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## Arab nations lag behind rest of world economically, despite oil and natural gas

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Amid a [massive shift in the politics of the Arab world](#), the countries of the region are now confronting an economic challenge that is just as steep: how to engage with a global economy that in many ways has passed them by.

The nations of the [Arab Middle East](#) sit atop perhaps half of the planet's oil and a third of its natural gas reserves, yet the economies of the region are among the most stagnant.

Hundreds of billions of dollars in hydrocarbon wealth and other receipts - for instance, in the case of [Egypt](#), revenue from the [Suez Canal](#) and U.S. foreign aid - have propped up undemocratic governments and subsidized swollen public sectors. But little has been done to create globally competitive economies or employment for a burgeoning number of young adults.

The reasons for this poor record are varied, including repeated wars with [Israel](#) and each other, widespread corruption and the overwhelming presence of ruling cliques in the economy.

"We are at a crossroads in terms of governance, but also at a crossroads in terms of the economic agenda," said Tarik Yousef, head of the Dubai School of Government and a senior fellow at the Brookings Institution. Like other scholars, he noted that many other parts of the developing world have sped ahead of the Middle East.

Economists cite a long list of statistics that point to chronic under-performance, sometimes masked by the flow of oil and other wealth but corrosive in the long run.

Growth in per capita income among the Arab countries lagged behind Asia, Latin America and Africa as a whole during the past 30 years, according to data from the International Monetary Fund. Even major oil powers such as [Saudi Arabia](#) have fallen behind. The country ranked fifth in the world in income in 1980 but has fallen to 40th, with income in 2010 slightly lower than 30 years ago on an inflation-adjusted basis, according to the IMF. Only one Arab state, tiny [Oman](#), ranked among the "take-off" economies described in a 2008 World Bank report.

Unemployment, particularly among young people, remains high, and the size of government is staggering. IMF officials estimate that government agencies or state-run enterprises account for upward of 77 percent of the non-agricultural employment in Egypt. Public-sector wages, which are

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kept artificially high, encourage workers to seek government jobs.

As a result, growth rates are consistently too slow to keep pace with the population, and little space remains for private entrepreneurship. In its 2009 Arab Human Development Report, the United Nations found that, as of 2007, the Arab states as a whole were less industrialized than they were in 1970, with governments using revenue from oil, gas and other outside receipts to maintain the large public workforce and cheap goods.

"The region is not plugged in to the global supply network," said Ralph Chami, head of the Middle East Studies Division at the IMF. "We have not kept up as a group. . . . The question is what do you have to offer besides natural resources."

Whether in a military-backed regime such as [Hosni Mubarak's in Egypt](#), a one-man autocracy such as [Moammar Gaddafi's Libya](#), or the sprawling family monarchy that runs Saudi Arabia, revenue from oil and other outside sources has made it possible to avoid opening up the economy to more private ownership and competition, said Arvind Subramanian, a former IMF research director for the Middle East.

Even Egypt, while not a major oil or gas producer, has relied on the flow of money from the Suez Canal, tourism and the foreign aid tied to its peace treaty with Israel to stay afloat financially without making the kind of economic changes encouraged by the United States, the IMF and others.

"They have so much easy money from all these sources, the government has never had an incentive to create a private sector," Subramanian said.

He said Arab countries may need an economic revolution akin to the political one taking place in the streets of Arab capitals, tapping the potential of the young population rather than frustrating it.

In the Middle East, "you've seen growth, but you have not seen development - a good diversified base, enforcement of contracts, a judicial system, property rights, equal access to capital and land," said Ratna Sahay, deputy director of the IMF's Middle East and Central Asia Department. "That said, there are still many strengths, and we see a very large potential for this region."

Even if Arab countries begin to energize their economies, they are late to the global competition and will face a tough battle vying for international capital and business. It is a world in which [China](#) has staked its place as the global manufacturing hub, other developing countries from [Malaysia](#) to [Brazil](#) have established themselves as international players, and modern logistics have made the Middle East's proximity to Europe less of an advantage.

Arab countries would not be the first autocratic states looking to make the transition to democracy and global economic success. [South Korea](#) is perhaps the premier model.

But, Yousef said, "South Korea did what it did back in the 1960s. History has changed since then."

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