	74	65

Source: KOF Index of Globalization 2010, ETH, Zurich; *2010 Index of Economic Freedom*, the Heritage Foundation, and Washington, DC.

3. The Global Economic Outlook

The global income distribution is very uneven and has often been compared with a champagne glass. At the top, where the glass is widest, the richest 20% of the population hold three-quarters of world income. At the bottom, where the glass is narrowest, the poorest 40% hold 5% of world income, and the poorest 20% hold just 1.5%. The poorest 40% correspond to the 2 billion people living on less than $2 a day.

Following a sharp deterioration during late 2008 and early 2009, the global economy is now improving and stabilizing. Equity markets have rebounded, and trade and industrial production indices are showing upward trends in most countries. An increasing number of countries showed growth in the second half of 2009 and first half of 2010, but will the recovery lose steam? The outlook for the global economy remains uncertain, and conditions for sustained growth are rather fragile.

The International Monetary Fund (IMF) in the 'World Economic Outlook April 2010' confirms that the global economy is recovering at a much faster pace than previously expected. It adds that the pace of recovery is fairly slow in advanced countries but quite strong in developing and emerging economies. The US economy remains strong; in the developed region, the US has performed much better than its European counterparts and Japan. In the developing region, the emerging Asian countries are leading the process of recovery, the report adds. Expansive monetary policies provided the much-needed liquidity, and fiscal stimulus encouraged expenditures needed to pull the economy from a deep recession. How are the MENA countries faring? According to the IMF (2010), the MENA region is emerging from its downturn at a good speed. There are two main push factors. First, higher commodity prices and external demand are boosting production and exports in many economies in the region. Second, government spending programmes are playing a key role in fostering the recovery. In some economies, vulnerable financial sectors and weak property markets are holding it back (e.g. Kuwait, UAE).

GDP in the MENA grew by almost 4.5% in 2010, edging up to around 4.75% in 2011. Regarding the group of oil exporters, Qatar remains the strongest performer since the real activity is projected to expand by 18.5% in 2010. In Saudi Arabia and Kuwait, GDP grew at about 3.75% and 3% in 2010, respectively, supported in both cases by sizable government infrastructure investment. In the UAE, growth in 2010 was 1.25%, with property-related sectors expected to contract further. According to the IMF, Sub-Saharan Africa has weathered the global crisis well, and its recovery from the slowdown in 2009 was strong. Although some middle-income and oil-exporting economies were hit hard by the collapse in export and commodity markets, the region managed to avoid a contraction in 2009, growing by 2% in 2007. Its growth was projected to accelerate further.

The region's quick recovery reflects the relatively limited integration (implying muted impact) of most low-income economies into the global economy. The IMF offers a bullish outlook for the Indonesian economy, which grew by almost 6% in 2010 and a little more than 6% in 2011. The IMF notes an improving investment climate and sound management of fiscal and monetary policies in the country, believing that recent capital outflows from Indonesia are temporary and the European debt crisis poses a small downside risk to the country's growth. Attracted by the prospect of strong growth, investors have flocked to Indonesia's bond, stock and currency markets in the past year. There is also a massive increase in FDI. According the IMF, global economic growth reaches about 4.25% in 2010 and 2011. Advanced economies were expected to expand by 2.25% in 2010, and 2.5% in 2011, while emerging and developing economies were likely to grow by 6.25% during 2010–11.

There are risks, too. The room for policy adjustments in many advanced economies has been almost fully exhausted, and the economies, as a result, may not withstand new shocks. Risks related to the huge growth of public debt in developed countries have become very evident indeed. Market concerns about sovereign liquidity and solvency in Greece, if unchecked, could turn into a full-blown debt crisis. Such financial risks could be contagious and may depress output by prompting premature withdrawal of fiscal stimulus. The IMF stresses the need for 'rebalancing global demand' for sustained recovery. The countries having excessive external deficits before the crisis need to consolidate their public finance, and economies that ran excessive current account surpluses will need to further increase domestic demand. This will help sustain growth as high-deficit economies scale back their import demand. The surplus economies should appraise their currencies in order to rebalance export–import flows across countries. UN experts suggest that an early withdrawal of the fiscal and monetary stimulus packages from the major economies could cause the global economy to enter into a double-dip recession and an increase in public debt. This would be most severe in developed countries and recovery is likely to be slow. Such a recession would reduce government revenues even more, while further fall in GDP would continue to push up debt-to-GDP ratios and affect private sector confidence.

