

**T.C.**  
**SIIRT ÜNİVERSİTESİ**  
**SOSYAL BİLİMLER ENSTİTÜSÜ**  
**İKTİSAT ANABİLİM DALI**  
**BÖLGESEL KALKINMA İKTİSADI**  
**TEZLİ YÜKSEK LİSANS PROGRAMI**

**THE MAIN CAUSES OF ECONOMIC UNDERDEVELOPMENT OF THE MIDDLE  
EAST**

**YÜKSEK LİSANS TEZİ**

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**Ağustos 2017**

**Siirt/TÜRKİYE**

## SOSYAL BİLİMLER ENSTİTÜSÜ MÜDÜRLÜĞÜ'NE

Siirt Üniversitesi Lisansüstü Eğitim-Öğretim ve Sınav Yönetmeliğine göre hazırlamış olduğum "The Main Causes of Economic Underdevelopment of the Middle East" adlı tezin tamamen kendi çalışmam olduğunu ve her alıntıya kaynak gösterdiğimi taahhüt eder, tezimin kağıt ve elektronik kopyalarının Siirt Üniversitesi Sosyal Bilimler Enstitüsü arşivlerinde aşağıda belirttiğim koşullarda saklanmasına izin verdiğimi onaylarım.

Lisansüstü Eğitim-Öğretim yönetmeliğinin ilgili maddeleri uyarınca gereğinin yapılmasını arz ederim.

Tezimin tamamı her yerden erişime açılabilir.

14.12.2017

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**ÖZET**

**YÜKSEK LİSANS TEZİ**

**ORTADOĞU'DA EKONOMİK AZ GELİŞMİŞLİK SEBEPLERİ**

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Orta Doğu, petrol rezervlerinin ana kaynağıdır. Bölge, en yüksek düzeyde milli gelir elde eden körfez monarşilerinden, Yemen gibi yoksul ülkelere kadar uzanan geniş bir ekonomik yapı ve gelişmişlik gösteren farklı ülkelerden oluşmaktadır.

İkinci Dünya Savaşı'ndan bu yana bölgenin ekonomik performansı potansiyelinin altındadır. Büyüme oranına göre, bölgenin ekonomideki performansı nispeten zayıf ve diğer göstergeler de bu bölgenin az gelişmiş bir bölge olduğunu göstermektedir. Bu çalışma, bölgenin kalkınmakta karşılaştığı engeller ve güçlükleri ortaya koymakta ve incelemektedir.

Tez, bir Iraklı'nın gözünden Orta Doğu için az gelişmiş sebebi olabilecek ana faktörleri incelemektedir. Bu tezin başlıca incelemeleri rantçı devlet, özel sektörün ve kamu sektörünün zayıflığı, oryantal despotizm, dini bakış açısı ve otokratik rejimden kaynaklanan siyasi istikrarsızlıktır.

**Anahtar Kelimeler:** Orta Doğu, Az gelişmişlik, Rantçı Devlet, Özel Sektör, Politik İstikrarsızlık.

**ABSTRACT**

**MASTER'S THESIS**

**THE MAIN CAUSES OF ECONOMIC UNDERDEVELOPED OF THE MIDDLE EAST**

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The Middle East is the main source of oil reserves. In reality, the region consists of different countries with widely divergent economic structure and development, ranging from the oil Gulf monarchies, which have highest levels of national income to the poor countries like Yemen.

Since the Second World War, the region's economic performance has been below its potential. According to the growth rate, the region's economic performance was relatively weak, and other indicators show that this region is an underdeveloped region. The research reveals and examines the obstacles and difficulties that the region faces in development.

The thesis explains the main factors of underdeveloped for Middle Eastern countries in point of view of an Iraqi person. The main factors investigated in this thesis are rentier state, the weakness of private sector and large public sector, political instability from oriental despotism, religious worldview and autocratic regime.

**Key words:** Middle East, Underdeveloped, Rentier State, Private Sector, Political Instability.

**ABBREVIATION AND SYMBOL LISTS**

<b>ME</b>	: Middle East
<b>MENA</b>	: Middle East and North Africa
<b>GDP</b>	: Gross Domestic Product
<b>FDI</b>	: Foreign Direct Investment
<b>OECD</b>	: Organization for economic cooperation and development
<b>GCC</b>	: Gulf Cooperation Council
<b>UNCTAD</b>	: United Nations of petroleum exporting countries
<b>GCI</b>	: Global Commerce Initiative
<b>UAE</b>	: United Arab Emirates
<b>IMF</b>	: World Monetary Fund



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**ACKNOWLEDGMENT**

I would like to thank my supervisor, **Professor Arzdar Kiracı** for his patient constant guidance, completing the thesis and unwavering support. I would like to extend my thanks to my teachers (Dr. Arif Güller, Dr. Semih Aktug) and also to the Department of regional development economic of Siirt University for their supporting over the last two years.



## PREFACE

What is the Middle East's (ME's) economic record? Except Israel, which is an industrially developed economy, only Turkey has managed to emerge as a power of exporter of industrial goods. Saudi Arabia is a member of G20, but this position only is due to the role of it in the production and export of the oil. Despite the significant revenue and wealth from oil, the economic structure of the ME remains one of the underdeveloped regions in the world. The ME countries except the Israel and Turkey lost many valuable opportunities of economic development.

The ME consists of different countries. In last decades, other regions take many significance steps for development, but the ME remains underdeveloped and lost so many opportunities. This region is important because of its geopolitics and ideological value. Political factor such as autocratic regimes and oriental despotism, economic factors such as rentier state and weakness of private sector, and also worldwide religious domination, are the main causes of ME underdevelopment in point of view of an Iraqi person.

The purpose of the research is to reveal and examine the obstacles and difficulties that the region faced in development.

- Why this region has lost so many opportunities?
- What is the main factor of underdevelopment in this region?
- Why both countries Israel and Turkey have a good economic record but other countries do not?
- What is the main political, economic and cultural obstacle in which influence the economy of the region?
- What is a good development strategy for the region?

This thesis is trying to answer these questions.

## INTRODUCTION

This thesis explains the economic situation of Middle East (ME) and then investigates the main four reasons of economic underdevelopment of the region in point of view of an Iraqi person.

Most writings and studies analyzed economic development in the framework of four production factors: labor, capital, land and entrepreneurs. The economic development issues and subjects developed after World War II, and this has begun in America and Europe. Both regions in that period did not have troubles such as political instability and non-democratic regimes. But these troubles have tarnished the whole development and economy of the Middle East. In ME countries, despite their huge oil revenues, they still are considered undeveloped. The lack of political stability is a trouble in most Middle Eastern countries. This thesis will further address this problem and other factors of the underdevelopment of the ME region.

Many studies explain the roots and the factors of ME underdevelopment, but this thesis gathered the main four factors in point of view of an Iraqi person that influences the economies of ME countries and emphasis on political instability as the most important factor. Also this study shows that the ME has enough production factors but these factors due to the non-democratic regimes are wasted and do not allocated to the economic development of the region.

The hypothesis of this thesis is that political stability that comes from democracy, with developed private sector and good management of oil revenue; they are major factors for economic progress and development in ME. The thesis describes how the lack of these factors has led to waste the revenue and economic gains in the region and explains each factor and the ways to address them.

The method used in this research is statistical description. Each section uses the necessary statistical data with text, several scientific sources relating to the research and statistical data from World Bank, IMF, Freedom House, central banks of each country, and so on.

This thesis structured into five sections. First section defines some terms related to the development, and also the ME and its economics are illustrated by figure, table and explanations. Some terms related to development and the economic situation of ME was explained by data, figure and table. This section explains several troubles such as unemployment, corruption, political refuge, migration, GDP growth and so on. Also, this section shows that the economy of ME countries have many serious problems.

Section two describes the rentier states. Section three is about private and public sector in ME. Section four explains the domination of religious worldwide in ME. Section five describes political instability of ME. Conclusion and suggestions comes at the end.



## SECTION ONE

### 1. SOME ECONOMIC DEVELOPMENT TERMS AND ME ECONOMIES

In this section, some important terms about economic development are defined and described. According to the statistics and data, the economic situation of the ME has some serious and permanent troubles such as corruption, high unemployment, the dependence on oil, inequality, poverty and other problems. In this section, except for Israel and Turkey, other ME countries are mentioned as underdeveloped countries. Also, this section shows that the economics of ME has many serious problems and obstacles.

#### 1.1. Some Important Economic Development Terms

In economic development studies, both concepts of development and underdevelopment are the two sides of a coin, explaining one of them clears another one. The definition of either of these two concepts does not change the methods.

Economic development is a process whereby real per capita income in a country increases in the long run. So that economic development is no goal, it is a means to overcome chronic poverty and hope for the possibility of improving social conditions (Jirewend, 1996).

Generally, economic development consists of continuous economic growth of a society and the improvement in the welfare of people that comes from the transformation and changes in the foundation of economic, social, political, scientific and cultural of society which provides the desired goals of economic modernization (Jirewend, 1996).

Economic growth implies to increase the production or per capita income. If the production of goods and services is increased by any means possible in a country, this increase can be considered as the economic growth (Gills, Perkins, Snodgrass, Roemer, & Donald, 2009).

Economic development is more than economic growth. What happened in South Korea in 1960 is different from what happened in Libya as a result of the discovery of oil reserves. Although Libya has gained huge sums of oil revenues, its people and government had the least role in it. In addition, increase of per capita income, the economic development means a fundamental change in the economic structure, as it did in Korea in the 1960s. The development elements are as follows:

- Increase in per capita income
- Increasing the share of industry, reducing the share of agriculture in the national product, and increasing the number of townspeople compared with the villagers
- Changing the pattern of consumption, in which consumer do not spend all their incomes on necessary expenses, but they buy the durable goods and finally buy services and products that will fill their leisure time more.
- Domestic people are the main contributors to the process of structural change (Gills, Perkins, Snodgrass, Roemer, & Donald, 2009).

The most important features of underdeveloped countries are as follows.

#### 1.1.1. Economic Dependence

The dependence of the country's economic development is due to the function and changing of that country that depended on it. Most of their exports are raw materials of mineral and agriculture sector. Because of their economic dependence and technological backwardness, these countries cannot exploit their vast natural resources. Their exports consist of raw materials and natural resources, and their imports consist of consumer goods and those goods that needed for their industries (Jirewend, 1996).

#### 1.1.2. Economic Dualism

It means the existence of traditional sector with the modern economic sector. In a traditional sector which is mainly agricultural, the population density that away from progress is the main cause of lower productivity. The modern sector has the specific organization of production and management methods that are prevalent in the manufacturing sectors of advanced societies. The economic dualism means that these two parts do not have any organic relationship. Production in the traditional sector is based on personal needs and not on the basis of foreign needs, and it is unrelated to the rest of the national economy. In these countries, the transition from the traditional economy to the money economy has not been accompanied by technical and technological progress and increase in agricultural productivity (Jirewend, 1996).

#### 1.1.3. Cancerous Growth in the Services Sector

In the underdeveloped countries, the transition of activity concentration in one sector to others does not go in natural mood; in these economies, the transition of agricultural



populations further goes to the third sector (service sector). Gradually, a large part of the population of these countries works in non-productive activities. This population has both income and demand, but it is not productive and puts the economy to the fundamental troubles (Jirewend, 1996).

Developed countries = agriculture and mining → industries and building → services (such as transportation, trade, services and management of public sector)

Underdeveloped countries = agriculture and mining → services.

The growth and the mechanism of changing of both categories are different (Jirewend, 1996).

#### 1.1.4. Low per Capita Income and Unfair Distribution of Income

All countries have income inequality between the various strata, but this inequality in the distribution of incomes in the underdeveloped countries due to their economic structure is far more severe and profound. Although some economists do not know the national income or per capita income as reliable indicators for assessing the level of economic growth in the country because of the problems in calculating the national income, but it is still a useful indicator to make difference between underdeveloped countries and advanced countries. Also, it reveals the income level between countries. This indicator shows the differences between underdeveloped and developed countries; it is not a complete indicator. For example, some oil exporter countries have the high per capita income, but due to their economic structure, economic dualism and dependency of their economics, they accounted as underdeveloped countries (Hemmati, 1997).

#### 1.1.5. High Population Growth Rate

One of the characteristics of the underdeveloped countries in comparison with developed countries is the high growth rate of their population. The study of underdeveloped economies with rapid economic growth shows that there is not any coordination between population growth and economic growth in these countries; it also has a large difference between both growth rates. In these countries, this leads to a permanent reduction in per capita income levels, and as a result of these, the socio-economic development programs face major problems (Hemmati, 1997).

### 1.1.6. The Weakness of Science and Technology

The weaknesses of science and technology with the low budget for research and development in underdeveloped countries is a most important economic characteristic of these countries, which causes many troubles such as low productivity, lack of skilled and expert labor force, the uncovers of education for all social classes and lack of educational and research institutions (Hemmati, 1997).

The major economic features in underdeveloped countries cause other sub-problems such as:

- The dependence of economy to a abroad
- Single-product export (like oil, ...)
- Capital escaping
- Brain drain
- Most of their imports is manufactured products
- Most of their exports is raw material
- The weakness of capital accumulation
- The dependency and ill industry
- Imported inflation
- Low level of education
- The troubles that related to the development planning
- Unemployment, hidden unemployment and little work
- Ever-increasing change in the term of trade to the detriment of underdeveloped countries
- Inappropriate using of resources
- Lack of skilled and expert labor force
- Low share of underdeveloped countries in world industrial products (Hemmati, 1997).

The main and important factors for economic growth are:

- Capital accumulation
- Population growth
- Technological progress (Hemmati, 1997).

Some common terms for describing the development and underdevelopment of a country are as follows:

- Backward economies vs. advanced economies. The backward economy is an economy which its economic relations are by traditional moods.
- Traditional economies vs. modern economies. First world, second world, and third world. These terms used in the decade of 1980, but now it's less used.
- North countries vs. south countries. The north countries mean the (first and the second world), and the south world is still common, it contains third world and many different countries from rich oil exporters to very poor countries.
- Transitional Economies. This terms used for the former Soviet Union and Eastern European countries, which means that the transition from controlled development to market-oriented development.
- More common classification for clearing the degree of development is: developed countries, underdeveloped countries, less-developed countries and more-developed countries. Generally, the developed countries mean industrial countries, that emphasis on deep relationship between the development and industrialization.
- World Bank classifies the different levels of income for poor countries and rich countries such as Low-income economics, middle-income economics, lower-middle-income economics, upper-middle-income economics and high-income economics. For this classification, World Bank annually determines the countries according to the income levels. The ME oil-exporting countries such as Saudi Arabia, Kuwait, Oman, and UAE classifies as upper-middle-income, but their economic in comparison with industrial economies are traditional economies (Gills, Perkins, Snodgrass, Roemer, & Donald, 2009).

## 1.2. ME and Its Economics



Figure 1.1 The Map of ME.

Source: Based on the World Bank and IMF data for 2017

According to the IMF, WTO and other international organization, the ME countries consists of Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, UAE, and Yemen. But in some parts of this thesis, the Turkey is mentioned as a successful economy in the region (The World Bank, 2017a).

The ME has three main properties: (1) Oil and Gas (2) Immigration and Refugee (3) terrorism. The economics of ME is widely considered underdeveloped, and data support this backwardness (Mirjame, Petter, Tsch, & Strand, 2005).

Table 1.1 Population and Unemployment in ME.

MIDDLE EAST	Population ( 2016 )	Unemployment rate 2014	Female unemployment (%) 2014	Unemployment rate 2016
Bahrain	1,378,904	3.9	6.7	1.3
Gaza Strip	1,921,202	26.2	23.9	
Iran	82,801,633	12.8	19.6	11.3
Iraq	37,547,686	16.4	24.1	16.0
Israel	8,174,527	6.1	6.3	5.6
Jordan	7,747,800	11.1	19.5	13.2
Kuwait	4,007,145	3.0	2.4	6.8
Lebanon	5,988,153	6.4	11.0	6.8
Oman	4,654,471	7.2	14.0	17.5
Palestine (West Bk.)	2,839,777			
Qatar	2,258,283	0.3	1.9	0.2
Saudi Arabia	32,157,974	5.6	20.2	5.5
Syria	18,563,595	10.8	28.2	14.3
Turkey		9.9		10.3
United Arab Emirates	9,266,971	3.6	8.6	3.7
Yemen	27,392,779	17.4	39.2	17.1
<b>TOTAL</b>	<b>246,700,900</b>			

Source: The World Bank (2016).

Table 1.1 shows the population and unemployment for ME. Privately, unemployment for women is high. The population of ME in 2016 was 246,700,900. According to the World Bank data, about 54 percent in 2000 and about 65 percent of total population in 2015 was between ages of 15-64. Above 60% of the population was under age of 30. Over 150 million of the population is young people, and this is the largest number for the region to transition, for long-term booms for and stability that provides the opportunities to this generation. In 2010 youth literacy rate, for age between 15-24 years for both gender was 93 percent (The World Bank, 2014).

Persistent high unemployment resulted from the high growth of population and labor force. The ME unemployment rate is faster than the developing countries, high population growth inflated the number of young and leads the rising of job seekers in labor market that is exceeded in the economy, hence the capacity of the economy cannot absorb them. The ME is

the region of extreme. In comparison with developing countries, the ME has the highest unemployment rate, the rate among women and young is two folded than other. This region is not successful in developing strong manufacturing bases, and human development in comparison with its wealth is lagged, the economic growth rate of the region is not sufficient for this high population to address high youth unemployment (The World Bank, 2014).

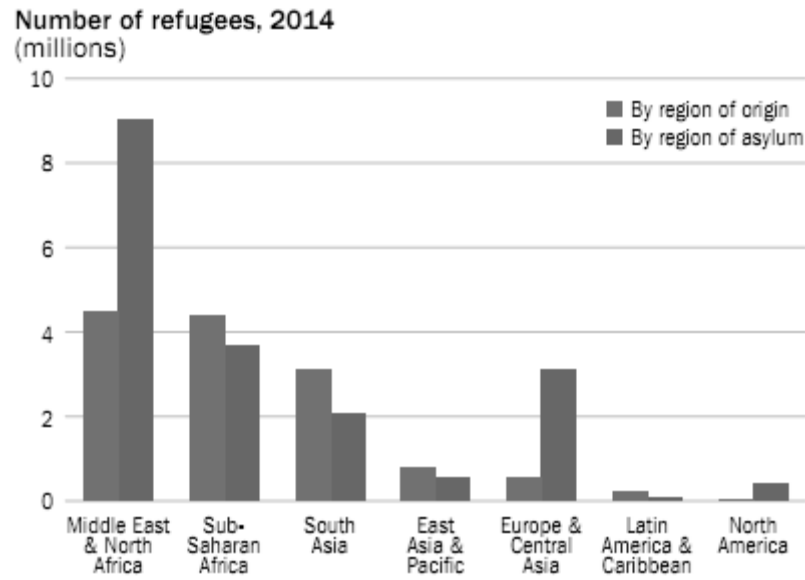


Figure 1.2 The Refugees from MENA.

Source: UNHCR (2016).

Figure 1.2 shows the refugees of MENA region is higher than other regions. Wars and conflicts in ME are the main factors of the refugee crisis. According to the reports of United Nation, the war in Syria, Yemen, and Iraq with continuing violence and instability have driven the crisis and increased the number of refugees (UN, 2016).

Economically, the ME is diverse and its countries have a common heritage and cultures with the different levels of per capita income. This region historically depended on oil revenue, has a legacy of planning, most of its countries have the autocratic regime and large public sector vs. weak private sector (Akerlof & Kranton, 2010).

The main source of this region is oil and the high oil price benefited most ME countries. Oil-exporting countries from a sharp increase in worker remittance, trade, and capital flows, contribute to investment and growth. The rate of gross capital formation is high but volatile, and this is supporting economic variables and improvement in living standards. Oil-exporting countries accumulated substantial financial assets in abroad as a national saving. All economic variables in this region depended on oil prices (Alissa, 2013).

At 2015, ME countries earned highest dollar value from oil exports, the exports of oil was about %42.3 of total oil exports in the world, for Europe was %18, for North America was %9.9, and for Latin America and the Caribbean (except Mexico) was %7.7. Since finding oil, the region in comparison with other regions and countries has the highest rate in oil exports. Table 1.2 shows the crude oil exporting for the ME countries (OPEC, 2016).

Table 1.2 Crude Oil Revenue and its Contribution in World Exports.

MIDDLE EAST	2015 crude exporters US\$	World Total %	World rank
Iran	20.5 billion\$	2.6	12
Iraq	52.2 billion\$	6.6	3
Israel	4.5 million\$	0.0	85
Kuwait	34.1 billion\$	4.3	7
Oman	17.4 billion\$	2.2	14
Qatar	10.6 billion\$	1.3	20
Saudi Arabia	133.3 billion\$	17.0	1
UAE	51.2 billion\$	6.5	4
Yemen	804 million\$	0.1	42

Source: Prepared by researcher based on WTO (2017b).

The value of crude oil exports from 2011 to 2015 due to the price falling from 110 dollar per barrel was declined to below 30 dollar. This ranging was -27.7% for Canada and -75.7% for Iran. But so far the oil revenue is the main source for ME countries (WTO, 2017).

Table 1.3 Some Indicators That Show the Economic Performance of ME.

MIDDLE EAST	A	B	C	D	E	F	G	H	I
Bahrain	..	9	75.1	1.1	4.2	65.6	91	1.5	..
Iran	..	15	..	..	2.2	27.4	39	..	73.3
Iraq	0.13	29	0.4	..	4.3	..	11	..	52.2
Israel	3.11	13	85.1	22.9	5.2	65.6	71	16.0	..
Jordan	0.99	12	106.2	15.3	3.5	71.3	44	1.6	74.4
Kuwait	..	31	60.7	..	3.3	..	79	0.1	..
Lebanon	..	15	194.9	14.9	4.6	24.4	75	2.1	65.6
Oman	1.02	7	41.2	2.6	11.8	46.2	70	4.3	..
Qatar	1.70	9	80.4	..	..	88.5	91	0.0	..
Saudi Arabia	..	19	1.8	..	10.7	64.1	64	0.7	..
Syria	..	13	..	..	..	..	28	..	47.8
Turkey	1.1	8	75.3	28.8	1.71	30.37	51	2	82.2
UAE	1.38	8	83.0	0.4	5.7	50.5	90	..	..
Yemen	..	40	33.9	..	4.6	..	23	1.2	55.6

Source: prepared by researcher based world development indicators (2016).

Note: A: Business entry density per 1,000 people ages 15-16, 2014

B: Time required to start a business days June 2015

C: Domestic credit provided by financial sector % of GDP 2014

D: Tax revenue collected by government% of GDP 2013

E: Military expenditures % of GDP 2014

F: Stock market capitalization % of GDP 2013

G: Individuals using the internet % of population 2014

H: High-technology exports % of manufactured exports 2014

I: Overall statistical capacity (0, low, to 100, high) 2015

Despite the large number of oil revenue, the ME economies are not developed. Some indicators in Table 1.3 show some aspects of ME economic. These indicators measure the variables such as business environment, financial system development, government functions, information and communication technology, infrastructure, government and policy performance with the fragile conditions of countries and weak institutions (The World Bank, 2015).

According to the Table 1.3, the contribution of tax in GDP is very low, except the Turkey, Israel, and Lebanon all ME countries depends on oil revenue. Another interesting indicator is High-technology exports. Only Israel has a large number in exporting in high technology and somewhat Turkey, other countries have the little number and military expenditures of some countries such as Saudi Arabia, Oman, and UAE are so high (The World Bank, 2016).

Corruption is one of the most prominent issues in debates all over the ME. According to the transparency international agency that is leading International Non-Governmental Organization and dealing with corruption, the corruption is the abuse of entrusted power for private gain (TI, 2017).

Table 1.4 shows the most ME countries are considered highly corrupt. The corrupt acts include nepotism, fraud, influence peddling, extortion, money laundering, bribery, embezzlement and more. Except for Israel and the United Arab Emirates other ME countries have a high level of corruption. This report perceived levels of public sector corruption for 176 countries. A Score of 90-100 is very clean and, 0 to 9 is so corrupt (TI, 2017).

Table 1.4 ME Countries and Corruption.

MIDDLE EAST	Corruption rank 2016	score
Bahrain	24	66
Iran	131	29
Iraq	166	17
Israel	28	64
Jordan	57	48
Kuwait	75	45
Lebanon	136	28
Oman	64	45
Qatar	31	61
Saudi Arabia	62	46
Syria	173	13
Turkey	75	41
United Arab Emirates	24	66
Yemen	170	14

Source: Prepared by researcher based Transparency International Agency (2017).

As corruption becomes a norm, its effects are crippling. The systematic corruption is the worse type of corruption that destroys the rules, and this is one reason that why the most underdeveloped ME countries stay that way. The transparency organization report for 176 countries around the world show that the most ME countries is so corrupt, and this is depicted in Table 1.4 (TI, 2017).

### 1.3. Aspects of the Developing Country

According to Samleson-Nordhaus (2010), the most important characteristic of developing countries are:

- They have low per capita income,
- People in developing countries usually have poor health,
- They have low level of literacy,
- They have extensive malnutrition,
- They have little capital to work with it,
- They have weak market and government institutions, corruption and civil strife,
- They have high native population growth, but they also suffer from out-migration, particularly among skilled workers.

Table 1.5 Classified the Countries into the Different Groups.

Region	A	B	C	D
East Asia and pacific (China, Indonesia, ...)	1,900 0.9 71	6,820 7.6	9	-2.0
Eastern Europe and Central Asia(Russia, Poland, ...)	460 0.0 69	9,660 5.7	2	-0.4
Latin America and Caribbean(Brazil, Mexico, ...)	556 1.3 73	8,800 1.8	10	-1.2
ME and North Africa(Egypt, Iran, ...)	311 1.8 70	6,450 2.3	27	-0.9
South Asia(India, Pakistan, ...)	1,493 1.7 63	3,440 5.1	42	-0.2
Sub-Saharan Africa(Nigeria, Ethiopia, ...)	770 2.3 47	2,030 2.3	41	-0.1

Source: Prepared by Samleson-Nordhaus (2010) based on World Bank data.

A: Population Total Growth rate life Number, 2000-2006 expectancy 2006 (% per year) at birth (millions)

B: Per capita GDP Growth 2000-2006 (% per year) 2006(\$)

C: Education Adult Illiteracy (% , ages 15 and older)

D: Net Migration

Table 1.5 classified the countries into the different groups, as well as some important indicators for developing and underdeveloped countries. The table uses purchasing-power parity (PPP) and show some feature for countries as follows:

- Low income countries are much poorer than advanced countries,



- People in the developing countries such as ME countries earn much lower than the high-income countries (Samuelson & Nordhaus, 2010).

Also, this table shows some main indicators for country groups in 2006. According to the table, the ME countries have high illiteracy and out-migration. In 2006 the oil price was above 100\$, but the indicators show that ME also have not good economic performance (Samuelson & Nordhaus, 2010).