4. Globalization, Poverty and Islamic Countries

A World Bank Research Report (2002) suggests that globalization can reduce poverty:

> *'Globalization generally reduces poverty because more integrated economies tend to grow faster and this growth is usually widely diffused. As low-income countries break into global markets for manufactures and services, poor people can move from the vulnerability of grinding rural poverty to better jobs, often in towns or cities. In addition to this structural relocation, integration raises productivity job by job.'* [World Bank, *Globalization, Growth, and Poverty: Building an Inclusive World Economy* (World Bank Policy Research Report), January 2002, p. 1]

Joseph Stiglitz, an economics Nobel laureate in 2001, opined that rich countries can reduce world poverty by opening their protected markets (The World Bank Research Report, 2002, last cover page). Have Islamic countries benefited from globalization? Round (2007) shows that poverty in Africa has remained persistently high alongside a relatively slow globalizing process and generally sluggish growth performance. Page and Gelder (2002) suggest globalization was largely responsible for poverty reduction in MENA, which was an 'early integrator' into the global markets for capital and, especially, labour. The authors argued that international migration and official capital (aid) flows, driven largely by changes in the price of oil, were key factors in reducing poverty.

Globalization offers a window of opportunity for the Islamic world. The MENA is currently experiencing a 'youth bulge': it is estimated that 65% of the total population in the region is under the age of 30. Due to a lack of appropriate education and skills, youth unemployment is 25%, and about half of young unemployed people are first-time entrants into the job market. In comparison with 'Asian Tigers', the youth bulge could successfully exploit their human capital for generating growth (World Bank, 2007).

Is the GCC labour market biased? Foreign labour force participation in GCC countries is estimated to be around 75%, and for countries such as UAE and Qatar it can be as high as 95%. Most jobs are in the private sector and there is no well-defined policy on recruitment. Skilled foreigners (Asians) get priority over locals as they are obedient, prepared to work for lower wages, and come single. To cope with the challenges of globalization, the labour market should be improved by enforcing the right to form trades unions, collective bargaining, and more regulatory labour laws (Al-Najjar, 2006).

The World Bank Knowledge Economy Index (KEI) prepares to measure a country's preparedness to compete in today's knowledge economy. Of the countries of the OIC, the UAE tops the list; its latest (2008) position is 42 (amongst 140 countries included in the survey) and shows an improvement by 4 places over its 1995 ranking. Most Islamic countries have improved their knowledge base (most pronounced in the case of Oman) in the past decade, although Bahrain (due to significant weakening in the innovation pillar) and Lebanon suffered setbacks. Fast-growing China (ranked 77 and 97 in 2008 and 1995 respectively) and India (improved from 105 to 100 in the same period) registered marked progress in their knowledge base. Table 5 shows the top 10 Islamic countries in KEI.:

Table 1.5 Top 10 Islamic Countries (rank based on KEI 2008)

Countries	KEI 2008 (Rank)	KEI 1995 (Rank)
UAE	6.66 (42)	46
Qatar	6.15 (45)	50
Malaysia	6.06 (48)	48
Bahrain	6.02 (49)	35
Kuwait	6.01 (50)	52
Turkey	5.61 (53)	58
Jordan	5.53 (56)	63
Oman	5.37 (62)	72
Saudi Arabia	5.15 (65)	74
Lebanon	4.66 (70)	66

Source: World Bank, Knowledge Economy Index, Washington, DC.

Conclusion

There are ‘winners’ and ‘losers’ of globalization, leading to increasing frustration of the latter. Globalization should be managed in such a way that benefits are shared widely and costs are minimized. As the US financial crisis has shown, a local crisis can be translated into a full-scale global recession. Since the crisis, the Islamic financial and banking framework has become more prominent. Globalization, by offering a brighter future for all, provides perhaps the surest path to greater global security and world peace. Islamic countries (particularly oil-rich nations) have the potential to reap the full benefits of globalization. But it is necessary to diversify, as oil reserves will gradually be depleted; enhancing education, skills-formation and technological capabilities is of paramount importance for these countries. Incentives should be given for the efficient use of existing knowledge and the acquisition of new knowledge.

Life-long learning and continuing education programmes are expected to develop human capital further. Special attention should be given to higher education to scale up the knowledge base (e.g. by forging links with highly regarded foreign universities/institutions). Innovation, and the adoption of new technologies (incentives for R&D and scientific manpower) and ICT Infrastructure, and their application in the areas of e-learning and e-governance, are required to improve productivity.