Table 1.6 GDP Growth (Constant Prices, National Currency) for ME, 1980-2015.

Year	GDP Growth	Year	GDP Growth	Year	GDP Growth
1980	-2.595	1992	5.485	2004	9.161
1981	-0.537	1993	1.308	2005	5.059
1982	0.01	1994	2.18	2006	5.936
1983	0.493	1995	2.027	2007	5.57
1984	0.281	1996	4.478	2008	4.833
1985	0.722	1997	3.895	2009	1.508
1986	1.6	1998	4.083	2010	5.163
1987	-0.535	1999	2.449	2011	4.551
1988	2.809	2000	5.808	2012	5.078
1989	4.262	2001	1.829	2013	2.13
1990	8.825	2002	2.801	2014	2.613
1991	8.515	2003	11.056	2015	2.336

**Source:** Prepared by researcher based on Economic Watch (2015).

Since the beginning of oil production in the ME, despite some economic reforms and macroeconomic stability, the region's economic performance in the last 30 years has been below its potential. According to the Table 1.6 and 1.7, as shown GDP growth and growth rate, the region has relatively weak performance. During the last 30 years, real per capita GDP growth for the ME in comparison with the rest of developing country has stagnated.

According to these tables, the growth rate for ME in comparison with other regions and due to its large oil and gas revenue is very low. Only at 1990, 1991, 2003 and 2004, it has a high growth rate, but for other years it was very low.

Despite hundreds billions of dollars from oil revenues, as shown in Table 1.6 and Table 1.7 the most ME countries have a low growth rate. According to the table, decreasing in growth rate was seen with the political instability. With the Arab rising in 2010, we see the growth rate in the region was declined. As ISIS in 2013 comes to Iraq the growth rate at 8.4 declined significantly to -6.4 in 2014. (Declining of growth rate in oil countries like Iraq, Iran, and Saudi Arabia somehow comes back to the oil price reducing). The worse situation of Syria is completely destroying the infrastructure of that country. For the Turkey the number of growth rate in 2010 and 2011 are good, this because of political stability, but this number in 2012 and

2013 declined to 2.1 and 4.2. There is no economic growth if political stability is at risk. The last 12 years in Turkey show a direct link between political stability and economic growth. Experts believe that the continuation of growth and political development for Turkey needs to continue the process of democratic reform (The World Bank, 2014).

Table 1.7 GDP Growth (Annual %) for ME Countries.

Country name	2007	2008	2009	2010	2011	2012	2013	2014
<b>Bahrain</b>	8.3	6.2	2.5	4.3	2.1	3.6	5.3	4.5
<b>Iran</b>	6.4	1.5	2.3	6.6	3.9	-6.6	-1.9	1.5
<b>Iraq</b>	1.4	6.6	5.8	5.5	10.2	12.6	8.4	-6.4
<b>Israel</b>	6.3	3.5	1.9	5.8	4.2	3	3.2	2.8
<b>Jordan</b>	8.2	7.2	5.5	2.3	2.6	2.7	2.8	3.1
<b>Kuwait</b>	6	2.5	-7.1	-2.4	9.6	6.6	1.5	
<b>Lebanon</b>	9.4	9.1	10.3	8	2	2.2	0.9	2
<b>Oman</b>	4.5	8.2	6.1	4.8	-1.1	7.1	3.9	
<b>Qatar</b>	18	17.7	12	16.7	14.1	5.1	6.2	6.2
<b>Saudi Arabia</b>	6	8.4	1.8	4.8	10	5.4	2.7	3.5
<b>Syria</b>	5.7							
<b>Turkey</b>	4.7	0.7	-4.8	9.2	8.8	2.1	4.2	2.9
<b>UAE</b>	3.2	3.2	-5.2	1.6	4.9	4.7	5.2	3.6
<b>Yemen</b>	3.3	4	4.1	3.3	-15.1	2.5	4.2	-0.2

Resource: Prepared by researcher based World Bank Data (The World Bank, 2014).

The growth rate of Iran in all years is slight, because of external and internal tension, oil price declining and economic sanction. Yemen relayed on oil and has weak governance and institutional structure, as the political instability in 2011 has undermined development efforts, in 2014 the growth rate was reduced to -0.2 (The World Bank, 2014).

Political unrest, geopolitical war, and conflicts are expected to continue in the region; in short-term, business environments and economic growth due to the ongoing conflict in Syria and Iraq will be significantly down warded.

Figure 1.3 shows significant downward in 2010 for MENA. Again in 2012, the trend was dropped down. After rising tensions in early 2014, the region again faces the major and increasing security challenges. Also in mid-2014 the oil prices dropped down and maybe in long run it is a particular challenge for oil-exporting countries. Many countries in the region face severe security issues. Risks remain in the region more than in other regions. With challenges of security risks in the short-run, the growth rate will not be increased (WGI, 2015).

Aggregate economic growth, development, and standard of life in oil-producing countries such as ME countries depend on oil price and development of oil sector. In most large oil

countries such as Saudi, Iraq, Iran 75% of their total exports consists of oil and other hydrocarbon products. Volatility and low growth rate in some oil economies when government spending rising and falling with oil revenue are aggravated further by highly cyclical fiscal policy (WGI, 2015).

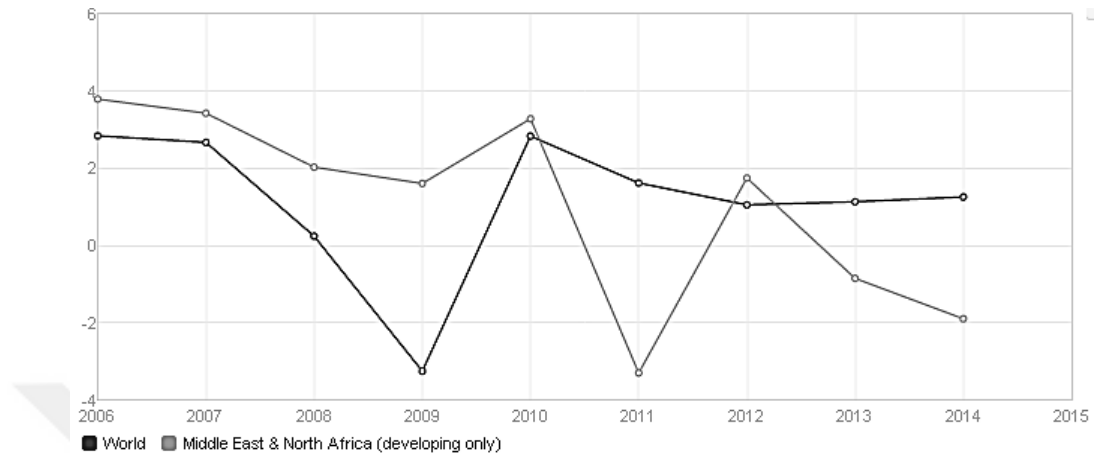


Figure 1.3 GDP Per Capita Growth (Annual %) For MENA.

Source: the World Bank (2015).

#### 1.4. The Four Elements for Development in ME

According to the Samuelson-Nordhaus (2010), there are four elements in development:

- Human resources,
- Natural resources,
- Capital,
- Technology.

These main factors operate in both developed and underdeveloped countries, but the strategy to combine them will differ and depending on the condition of development (Samuelson & Nordhaus, 2010).

The ME countries except the technology have enough resources for economic development, but what is the problem of these countries? Most of ME countries have plentiful natural resources. Using natural resources in any country is different, some countries like US, Norway, and Canada used their natural resources to form and development of solid base of their industries, and for other countries such as ME countries this natural wealth by political corrupt system, leader, and military cliques has been a subject to plunder and rent seeking. These countries cannot convert this natural wealth into productive activity, development human

resource or tangible capital because the venal rulers drained this revenue into their own accounts and conspicuous consumption (Douglus, 2015).

The region has about three-fourths of the proven reserves of crude oil in the world, and the GDP of oil countries in ME consists two third of region's GDP. Despite hundreds of billions of dollars from oil revenues, the economic structure of ME is one of the most backward economic in the world. What is the problem of this region? Why this region despite existing three elements of development, all countries except Israel and somewhat Turkey are not developed? (Samuelson & Nordhaus, 2010).

The region as the whole is weak in economic performance, and this is due to many reasons, among them these four reasons are the most probably main reasons:

- Rentier state. This feature is the main cause for large public sector and Dutch disease
- The weakness of private sector vs. large and costly public sectors
- Worldwide domination of religious
- Political instability because of autocratic regimes.

## SECTION TWO

### 2. RENTIER STATE

Except for Israel and Turkey, most ME countries have a significant oil and gas reserves. These resources are sold to foreign countries, and the revenues of these resources are in the hands of the non-democratic countries, in which these two phenomena created rentier states. These economies have single-product, and most of their incomes obtained from exporting of oil and gas. The budgets of these countries depend on these revenues. According to the Gray (2011) if 40% of incomes of a country depended on the revenue of a product that sold to abroad, this country is a rentier state. Over 80% of budgets of some ME countries depended on oil and gas revenue. Economists and political thinkers regarded this phenomenon as a serious problem. Today, economic rent in ME is the main feature of oil-exporting countries with non-democratic systems. This kind of economy wasted resources and delay economic development. In this section, this important feature of the ME economics that is the serious trouble for distribution of revenue and wealth will be analyzed (Beblawi & Luciani, 1987).

#### 2.1. Historic Background

For the first time the concept of rent or rentier economy appeared with Malthus and Ricardo. It applied for energy and then broadened to the management and behavior of states, societies, and individuals. The adjective “rentier” gradually broadened to the whole field of knowledge, in a critical tone expanded increasingly to the political field. Then economy used this term broadly as a conclusion of the political system and social nature (Douglus, 2015).

The theory of rentier state emerged in the late 1960s formed in 1980s and since then undertakes some modifications. The central economic factor which remains the constant element of this concept is the abundant reserve of natural resources, and this is referred to the specific political and economic system that resulted from the wrong management of natural recourses (Gray, 2011).

When the demand for energy was increasing and the rapid increase in energy prices inflated the oil and gas sector in the economic, the concept of rentier state in the 1970 decade began to turn. For the first time the “rentier state” used in the studies of Mahdavy (1970) in 1970, Beblawi and Luciani (1987) in 1987. These studies focused on ME countries and they proposed general theoretic base (Douglus, 2015).

In the Beblawi and Luciani (1987) study, the simple model for a quarter century about ME countries was shown as follows:

- Rent become the cornerstone of a general system
- It explains economic and state bureaucracies and the functioning of societies as whole
- The theory of rentier state focused on economic errors and political shortcoming that is directly and indirectly from rent (Beblawi & Luciani, 1987).

In their study on the case of Arabian Peninsula they mentioned four essential features of the rentier state as follows:

Rent contribute the most of the national revenue,

- The domestic production is weak and the economy is depended and specialized on single product,
- The proportion of the participates of population in generation of rent is limited,
- The state is the main and principal recipient of revenue (Beblawi & Luciani, 1987).

Mahdavi, an Iranian economist and former minister that invented the term rentier government, with focusing in Iran's case in the end 1960s, describing the rentier state as one that has substantial revenue from the external rent, and this is from the sale of oil (Mahdavy, 1970).

Mahdavy (1970) writes that the government of Mohammad Reza Shah, had great differences with the previous governments in many ways. Many of these differences were largely due to reliance on oil revenues. Pre-Mohammad Reza Shah's governments for providing their budget and necessities needs to the society, but the government of Shah depended on oil revenue. Mahdavy argues that with the unprecedented rise in oil prices, the Pahlavi government became independent from the society. Under this condition the tax revenue of government was reduced, the bureaucracy was expanded excessively, the government becomes greatly independent from the society and the acceptance and legitimacy of the state have declined.

Mahdavy's (1970) purposed some remarkable points: first, his theory reflects the authoritarian dimension of the state in Iran; second, it explains the roots of this autocracy very well; third, it ignores the dependence to the outside, and the fourth one is that its attention to the authoritarian dimensions of the government does not mean he neglects the outside existence and the power of acts in some social groups. The authoritarian state has an old root in Iran's history, then the rentier government is a tyrannous state, but every autocratic state is not a

rentier state. In the rentier state structure, the state is the center of gravity of society and is seen as a source of many changes in society. The rentier government relies on a large amount of oil or other natural resources revenue. These revenues are more than the interactions of the domestic economy and domestic production process, it is from the external source.

He concludes that the factor of underdeveloped in Iran is the rentier state. He explains how a rentier state depends on the revenue of outside and the function of their political systems depends on the rate of that revenue. This revenue comes from oil or gas exporting. He also explains that these countries rely on allocation or redistribution of oil and gas revenue. The huge oil revenue instead to progress development in Iran, it is the main factor of its underdevelopment (Mahdavy, 1970).

Luciani and Beblawi (1987) studies the structures of rentier states and defined some concepts that relate to the text. Their purpose was to reveal the nature of rents. The most important points in their study are that they show the features of rentier states as follows:

- Any government that obtains 42% or more of its total income from external rents of one or a few raw materials is called the rentier state.
- Rent has an external origin and has not any relation with the processes of domestic production.
- The rentier state is not only a monopoly of rent receipt; it is also monopolies the allocation and distribution of rents.
- Because of having significant resource revenue, the rentier state can become the main institution for investment and employments.

Beblawi and Luciani (1987) emphases that under the control of the rentier state the politics disappears, and is not as a matter for serious debate. Luciani (1990) argue that there is a direct relationship between the revenue of exporting and selling the natural resources with democracy. The rentier state in the normal situation does not show a tendency towards increasing the independence of civil society and promoting democracy, but the financial crises of these states will allow them to open up the political system and encourage civil society to engage in political affairs.

The conclusions of their study are: despite the substantial oil revenue the rentier states have not the high degree of stability, especially during the recession; another phenomenon of rentier state is the Dutch disease that provides the context for the emergence of a political crisis, because of this phenomenon effects on other important sectors. Thus, the economic

consequences of the Dutch disease may lead to a political crisis even during the period of the boom. In addition, the extent of rents causes the regime illegitimacy because it depended further on its economic performance, thus this legitimacy is vulnerable during both peak period and recession period (Beblawi & Luciani, 1987).

The beginning of the twentieth century is the critical point for the development of the region. Until 1950, the ME had the lowest level of economic and social development in the world. As the large oil reserves discovered, and the subsequent operation and exports continuous, significant changes in economic, political and social occurred. The oil reserves in the region were about 66% reserves of the world, for most ME countries this leads to rapid producing revenue and wealth. Before the oil discovery the ME was a poor region, environmentally and economically was limited to the economics of crops, livestock, and small caravan trade. But after the discovery of oil and mining, the situation of the region in the first half of 20 century changed. Exclusive contracts of oil exploration and proceeding of oil sale from the 1930s to 2014 steadily was rising. Since that time, the economy gradually changed from agriculture to the rentier economy. Rent as "income derived from natural resources" is the income that obtained from exports of natural resources, such as oil and gas. In fact, much of the ME countries income is from oil. The mid-twentieth century such oil-rich country as a result of oil revenues they have experienced significant growth, and gross domestic product has raised dramatically, which reached its peak from the beginning to mid-80s. In addition, with GDP the government spending has been growing rapidly. In this period, the economic modernization was begun in the oil-rich countries. During the 1960s huge investments were begun in ME's infrastructure, health, education and, the state-owned companies in the industry well-supported. These attempts use the operational capacity and industrial supply to develop. Huge oil income in the 70s changed service sectors such as infrastructures like new building, hospital, schools, universities, and improved housing conditions for citizens, and development in tourism sector (Hodgson, 1974).

At the beginning of the 80s the oil market seller changed to a buyer market, since that period the quantity of export was sell in market price, but determined by buyers, this means the consumers and importers can able to pressure for reducing the prices. In such conditions, when the budget was approved by the government, it may change, or if the reducing of oil price continues to lower than expected, it leads to a fiscal deficit. In this situation, it leads to cutting government spending lower than expected, which leads to a reduction in government investment, health care, business development, innovation, infrastructure, and projects. So the



country's heavy reliance on oil revenues cannot guarantee their long-term successful sustainable economic development (Mirtorabi, 2014).

In addition, the rapid economic growth was associated with significant returns in some social indicators. By the late 80s, the region had a dramatic reduction in infant mortality, life expectancy, literacy and school enrollment rates had increased. High-income oil-rich countries kept up to date, for example, the GDP of United Arab Emirates at 1981 was higher than the UK, but it was depended on oil. In addition, the countries of the ME have become more attractive for companies to create business and to developed tourism markets. For example, the United Arab Emirates and Dubai have become a popular tourist destination known luxury holiday resort earned (Sdrlevich C. , Sab, Zouhar, & Albertin, 2014).

Many authors, economists and political scientists using the expression of exogenous resources instead of rentier state to show the fact that, the national income of resource-rich countries depended on the sale of oil and gas resources does not come from national production. The main function of central government in those countries is concerned with distribution and managing of their wealth through subsidies and public expenditures, and rate of this revenue in investment is very little. In this regards, Beblawi and Luciani (1987) classified the rentier state as follows:

- Allocation state opposed to a production state,
- These states have a lower growth rate in comparison with those countries that have no natural resources,
- The experience of demographic transition in these countries is late,
- Rent enabling to acquisition the technology and have a contrary modernization effect that ultimately resulting in economic stagnation (Luciani, 1990).

## **2.2. Rentier Economy**

Rentier state or rentier economy is an economy that at least forty percent of the country's income provided through a non-productive resource such as oil, gas or other natural resources. More than forty percent of Iran, Iraq, Saudi Arabia, Yemen and Iraqi Kurdistan region incomes is obtained from oil revenue, and almost all the ME countries are subject to government rentier. In authoritarian regimes with oil revenues, the government is fat and people are weak. Oil authoritarian government is a tyrannical state. Financially, the government is independent of

people. The tax has the minimal role in the ME countries, unlike European countries which the continuation of government and livelihood was directly related to taxes (Mahdavy, 1970).

Table 2.1 Percentage Share of Fuels and Mining Products in Trade.

	Exports	Imports
<b>Share in total merchandise</b>		
<b>World</b>	21.8	21.8
<b>North America</b>	16.9	17.5
<b>South and Central America</b>	40.3	21.6
<b>Europe</b>	12.2	19.8
<b>Commonwealth of Independent States (CIS)</b>	66.0	9.7
<b>Africa</b>	66.0	18.3
<b>Middle East</b>	65.3	12.3
<b>Asia</b>	12.0	29.0
<b>Share in primary products</b>		
<b>World</b>	69.6	69.6
<b>North America</b>	60.5	72.3
<b>South and Central America</b>	57.8	70.5
<b>Europe</b>	53.4	65.4
<b>Commonwealth of Independent States (CIS)</b>	88.2	43.4
<b>Africa</b>	86.5	53.5
<b>Middle East</b>	96.3	48.4
<b>Asia</b>	63.9	76.4

Source: The World Bank (2017b).

Note: Percentage Share of Fuels and Mining Products in Trade in Total Merchandise and in Primary Products by Region, 2013.

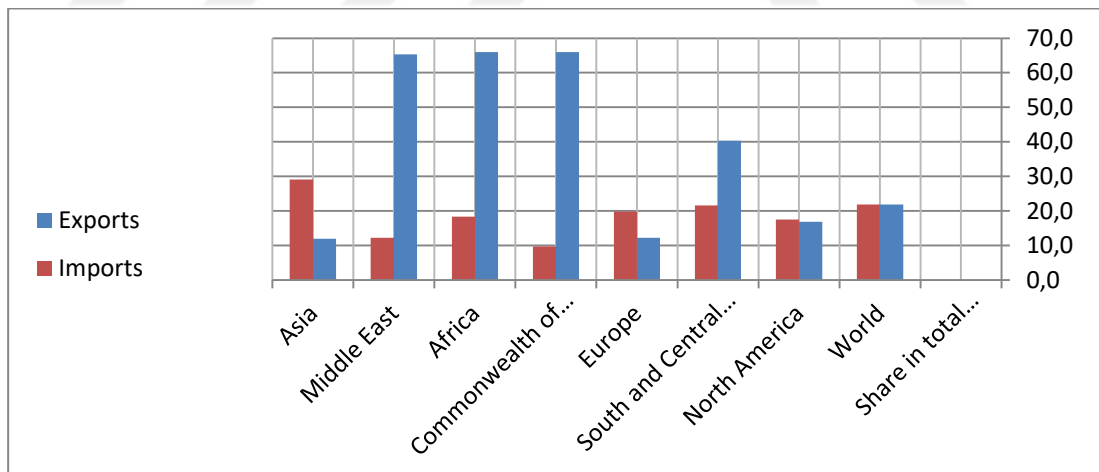


Figure 2.1 Percentage Share of Fuels and Mining Products.

Source: Prepared by researcher based on Table 2.1 and The World Bank (2017b).

Note: Percentage Share of Fuels and Mining Products in Trade in Total Merchandise and in Primary Products by Region, 2013.

Figures 2.1 and 2.2 show the dependence of countries on exporting natural resources such as natural coal, gas, oil and oil products. In one side, the ME region is the main exporter of fuel and mining products, and in another hand, according to the Table 2.2 and Figure 2.2 the region

is the manufactures in total merchandise is weaker than other regions. These tables and figures proved the fact of the sharpest dependence of the Middle East on oil.

According to the Table 2.1 and Figure 2.1, the percentage share of fuels and mining products in exports in total merchandise and in primary products for ME is about 96.3 percent. Both show which region is more reliant on fuel. The percentage rate for the ME region is higher than other regions, and it shows that this region is more reliant on exporting of fuel and mining products. But the Table 2.2 shows that the percentage share of the exports of manufactures in total merchandise trade for ME region is lower than other regions. These tables and figures mean that production sector in ME region is focused further on fuel and mining products.

Table 2.2 Percentage Share of Manufactures.

	Exports	Imports
<b>Share in total merchandise</b>		
<b>World</b>	64.7	64.7
<b>North America</b>	66.8	73.5
<b>South and Central America</b>	26.4	66.3
<b>Europe</b>	73.9	66.3
<b>Commonwealth of Independent States (CIS)</b>	22.3	76.5
<b>Africa</b>	18.5	62.0
<b>Middle East</b>	20.5	69.7
<b>Asia</b>	79.1	59.3

Source: The World Bank (2017b).

Note: Percentage Share of Manufactures in Total Merchandise Trade by Region, 2013.

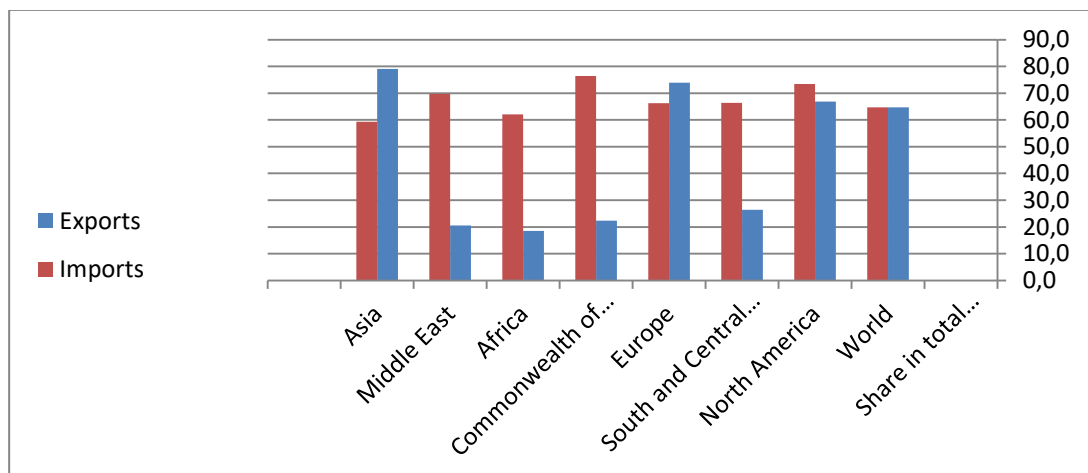


Figure 2.2 Percentage Shares of Manufactures.

Source: Prepared by researcher based on Table 2.4 and The World Bank (2017b).

Note: Percentage Share of Manufactures in Total Merchandise Trade by Region, 2013.

The Table 2.2 and Figure 2.2 shows that the share of ME region in manufactures after the Africa is less than other regions. The reliant on oil and gas exporter and mismanagement of the allocation of both revenues have weakened the production sector.

The ME was and still is the best example for the theory of rentier state because they have most of the energy resources in the world. According to the EIA, about 55% of crude oil reserves and 40% of the gas reserve are in the ME. In 2012 four countries in the ME was among the top 10 world's oil producer countries (EAI, 2016).

OPEC members are the main oil supplier in the world. The emergence of new oil states in the 1970s brought thinking on the concept of rentier state or rentier economies in the context of political science and international relations. The ME countries, as well as Venezuela and Libya are the best example of rentier state, and all of them are the OPEC member. This concept, rentier state is the one advanced theory that explains the behavior of authoritarian regimes and the lack democracy in the region. In the rentier economy, the revenue from domestic tax and domestic production is absence, the function of the state is only allocation and distribution of the energy revenue among different group and classes, this distribution is on the base of interest of politician and political regimes. The lack of democracy and absence of tax revenue leads to the wrong management of natural resources that make a rentier state in ME countries (Mirtorabi, 2014).

Table 2.3 shows the total Petroleum and Other Liquids Production for the OPEC ME countries members, 2015 (Thousand barrels per day). The OPEC countries include some of the most oil-rich countries in the world. These countries control 73% of the world's proved crude oil reserves, and this is shown in Table 2.1. In 2015 these countries produced 43% percent of total world oil crude.

Table 2.3 Total Petroleum and Other Liquids Production of ME Countries, 2015.

OPEC countries	Thousand barrel per day
<b>Bahrain</b>	64
<b>Iran</b>	3447
<b>Iraq</b>	4049
<b>Kuwait</b>	2714
<b>Oman</b>	992
<b>Qatar</b>	2049
<b>Saudi Arabia</b>	11948
<b>UAE</b>	3474

Source: Prepared by researcher based on EAI (2016).

### 2.3. Rentier Economy Problems

As oil prices go up, the economic growth rate for oil exporting countries increased and vice versa. From the period 1960-1972, the average rate of economic growth annually was above 5%, as the exploration of nonrenewable energy expanded. Since then the economic growth and development relied on the production and exports of black gold. In the 1970s, the significant increases in the oil price appears the centrality of oil in ME economics, and this non-renewable source is the main source in the hand of autocratic political regimes (Alissa, 2013).

According to the World Bank in 2003, the effects of resources summarized as follows:

- The “taxation effect”: the rent as before mentioned has no taxation, thus no representation, so the performance of government is weak,
- The “spending effect”: the rule and regulation of rentier class weakened the institutions and reduced the pressure for change and reforms,
- The “group formation effect”: when power in states is centralized, the government can hinder the constitution of independent social groups (Bannon & Collier, 2003).