In order to succeed in the wave of globalization, size does not matter. Singapore has proved that a small country can be successful. The GCC can provide much-needed leadership in various areas for the Islamic world (notably as a hub for education and training). According to the 2009 CPI (Corruption Perception Index), the existing governance structure is seemingly efficient and relatively ‘clean’: while Singapore is one of the least-corrupt countries in the world (Singapore ranks number 3, compared to Hong Kong 12, Japan/UK 17, and USA 19), the rankings of some Islamic countries are also noteworthy. For example, Qatar ranks 22 (above France, which ranks 24), the UAE ranks 30, Brunei/Oman 39, Bahrain 46, Jordan 49, Malaysia 56, Turkey 61, and Saudi Arabia 63. It is interesting to note that most Islamic countries are less corrupt than the fastest-growing emerging economies, such as China (79 on the 2009 CPI) and India (84).

It is imperative that Islamic countries should seize the benefits of globalization by establishing a knowledge-based economy, with the help of the ICT revolution.

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ECONOMIC INTEGRATION IN THE GCC: A LONG-TERM PERSPECTIVE

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Abstract

The research looks predominantly at the statistical harmonization among key macroeconomic variables such as GDP, Inflation Rates and Exchange Rates. For a single monetary variable across the GCC countries to work in the future, there is a need to test whether the different macroeconomic variables are compatible with each other in the long run. Co-integration testing can be performed through a framework such as the Johansen Co-integration test. This would provide key information for each country's policy makers on the implications of using a common currency. Findings suggest there is a long-run relationship between the top three GCC economies.

Keywords: Economic integration, GCC, Long run, Currency, Exchange Rates, Inflation

Introduction

'*The events of recent months represent a historic change in the politics and governance of the MENA, and their effect is likely to be felt for years to come. Although most of the financial repercussions were initially limited to the countries at the epicenter of the political events, the oil-exporting countries were eventually affected as the unrest spread […]. Overall, since early January stock markets have fallen sharply, and credit default swap spreads are much wider, although some markets have recovered from their worst levels. Citing heightened political risk, and in some cases, disruptions in real activity and fiscal weakening, rating agencies have undertaken numerous actions regarding several MENA countries, with Bahrain, Egypt, Jordan, Libya, and Tunisia among the countries downgraded. Financial links within the region – crossborder equity*

> *holdings as well as Bahrain's position as a regional banking hub – may lead to heightened regional transmission of shocks.*' (IMF, 2011)

A clear point that emerges from the above quotation is that all the GCC countries are relatively closely related when it comes to the knock-on effects of events. In January 1999, eleven European currencies were locked to each other at fixed exchange rates. The successful move by the EU revitalized the efforts of the Gulf Cooperation Council (GCC) countries to push forward the long-awaited Gulf Monetary Union (GMU). The GCC objectives include coordination, integration and inter-connection between member states in all activity sectors, and formulation of similar regulations in economic and financial affairs, commerce, customs and communications.

Specifically, article 22 of the agreement reads: 'Member states shall seek to coordinate their financial, monetary and banking policies and enhance cooperation between monetary agencies and central banks, including the initiative to establish a joint currency in order to further their desired economic integration.' However, since the endorsement of the GCC Unified Economic Agreement (UEA) in 1981, which calls for a joint currency, the efforts towards a single currency in the Gulf have been slow. Nonetheless, at the Bahrain Summit, December 2000, leaders of the GCC sanctioned the agreement among GCC countries to multilaterally adopt the US dollar as the common currency peg. This initiative was taken to minimize the risk of exchange rates and stabilize exchange rates among GCC countries (BIS, 2010).

Important Assumptions about Monetary Union

The 1970 Werner Report on economic and monetary union in the European community states:

> '*A monetary union implies inside its boundaries the total and irreversible convertibility of currencies, the elimination of margins of fluctuation in exchange rates, the irrevocable fixing of parity rates and the complete liberation of movements of capital.*' (The Werner Report, 1970)

Alternatively stated, three aspects should characterize a monetary union or a currency union. These are: (1) a single currency or several currencies that are fully convertible at an irrevocably fixed exchange rate; (2) union-wide monetary policy that is determined by a single central bank or a system of central banks; (3) a sole external exchange rate policy (Masson and Pattillo, 2001).