Thus allocative states model is harmful to the power of institutions and domestic competitiveness. Many studies show that rich resources countries have low growth, and the relation between resource abundance with performance and poverty in ME countries is negative. The historical economic record of Nigeria, Libya, Venezuela and most ME countries is the best examples for this. In the view of managing oil revenue, countries classified into two groups:

- The democratic countries such as America, Norway, Canada, Botswana (major diamonds producer)... they are not allocative state or rentier state, and their revenue allocation is not politically, it allocates economically. The natural resources have positive impacts on these countries, and they contradicted with the theory of resource curse.
- The autocratic regimes, such as Iran, Venezuela, Nigeria, Saudi Arabia, Libya, Kuwait suffer from a curse of resources, and despite the abundance of natural resources, their economic performance has not good record (Douglus, 2015).
- The autocratic regime → rentier state → populist spending for satisfying society → Dutch disease → weak economy

According to the rentier state, the countries that have substantial oil revenue from abroad on a regular basis are:

- They become autonomous from their societies,
- They are unaccountable to their societies,
- They have autocratic regimes.

Why the countries such as Iran, Iraq, Gulf States, many African states, despite abundant of resource wealth, their performance in economic is so weak, how does this happen? According to the Yates, the answer is rentier state or rentier economies that produce a rentier mentality, which fails economy and weakened the performance (Douglus, 2015).

In the rentier state the rent divided to internal and external rent. The externality of the rent is important than internal rent, it would have different effects than rent internality. With the external rent the economy:

- Depended on the resources coming from abroad,
- Only a small group of people in the society gathering the rent
- The majority of people benefited from the distribution of the rent, but not in an equality manner
- The rent obtained by the government of rentier economy
- The government is independent of the society, because it receives no tax and the government does not need society, in this economy the people needs government, so the basic necessities of democracy will be lost (Mahdavy, 1970).

According to the Beblawi and Luciani (1987), the rentier state or rentier economy is an economy in which the producing of the revenue demonstrated on the hand of small fraction and the majority of society engaged in distribution and utilization of this revenue. Beblawi and Luciani (1987) mentioned the features of rentier state as follows:

- The bulk of its government's revenue is from rent.
- Rent must be the foreign origin and the domestic economy has nothing to do with production processes.
- In a rentier state, only a very small percentage of the workforce engaged in the production and therefore the most of the population are distributor and recipients of rent.
- Rentier state obtained the rents alone and spends it (Beblawi & Luciani, 1987).

Rent is an income which is the excess of the cost of missed opportunities. According to the Mirtorabi, the rent in the rentier states is the income which obtained without effort and it is against concepts such as wages and profit (Mirtorabi, 2014).

Mahdavy (1970) gives great importance to the concept of rent and the definition of it, the rentier state is a government that based on rentier economy that sells special products and earns large revenue from abroad. The fundamental of this argument is that, if a country heavily relies on natural resources, particularly for its budgets and spending, this weakened the state, so rentier state means weak state. According to the Mahdavy:

- The rentier state sell special products and earned a large revenue from abroad
- The rentier state is weak
- The unaccountability of rentier state tends to increase because it funds itself via natural resource not by taxation, and for this reason people have less incentive to make the government accountable (Mahdavy, 1970).

In spite of the vast oil reserves the ME because of large revenue from oil exports, reliance on the oil sector, the weak manufacturing sector, lack of democracy, political instability, corruption, resurgent tribalism and reforms fails, considered as a third world (Mirtorabi, 2014).

The dependency on a unique product is a barrier to economic development. With excessive dependence on oil and dollar, the ME economies have a serious imbalance between demand and supply. Mining and oil revenue are not enough to have a productive economy. Although the oil is easily convertible into cash, a renewable natural resource is limited and unstable, because of the oil price volatility and external shocks that occurred in 2015, influence on the entire economy and make it more fragile (Douglass, 2015).

In ME countries with the exception of the agricultural sector, the governments are the main employer. The economy is dominated by government or government official. In some cases, government spending contains most of the GDP that comes from oil revenue. In post-revolutionary of Iran, mushroom growing informal economy and in urban areas the variety of lending institutions is quite tangible. The continuous growth of the informal economy to the formal economy has been deeply by-product of the normal falling down of economy. The informal economy is one of the important bases and challenge for state authority. The role of government in ME is the distributor of revenue and provides the public goods and services to its population. This function was so expanded and widened. The governments in ME provide a wide range of education, national security and defense, employment, social security, healthcare,

infrastructure and so on. With the distributor role of government, it is the major and ultimate employer in the economy. All citizens in rentier state want to employ in public sector and most of them work in public sector. The number of employed in government is like the socialist economy. The productivity of government employees is very low; only the availability of them during the work in the workplaces is enough (Gray, 2011).

According to the data of this thesis, 90% of ME countries budget such as Iraq, Kuwait and 95% of its exports depends on oil. The small fraction works in the production of oil revenue, but most of the residents engaged in the consumption of the oil wealth. This small fraction that approximately is about 2% to 3% of the labor force works in the production and distribution of oil revenue, but they produce about 60% to 80% percent of GDP.

Most ME countries are rentier state or rentier economy because the bulk of their incomes comes from rents. More than half of its government's revenue obtained from oil. The governments of Syria and Jordan gain main many local rents. The worse management of bulk revenue leads to miss management in the economic development and political policy (Gray, 2011).

In reality, the government tried to satisfy the population by offering a set of services and economic activities that their costs will be provided through rent revenues. As long as the rent revenues continue, the government will respond only to those demands that are essential to maintaining its power and its position. Today, the concept of natural resources is not limited only rents, rents can be political, economic, educational, informational, ethnic and more (Sdravovich C. , Sab, Zouhar, & Albertin, 2014).

The private sector in rentier states, through the spending of oil revenues by the government, receives direct and indirect rents; it relied on government. The government controls all rights and obligations and safety. Here the social gap between government and people will be emerged and abstain the monitoring the government's actions. The public sector and agricultural production is the main sector for large parts of the population (Alissa, 2013).

When the government is the main source of wealth and not dependent on taxes for its existence, how contribute to the nation, what represented? When government subsidizes people, we see an authoritarian state, and the government of people dose not runs by people. No one has right and can to seek the accountability from the autocratic regime in ME (Rao & Walton, 2004).



The rentier economy wastes the natural resources. Most of the revenue goes to consumption and a small fraction of it invests in capital goods, thus the production sector is weak and most of the society engaged in consumption. The strengthening of the domestic economy is not relying on tax revenue; it depended on oil revenue that sells to abroad. This economy is one important feature of the autocratic regime that have abundant natural resources, such as ME countries. (Beblawi & Luciani, 1987)

Briefly

- The most ME countries have authoritarian regime that they independent from their society.
- In the ME, government is the main employer, the agriculture sector comes after that.
- In rentier states most of society are consumer, only a small fraction engaged in oil sector.
- The government in rentier state, spends the natural revenue as populist manner to satisfy society.
- The populist spending of oil revenue in ME countries caused the Dutch disease for its countries.
- Dependence on oil revenue is the main obstacle for emerging bourgeois class in ME.
- The private sector in the ME is depended on state. Thus, the government takes all the obligations and rights and don't take responsibility for the issues of society.
- Agricultural and industrial exporters countries such as Turkey and Israel are not a rentier states because their incomes is from exports of their private sector.
- All oil-rich countries in ME such as Saudi Arabia, Iran, Kuwait, Syria, Qatar and UAE have authoritarian governments.
- The lack of democracy leads to miss management in economy, privately in natural resources that it is the main features of most ME countries.
- Rentier economies of ME have a specific economic and political system.
- The unnecessary and conspicuous consumption and little investment in capital goods are the main feature of ME economy.
- The non-oil production due to the weak private sector is weak.
- Governments in ME do not need society because they have oil revenue that produced by foreign and sell it to abroad, and the role of tax in this economy is a little.

## SECTION THREE

### 3. LARGE AND COSTLY PUBLIC SECTORS IN ME

The privatization in the developing countries is a main policy to solve the obstacles of inefficiency and loss of state-owned enterprise. The Privatization policy provides a new role for government in the development process, and this the main way to solving ME's problems (Gills, Perkins, Snodgrass, Roemer, & Donald, 2009).

In addition, in developed countries in spite of economic objectives of privatization, Social and political purposes pursued. Privatization goals with regard to the economic characteristics and situation of each country will be different; however, in all countries the privatization has been the main objective of improving the economic conditions. Besides this main purpose, the private sector has many benefits, such as:

- Improve economic performance of state-owned companies and thus improve public services,
- Remove the economic decisions of political attitudes
- Increase living standard and moves toward democracy
- Increase labor productivity
- Increase the operating budget and consequently reducing government tax
- Reducing operational costs and consequently reduce state taxes
- Reducing the power of unions in the public sector
- Encourage capitalism through extensive property assets by the private sector
- It is the main sector for employment
- Strong private sector means strong society
- Private sector through creating jobs is so important for reduction of unemployment and poverty
- Private sector enhance competition and quality of goods and services
- It has competitive markets, except natural monopoly it has no other monopolies.
- It is the engine for productivity growth, creating jobs and increase incomes
- It controls and monitor government performance, playing complementary role with government in regulation, funding and goods and services provision
- The private sector promote democracy because it makes a balance with government

- By improving conditions for education, health, and infrastructure, the private sector empowers poor people (William, 2004).

Countries of the world, especially after the eighties moved toward privatization of industry and public companies. No doubt that private sector has a broad participation in a community, in foundations of democracy, consolidate and monitor the performance of government by people, especially in economic performance (Alissa, 2013).

The growth of capitalism is a popular subject among public and academic debates; also the role of private-owned enterprise and state-owned enterprise has come to focus in recent years. In the decades of 1980s and 1990s, the Washington Consensus<sup>1</sup> focused on the reducing of the government intervention in the economy (William, 2004).

The ME countries have a fragile private sector that is cannot compete in the global market. The oil revenue, rent-seeking, meaningless regulation, distort policies and judicial functioning, they all together kills the incentive to progress the private sector in ME countries. The restriction in law and regulation created a pyramid that only a small number of firm and companies are at the top, in which there is no competition and a large number of small firms is at the bottom of the pyramid (Mirtorabi, 2014).

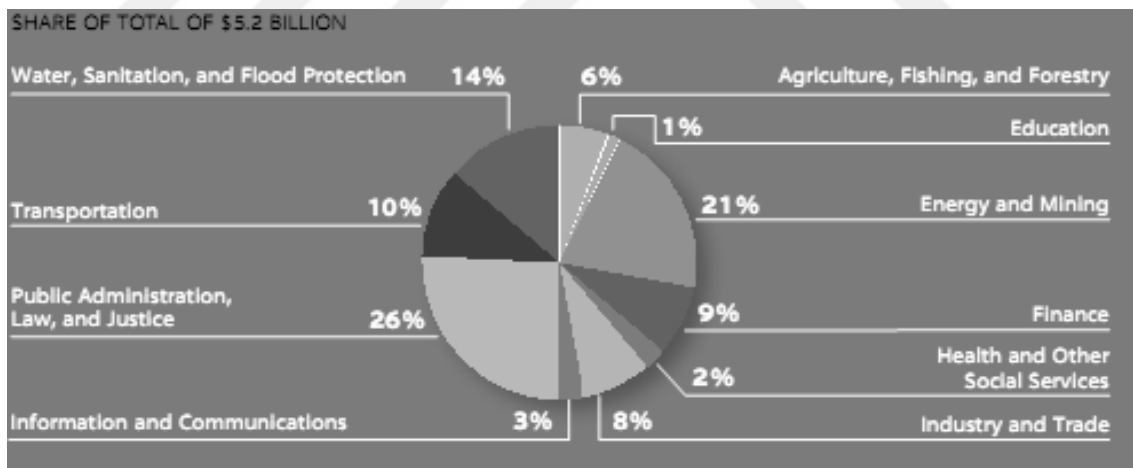


Figure 3.1 Share of Sectors in MENA (Fiscal 2016).

Source: The World Bank (2016).

<sup>1</sup>. The Washington consensus consists of 10 economic policies that based on IMF, World Bank and US treasury. This term for the first time used in 1989 by John Williamson. This prescription emphasis on stabilization of macroeconomic, economic opening in trade and investment and the expansion of market forces in domestic economy.

The supporting of the private sector in ME is more important than other regions. Since the Arab spring, many ME countries continue to struggle with their political and economic fallout: prolonged political tension and conflicts, slow growth, high fiscal and current account deficits, staggering unemployment and lower domestic and foreign private investment (Alissa, 2013).

Figure 3.1 shows the share of each sector in MENA. The share of industry and trade is 8%, agriculture, fishing, and forestry is 6%. This figure shows that the share of those sectors that related to the private sector is so low.

According to the Amico Alissa (2013):

- The role of state-owned enterprise has not received much in the economy
- Most of the state-owned firms in region remains “elephants among gazelles”, they have low productivity and facing difficulty with private sector

In one side, the large public companies in the ME region takes social, political and economic advantage, on another side, the privatization process is so low. In comparison with developed countries, they have been delayed in entering this process and its future is unclear (Alissa, 2013).

Historically, the public sector has been the main factor of economic growth throughout the ME. In almost all countries in the region, the number of the citizen who works in the public sector is more than the private sector and earns more than the private sector. As a result, young people are looking for jobs in the public sector. In some ME countries the salary of most citizens who work in the private sector is provided by the public sector. While the number of people with high salaries works in the public sector, it is hard to have the incentive to work in private sector. However, this cannot continue when many governments are facing the budget deficit and they have many political and security issues with oil price falling (Alissa, 2013).

Some points to clear the state and private sector in ME:

- The ownership in service sector such as utilities like electricity, water and transport that is capital-intensive such as aviation, shipping, railways and ports, telecoms and banking is varies. The share of government in all ME countries in these area is least.
- The main source for ME countries are the hydrocarbons and mineral sectors, all the revenue of these sectors received by government and the private sector have not any

role in it. Most of these sectors managed by foreign investors, and the domestic economy have no role in it.

- There are not any industrial products, heavy industries such as steel, refining, and cement, which required large-scale, a large investment of capital intensive. These industries subsidized by the government and cannot compete with the foreign market (Alissa, 2013).

The private sector has minimum share on those sectors. In most ME countries, such light industries like wholesale, retail, tourism, road transport were controlled by the state. The main reason for this control is due to a large amount of oil revenue that is on the hand of the state.

According to the Fryer (2012):

- The state has the ownership of strategic industry in which they are depended on hydrocarbons revenue,
- The state-backed 13 largest oil company in the world that controls 3/4 of world's oil reserves,
- Oil and gas revenue in the ME, directly and indirectly, have a main role in all aspects of the region,
- Five largest oil producer located in ME, the Saudi Arabia alone has almost 1/5 of world's oil reserves,
- In the region, Qatar and Iran are the largest exporters of gas.

In comparison with other regions, the ME states have a historic role and control in industrial sectors. Main company and strategic area in manufacturing has been nationalized and accounted as a part of national strategies (Fryer, 2012).

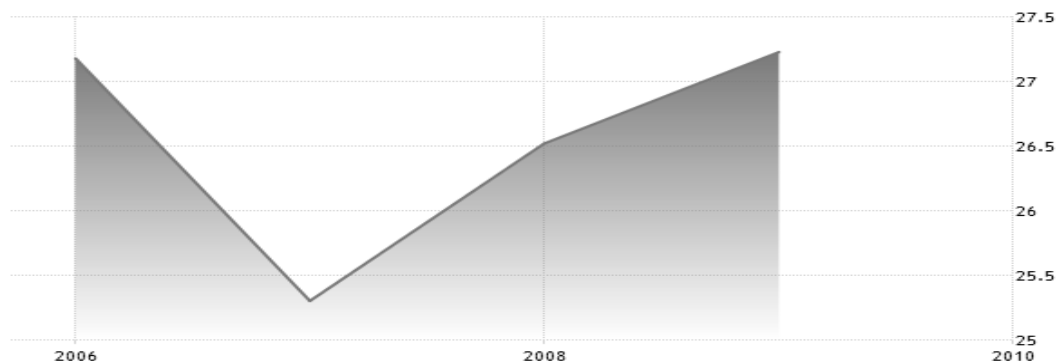


Figure 3.2 The Rate of Employment in Public Sector (% GDP for population).

Source: TE (2016).

According to the IMF, the private sector in ME has the lowest share in job creation in the world. The Figure 3.2 shows that the government is the main source for employment.

The payment of governments for providing goods and services is in cash, which paid the compensation to employers as salary, wage, subsidies, interest, social benefits, grants and other costs like dividends and rent.

In the past the governments in ME played a central role in economic growth and development, also this role continues. Many governments in the ME face the large fiscal deficits. The large public sector and the expectation of people work in this sector is a great problem of most ME countries, and this challenged the governments in the region (Alissa, 2013).

The evaluation showed that regional insecurity and instability are main factors that affected foreign direct investment (FDI) and tourism sector of the region. In addition, studies show that the volume of trade among the countries is small, and it is only 10 percent. While private business is essential for economic recovery, but the private sector in the MENA covers 40 percent of GDP. For many oil countries in the region, there is no a clear line between private and public. For example, some hydrocarbons exports measured as an activity of private sector, so the private sector may be less than 40% (The World Bank, 2016).

The average investment of private sector since the 1980 decade for MENA, in comparison with 20% of South Asia and 30% of East Asia (in the late 1980s the investment of both this region was below 13%), was between 13% and 15% of GDP. The credit to the private sector in MENA is below than other regions) (TE, 2016).

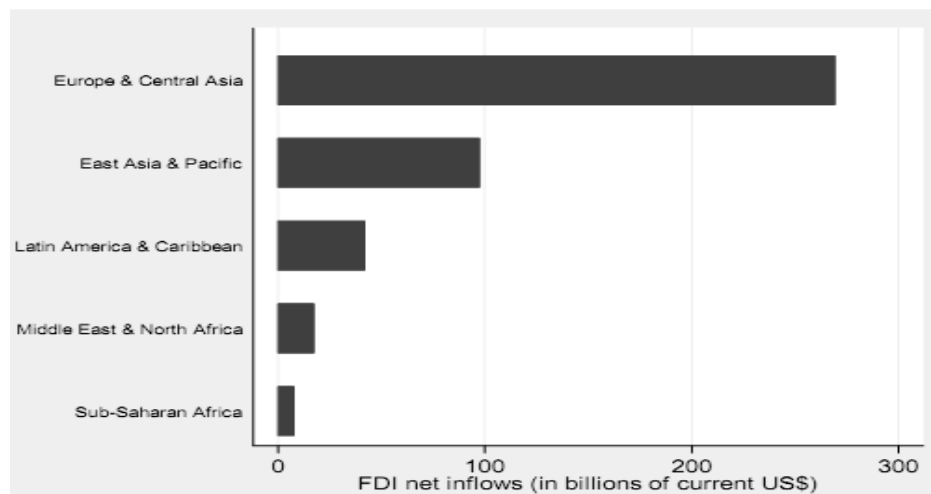


Figure 3.3 The FDI Net Inflows for Regions (in billions of current US\$).

Source: Econstor (2016).

Since the Arab spring, the FDI and aggregate investment have been decreased in the region. In 2006 to 2010 the FDI in ME was high, but before and after that period the rate of FDI was very low. After 2010 the FDI flow was declined significantly (Acemoglu & Robinson, 2012).

According to the Figure 3.3, the FDI net inflows for MENA region is below than 50 billion US dollars, it is higher than Sub-Saharan Africa but smaller than other regions.

When the price of oil in 2000 was increased, the investment of source country in the oil exporting countries of the region increased. But after the 2010 with the conflicts and instability in the ME, the FDI decreased (OPEC, 2016).

Table 3.1 The Net Inflows of FDI for MENA Countries in Current (million US\$).

countries	2007	2008	2009	2010	2011	2012	2013	2014
Algeria	1,686	2,638	2,747	2,300	2,571	1,500	1,689	
Bahrain	1,756	1,793	257	155	780	891	988	
Egypt	11,578	9,494	6,711	6,385	-482	2,797	4,192	4,783
Iran	2,017	1,979	2,983	3,648	4,276	4,661	3,049	
Iraq	971	1,855	1,598	1,396	2,082	3,400	2,852	
Israel	8,798	10,874	4,438	5,509	9,094	8,055	11,804	6,738
Jordan	2,622	2,826	2,413	1,650	1,473	1,497	1,798	
Kuwait	111	-5	1,113	1,113	3,259	2,872	1,433	485
Lebanon	3,375	4,333	4,803	4,279	3,490	3,540	3,028	
Libya	4,689	4,111	1,371	1,784		1,425	702,	
Morocco	2,825	2,466	1,970	1,240	2,521	2,841	3,360	
Oman	3,332	2,951	1,485	1,242	874	1,039	1,625	
Qatar	4,700	4,700	8,124	4,670	-86	326	-840	1,040
Saudi Arabia	24,333	39,455	36,457	29,232	16,308	12,182	8,864	8,011
Syrian	1,241	1,465	2,569	1,469				
Tunisia	1,515	2,600	1,525	1,334	432	1,554	1,058	1,004
Turkey	22,047	19,851	8,585	9,099	16,176	13,282	12,457	12,539
UAE	14,186	13,723	4,002	5,500	7,678	9,601	10,487	
Yemen	917	1,554	129	188	-517	-14,	-133	
<b>Total</b>	<b>112,707</b>	<b>128,671</b>	<b>93,287</b>	<b>82,202</b>	<b>69,931</b>	<b>71,456</b>	<b>68,420</b>	

Source: Prepared by researcher based the World Bank (2014).

Except for the UAE, Israel, and Turkey, the FDI in all countries at 2010 was reduced. Most ME countries internally face political conflicts, their economic and political condition is unstable, and this is the main reason for declining of FDI and aggregate investment in the region. In this situation, the investment of firms and companies reduced and goes outside, so the private sector will be weaker than before.

According to the Institute of Political Risk Atlas that studied 198 countries in terms of the investment risks, Syria is second largest investment destination in the world and considered high-risk, while South Sudan, Iraq, Libya, Afghanistan, Sudan and Yemen respectively are

mentioned. The figure shows the FDI declining in the region that is affected by the political instability.

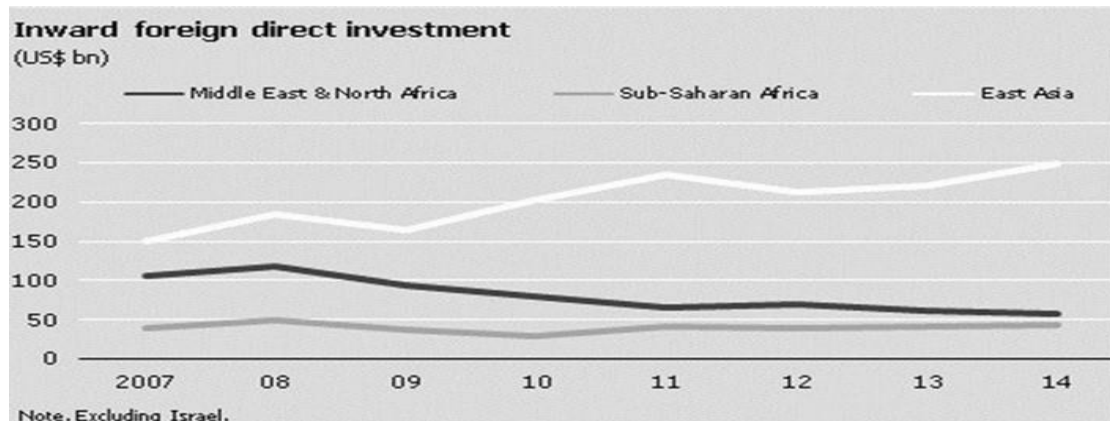


Figure 3.4 The Trend of Inward FDI for MENA.

Source: The World Bank (2014).

The large public sector in ME has much inefficiency and imposes costs on the economy such as:

- Crowding out private sector demands for credits,
- High cost of revenue collection,
- Delay in awarding license, contracts and permits,
- Arbitrary enforcement of existing laws and regulations,
- Complex and opaque court systems with high caseloads,
- The poor quality of institution,
- Poor delivery of other public goods and services such as property rights and rule of law, because the public sector is the main responsible,
- Waste the wealth of society in allocation,
- Poor quality in providing goods and services,
- Routines and bureaucracy in government departments. (Alissa, 2013).

These reasons have adversely impact on foreign and domestic investors. For instance, according to the World Bank in 2003, the cost of complying and official requirements to starting a new business for ME was 5 times higher than East Asia and 2.5 higher than Eastern Europe and Central Asia. Figure 3.5 shows the cost of the set up new business (as a % of per capita income) for 2016 (Bannon & Collier, 2003).

Figure 3.5 shows the cost requirement of completing each procedure (as a percent of per capita income). It is measured just official costs with no bribes or professional fees. In the



figure, the requirements for starting the new job in some countries such as Yemen, Iraq, and Lebanon is high and takes much time.

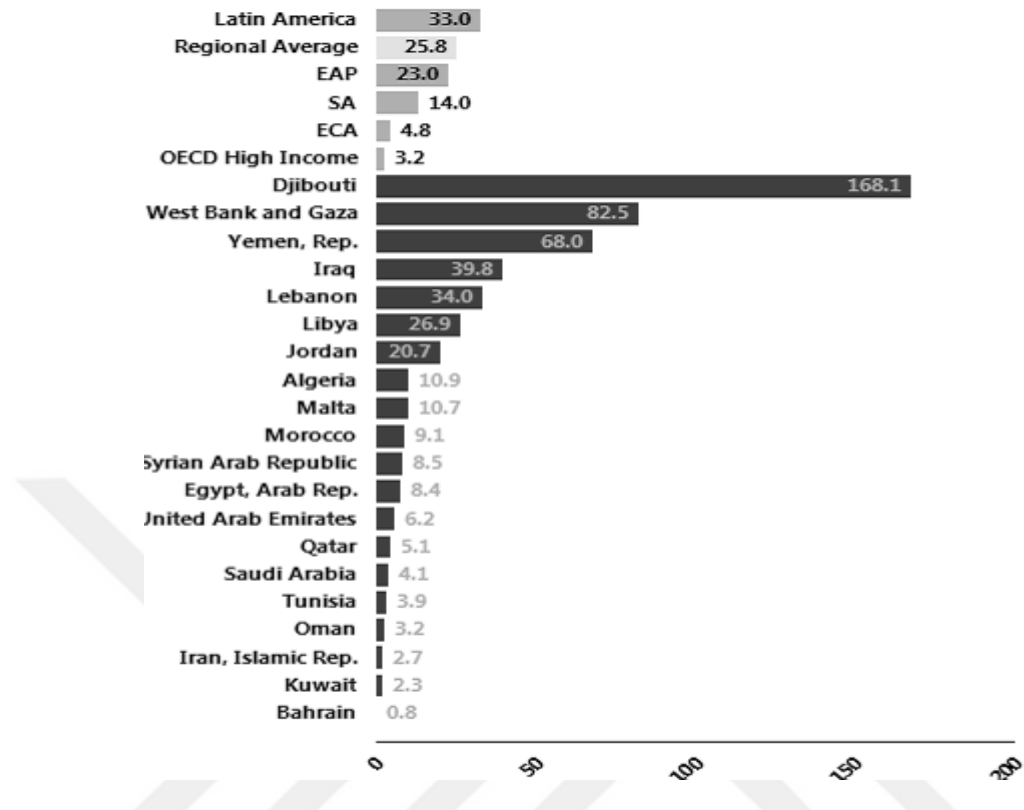


Figure 3.5 The Cost of Set up New Business (% per capita income 2016).

Source: IBRD (2016).

The size of central governments consists or means the size and composition of the public sector. Some economists measure the size of government as the size of government expenditure and as a percentage (%) of GDP. Some others measure it as a number of the employer that works in that sector. According to this view and because of the large number employers that work in public sector, the size of ME governments is so large than normal size of other countries (Alissa, 2013).

For example, in Iran the number of employers that work in government is 8.5 million, for Iraq is 7 million, for Iraqi regional Kurdistan is 1.5 million. These large numbers need the large fund and waste the money and allocate the revenue only to households' consumption. About 70% percent of Iraqi budget goes to wage and salary of government's employer, for the Iraqi Kurdistan region this number is above 70%. Thus the fund of budgetary operation is so less than budgetary of consumption (Sdravovich C. , Sab, Zouhar, & Albertin, 2014).

The high rate of population and rising oil price during the 1970s was the main factors of growth for ME governments. During that period the average size of ME governments as

spending to GDP was about 42% of GDP, and this was 12% higher than the developing countries.

Since then and after the end of 1990s, the ratio is reduced, but according to the international standards it is relatively high, Figure 3.6 shows this high ratio. (Alissa, 2013)

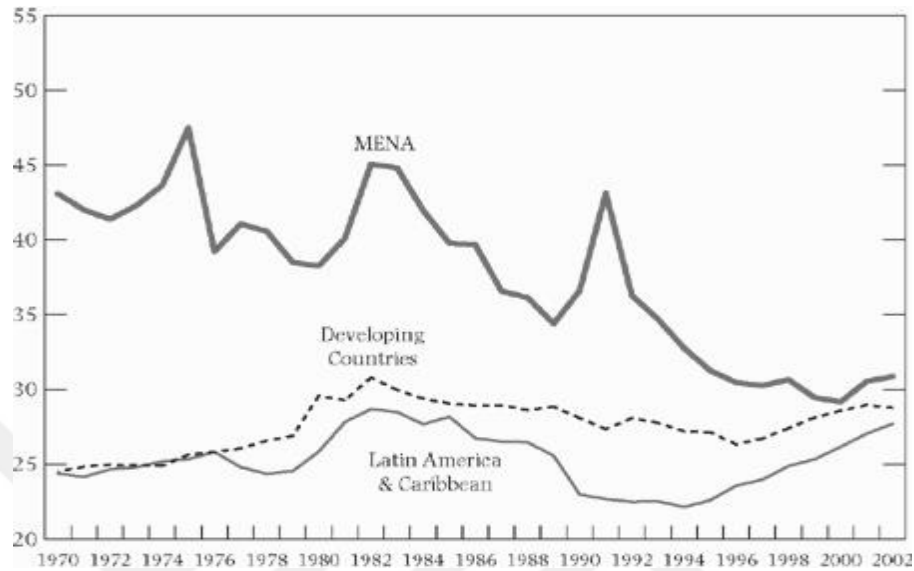


Figure 3.6 The Expenditure and Net Lending of Central Government (as % of GDP).

Source: Trading Economic (2016).

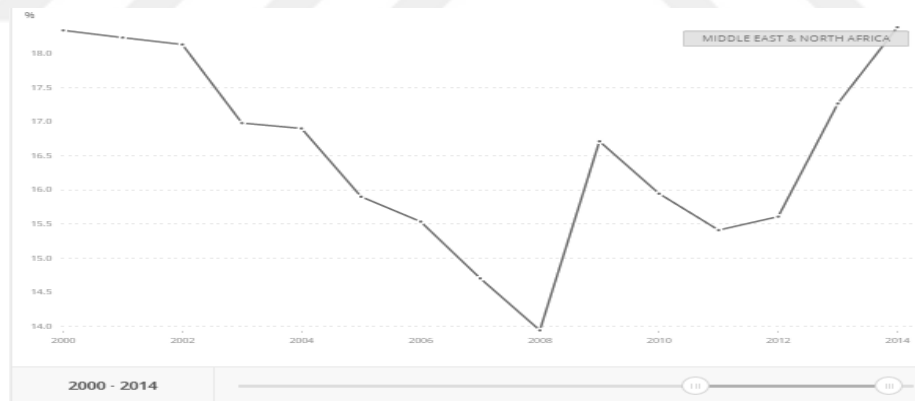


Figure 3.7 The Final Consumption Expenditure of Government (as a % of GDP).

Source: The World Bank (2014).

In comparison with other developing regions the ME has a statistic legacy. Figure 3.7 and Table 3.2 show the government expenditure as a percent of GDP. According to these data, the size of general spending of ME countries is high and its trends in the 2008 goes up. Public enterprise in ME is larger than other regions, especially for GCC countries. This large size is due to the significant oil revenue of those countries. With the oil price rising, the employment in public sector, the subsidy and the general of consumption increased and widened. Instead of

allocation to the economic infrastructure, industry and economic growth, it allocated to the public and meaningless consumption.

Figure 3.7 shows that the final consumption expenditure of government since 2000 to 2008 decreased but after that, it increased sharply. This reveals that the final expenditure of MENA government with increasing the oil prices increased, and this increased the large size of the public sector.

The role of state-owned enterprise in the ME region and the autocratic regimes with oil revenue continue, and they have the important role in economics and development strategies (Alissa, 2013).

Table 3.2 Countries Final Consumption Expenditure (% of GDP).

ME countries	2000	2014
Bahrain	16.2	15.9
Iran	12.9	10.7
Iraq	11.8	30.7
Israel	24.0	22.5
Jordan	23.7	19.3
Kuwait	21.5	17.8
Lebanon	17.3	14.8
Qatar	19.7	15.5
Saudi Arabia	26.0	26.1
Oman	21.5	24.7
Syria	12.4	
UAE		11.7
Yemen	13.6	12.2

Source: Prepared by researcher based on World Bank (2014).

The cost and spending of subsidy and transfers especially about energy in the ME are much higher than the other countries. The rate of both as share in GDP and total spending of government is high. In general, the illogical subsidy is costly and inequitable for the economy, especially those subsidies that allocated to the final consumption of society (Sdravovich C. , Sab, Zouhar, & Albertin, 2014).

An explicit subsidy is a subsidy that the government makes clear what will go to firms or farmers and other fields. For example, government purchase of agricultural surpluses, government payments or interest subvention to farmers. In contrast, an implicit subsidy is when the government suppresses supply, and hence raises the price. Or in some oil countries such as Iran, Iraq, Saudi, and Kuwait the government buy the petroleum at expensive price and sell it to society at cheap price. Or Iran gives the money to people directly to support them to raising their final consumption (Sdravovich C. , Sab, Zouhar, & Albertin, 2014).

In the ME, the governments reduce the price of products below its market prices, and this raises the consumer subsidies. Some of these subsidies are not backed by economical logics; it is due to the populist politician to satisfy the society in the wrong manner. Some of the subsidies in this region because of different methodologies of fiscal policy, weak fiscal policy and limited data availability are implicit subsidies and goes to the other rather than to general budget (Sdravovich C. , Sab, Zouhar, & Albertin, 2014).

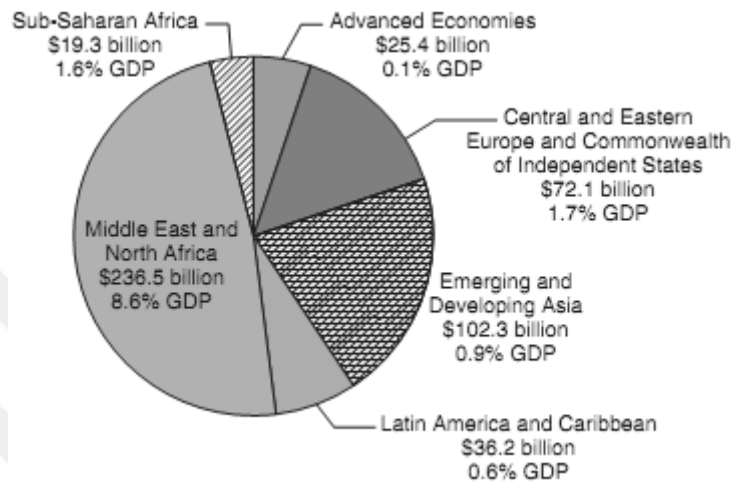


Figure 3.8 The Total Pretax Energy Subsidies.

Source: As share of GDP that allocated by regions, 2011 based on IMF data, (2014).

Subsidies in ME and many countries are common. The Figure 3.8 clearly shows that the MENA use the subsidy to declining the prices of certain products such as reducing prices of energy (electricity and fuel) and food. According to the IMF, the pretax subsidy for the MENA was 236.5 billion dollar, means 48% of world subsidies, 8.6% of MENA's GDP or 22% of government revenue (Sdravovich C. , Sab, Zouhar, & Albertin, 2014).

Table 3.3 The Number of Energy Subsidies for the Region, 2011.

Sector	Billion dollar	% of GDP
<b>Petroleum products</b>	119.3\$	4.3%
<b>Natural gas</b>	55.2\$	2%
<b>Electricity</b>	62\$	2.3%
<b>Food</b>	21.6\$	0.7%

Source: Prepared by researcher based on IMF (2014).

According to the Table 3.3, the number of energy subsidies in 2011 in the region was very high. A large number of subsidy in ME region is due to the significant oil and gas revenue. The absence of free election and societies' want for having subsidy is the main factor of increasing the subsidy in the region. In such countries except the Israel and Turkey, the corrupt politician struggles to satisfy their people by populist policies. The rise of subsidies increases

the will and wants of people, so the political system for satisfying society should increase the subsidy again. This route is continued and the most of the oil revenue wasted by public consumption, and a little fraction remains for saving and investment. (Sdrlevich C. , Sab, Zouhar, & Albertin, 2014).

When domestic energy prices in ME countries are below the world energy prices, this shows the low cost of households, because the government has a large oil and gas revenue and most people want this, for this reason, the low prices are not seen as a subsidy. This subsidy has two important effects, on one side, waste most of revenue in the conspicuous consumption and the need for taxation will be eliminated, means the tax does not have any role in the economy. Some of ME countries suffers losses from importing refined oil products (Sdrlevich C. , Sab, Zouhar, & Albertin, 2014).

Table 3.4 Coverage of Direct Subsidies for ME Oil Countries, 2004.

Type of subsidy	Iran	Iraq	Kuwait	Qatar	Saudi	UAE
<b>Social</b>						
<b>Housing</b>	Yes	..	..	Yes	Yes	Yes
<b>Health</b>	Yes	Yes	Yes	Yes	Yes	Yes
<b>Education</b>	Yes	Yes	Yes	Yes	Yes	Yes
<b>Electricity</b>	Yes	Yes	Yes	Yes	Yes	Yes
<b>Water</b>	Yes	Yes	Yes	Yes	Yes	Yes
<b>Fuel</b>	Yes	Yes	Yes/no	Yes	Yes	Yes/no
<b>Productive industry</b>						
<b>Capital</b>	Yes	..	Yes	Yes	Yes	Yes
<b>Electricity</b>	Yes	Yes	Yes	V	Yes	Yes
<b>Water</b>	Yes	Yes	Yes	Yes	Yes	Yes
<b>Fuel</b>	Yes	Yes	Yes	Yes	Yes	Yes
<b>Productive production</b>						
<b>Capital</b>	Yes	..	Yes	Yes	Yes	Yes
<b>Electricity</b>	Yes	Yes	Yes	Yes	Yes	Yes
<b>Water</b>	Yes	Yes	Yes	Yes	Yes	Yes
<b>Fuel</b>	Yes	Yes	Yes	Yes	Yes	Yes
<b>Output/production</b>	..	..	Yes	Yes	Yes	Yes

Source: Askri (2006).

The conflict, civil war, internal instability, regional geopolitical problems, non-democratic regimes caused to increasing military spending of ME countries. Table 3.4 shows this large expanding. In 1990, the military expending of ME was 20% of government spending; the average rate for developing countries was 12%. It is true that the specific number of military spending is necessary for any country, but for the ME the number is so large and instead of solving the region's problems, makes problems and eliminates development and welfare of society. For example, in 2016, military spending for Saudi Arabia was about 63.7 billion dollar and this was 10 percent of its GDP. For Iran, that was about 12.7 billion dollar

and this is 3.0 percent of its GDP. For the ME region, the military spending means the reducing in spending of civil activity and spending the production sector as the main factor for reducing unemployment and poverty, because this region is the importer of military needs, and this depressed the productivity, reform, human capital accumulation and capital goods.

For those countries that data is available, their total military expenditure in 2016 showed 17% decrease compared with 2015, but 19 percent increase compared with 2007. The decrease in 2016 came with the falling of oil prices, but with increasing the tension between Iran and Saudi Arabia, the military spending on both side and their allies increased (Table 3.5).

The military burden, particularly for ME, is so high. The military spending (as a % of GDP) for those countries of ME which data is available, in 2016 averaged 6.0 percent almost triple the global average of 2.2 percent. Oman had the highest military burden in the world, has 17 percent, Saudi Arabia comes after it and has 10 percent. By allocation about \$63.7 billion to military spending in 2016, the Saudi Arabia was the largest military spender in the region and the fourth largest in the world. While Saudi Arabia annually had been increasing military spending since 2002, it's spending in 2016 was 30 percent decrease at 2015. By contrast, Iran's military expenditure decreased by 7.3 percent between 2007 and 2016 but rose by 17 percent between 2015 and 2016. The lifting of international sanctions has benefited the Iranian economy, to improving incomes and giving the government the freedom to increase military spending (Table 3.5).

Table 3.5 Military Expenditure of ME, 2016.

ME countries	2016 Billion \$	% of GDP
<b>Bahrain</b>		
<b>Iran</b>	12.7	3.0
<b>Iraq</b>	(6 233) (\$ m., MER)	
<b>Israel</b>	18.0	5.8
<b>Jordan</b>	1.770 million	
<b>Kuwait</b>	6.6	6.5
<b>Lebanon</b>		
<b>Qatar</b>	3.7 (2014)	
<b>Saudi</b>	63.7	10
<b>Oman</b>	9.1	16.7
<b>Syria</b>		
<b>UAE</b>	13.4 (2014)	
<b>Yemen</b>	2229.70 USD Million (2014)	

Source: Prepared by researcher based SIPRI Fact Sheet (2017).

In 2016, Israel was the 15th largest military spender in the world. Between 2007 and 2016 it's expenditure grew by 19 percent to \$18 billion. This figure excludes about \$3.5 billion in military aid from the USA. The military spending for Turkey between 2007 and 2016

increased 9.7 percent or near 14.8 billion dollars, it is the 18th largest military spender in the world (Mako, 2012).

The weak management of tax system is another reason that has important effects. In the ME some reforms in financial sector needed to improve the administration of tax system and enhance the efficiency of the tax system, such as:

1. Using the value added tax
2. Eliminating the tax exemptions
3. Modernization of procedures from computerization
4. Reforms in customs administration
5. Reforms in public expenditure management systems
6. Eliminating the tax discrimination against public, private, and charitable organizations
7. Expanding the culture of paying taxes
8. Competence and efficiency of tax collectors (Mako, 2012).



Figure 3.9 Tax Revenue (% of GDP) in MENA.

Source: Trading Economic (2016).

The figure shows the tax revenue as a percentage of GDP for MENA. According to this figure, the contribution of tax revenue in GDP is low privately before 2004; also the curve in 2009 goes down.

Tax is the money that people should give to government or is the compulsory transfer to the government, and government spending this tax revenue for public purposes. This tax revenue consists of all types of taxes with penalties and fines, and most social security that not measured (Econstor, 2016).

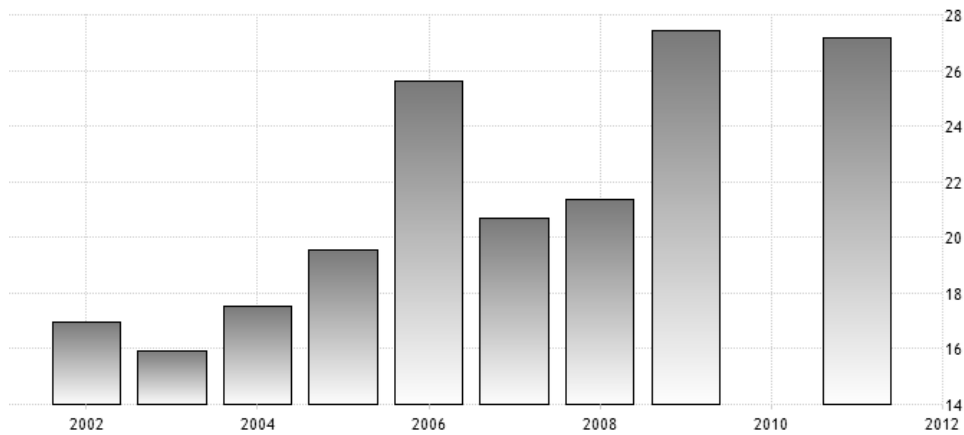


Figure 3.10 The Taxes on Income, Profit and Capital Gain (% of revenue) in MENA.

Source: UN (2013).

According to the figure, the tax revenue from income, profit and capital returns as a whole for MENA are lower than other regions. It fluctuated with the price of oil. The rate for 2002, 2003 and 2004 is very little. In comparison with current years, other previous years are better but as a whole it is low.

The main benefits of increasing taxes for ME region are:

1. To reduce the extra and conspicuous consumption that caused by the oil revenue
2. Redistribute the wealth
3. Re-defining the relationship of society and governments
4. Promote the democracy through the increasing the demands of people for their political rights

Another concept is the weak competitiveness of domestic market and products with and within global markets. The report for the competitiveness of countries in 2014 and 2015 evaluated the competitiveness condition for 144 countries. This report prepared the insight to the productivity and prosperity, and this is a comprehensive assessment of countries competitiveness, it used 12 key measures that effects on competitiveness, including education, innovation, and infrastructure (Schwab, 2015).

According to the report, the competitiveness is the set of policies, institutions, and factors that determine the level of productivity in a country. The propensity level determined by the level of productivity and also the productivity determines the rate of gains by investment in a country which this return is the main driver for growth rate. The competitive economy is one that has the fast growth rate (Schwab, 2015).



The institution and its quality is the fundamental base for the growth and competitiveness:

- Effects on investment decision
- Effects on production organization
- Have a key role on distributing of benefits for society
- Bears the expense of development strategies and policies (Schwab, 2015).

Another thing is the intellectual property right. Without protecting of this right, the owners of capital, land and corporate shares (or intellectual property) are unwilling to invest in upkeep and improvement of their assets. In brief, these factors are important for the competitiveness of a country:

- The quality of institutions
- The quality of infrastructure
- Existing of intellectual property right
- The stability of macroeconomic environment for business and overall competitiveness of economy
- A healthy labor force that is vital for productivity and competitiveness of an economy (Schwab, 2015).

Table 3.6 The Global Competitiveness Index 2014–2015 Rankings.

ME countries	A	B	C	D	E	F
<b>Bahrain</b>	44	4.48	29 4.70	31 5.19	47 5.19	40 6.16
<b>Iran</b>	83	4.03	108 3.36	69 4.15	62 4.77	60 6.00
<b>Iraq</b>						
<b>Israel</b>	27	4.95	43 4.32	34 4.99	50 5.07	44 6.10
<b>Jordan</b>	64	4.25	37 4.48	71 4.11	131 3.45	47 6.07
<b>Kuwait</b>	40	4.51	55 4.02	61 4.28	3 6.73	82 5.59
<b>Lebanon</b>	113	3.68	139 2.71	122 2.62	143 2.56	30 6.29
<b>Qatar</b>	16	5.24	4 5.90	24 5.51	2 6.74	28 6.31
<b>Saudi Arabia</b>	24	5.06	25 4.97	30 5.19	4 6.67	50 6.03
<b>Oman</b>	46	4.46	24 5.06	33 5.01	6 6.56	54 5.99
<b>Syria</b>	12.4					
<b>UAE</b>		11.7	7 5.69	3 6.30	5 6.63	38 6.17
<b>Yemen</b>	142	2.96	141 2.65	142 1.90	140 2.98	116 4.59

Source: Prepared by researcher based the global competitiveness report (Schwab, 2015).

Note: the ranking is for 144 countries, and the measure is from 1 to 7 scales

A: Rank (out of 144)

B: Score (1-7)

C: Institutions Rank Score

D: Infrastructure Rank Score

E: Macroeconomic structure Rank Score

F: Health and Primary Education Rank Score

Table 3.6 shows the Global Competitiveness index for 2014-2015 rankings. In this report, the competitiveness reflects the quality of infrastructure, institution, macroeconomic structure and health and primary education. According to the table, some small countries such as UAE, Qatar, and Bahrain having good performance, but the rankings of Iran, Yemen, Oman Lebanon, Syria and Iraq are not good, other countries are relatively good. Iran takes the 83rd position. The UAE takes the lead in the region. In comparison with last 2013, Qatar fell 3 places to 16th, but it had a good level in macroeconomic stability, efficient and financial markets, and also high level in workforce. Israel takes 27th position in global initiative commerce; it remains the strength in innovation. Jordan takes the 64th position; the unemployment and the consequence of Syria are the main problems for it. In comparison with other countries, the most ME countries rankings are not in good position. These indicators show the condition of the private sector in the ME (Table 3.6).

War, conflict, civil war, and geopolitical conflict continue for unclear future in the large parts of ME region. This leads to reducing the confidence of investors and business environment for investment deteriorated more than before. The domestic conflicts in Iraq and Syria with gloomy conflicts between Iran and Saudi Arabia will deteriorate the region and these leads to deteriorate the factors of competitiveness of the region (Mirjame, Petter, Tsch, & Strand, 2005).

Privatization is the vital policy for ME to reducing the economic and political problems. Strength private sector means strength people that they can control and monitor government activity, real democracy emerged because society has the important tool to achieving its purposes, it declining the large size of government, as a result the consumption expenditure will be declined, and the revenue goes to investment (Alissa, 2013).

Privatization of state-owned firms is the main approach to rationalize the activities of the public sector. The privatization in ME is a complex process and needs serious attempts, but it is a soft procedure that gradually solves many problems (Mirtorabi, 2014).

## SECTION FOUR

### 4. DOMINATION OF RELIGIOUS WORLDVIEW IN ME

Except for Israel and Turkey, which they have secular constitutions, the constitutions of other ME countries are based on Islamic law. Except for the Israel, other countries have a common Islamic culture. The constitutions of Iran, Saudi Arabia, and Yemen entirely are based on the Quran, but with different interpretations. The constitution of other countries does not contradict with Islam, and in some cases, it is completely based on Islamic law. In the ME some political systems and radical movements in society reproduce the extremist Islamic culture. In this section, the effects of religion on the economy and the effects of Islam on the economy are examined. Also, this section is descriptive and examines the underdevelopment factor according to the religion.

This is not the first research which studies the factors of ME underdevelopment, many studies and writing examined this issue in different ways, among them these studies used in this thesis as follows:

Kuran (2005; 2004; 2001) studies answered the question why the ME become underdeveloped? The main important points of his studies are that a large, long lasting and self-governing private organization in the modern economy does not exist in the Muslim world.

The most important conclusions of these studies are:

- The laws of inheritance and marriage in Islam formed the complex partnerships, means it created incentives to keep partnership small.
- Islamic law is a main obstacle for emerging the corporations because it is designed individualistic.
- The Waqfs are organized public services which decline self-governance, get the capital from the commercial sector and are prone to becoming efficient.

Weber's (2005) book, is one of the most valuable and most important services to sociology. As it comes from the title of the book, he tries to explain the relationships between religious, social and economic life in the contemporary culture.

In Weber's (2005) book, capitalism emerged in northern Europe, when Protestant Ethics and particular Calvinistic Ethics brought together massive groups of people to engage in customary world work, to develop their own businesses, to pursue the trade and the

accumulation of wealth for capital needs. In other words, the Protestant Ethics of Work was an important force behind the unplanned and uncoordinated collective action that influenced capitalist development. According to Weber, the modern capitalism has efficiency, computationally and computability, predictability and control of decision-making, which without commitment them, it is not possible to succeed in the market. With the analysis of American capitalism and its comparison with the German form, he has shown how these factors have evolved from the Protestant religious principles and formed like this.

He concludes that there is a causal relationship between religious beliefs (Protestant morality) and the growth of rational-bourgeois. Privately, the "Calvinism, with its unprecedented sense of inner loneliness created in person, provides the moral motivation of the capitalist employer"; it means, "Calvinistic morality creates a kind of pragmatism in the believers to treats with world affairs, it means, in searching for rewards, induce them to get a professional in their works."

The economy has a wide relation with religion and culture. A large part of society's culture comes from religion. The existing of various economic systems is not possible without regard to social, cultural and even political foundations. Religion influences on culture and culture effects on the economy (Guiso, Sapienza, & Zingales, 2006).

For two reasons it is interesting why the relation of religion and economic development is important.

- First, according to Guiso, Sapienza and Zingales (2006) and Tabellini (2010), the effects of religion on beliefs and cultural norms, and these are driving the economic performance
- Secondly, according to the Akerlof and Kranton (2010), the religion in the pre-industrial society is the source of social identification. According to this view, the economic affairs and issues are in the context of religious identification (Tabellini, 2010).

The relation of religion with economic development is not new, so many writers in the past survey this subjects in different aspects, and some of them are:

Thomas Aquinas in the De Rengo in 1267, Adam Smith in Wealth of nations, 1776, Joseph Schumpeter in the history of economic analysis in 1954, Jacques Le Goff. 1981, Epstein in the book ritual and religion, 1973 (Platteau, 2010).

But the Max Weber's (Weber, 2005) famous theory in the book of the Protestant ethic and the Spirit of Capitalism in 1904 is the most important study in this field. In his writing, he explained that the development of northern Europe is due to the development of Protestantism. He explained how the Puritanism influences on saving, entrepreneurial activity and frugality. According to the Weber:

- The capitalism emerged in 16th century in parallel with Protestant ethic that arose from the reformation,
- The ascetic Protestantism encouraged discipline, diligence, thrift and self-denial,
- Lutheran and Calvinist doctrines undertake their calling strongly,
- The Protestant ethic is the one's religious obligation that promotes a work ethic in which increased saving, investment, capital accumulation and entrepreneurial activity, which these factors make the economic development go faster (Weber, 2005).

As a classic study, his book is one of the most services to sociology. As the title implies, Weber tries to explain the relationship between religious lives, social and economic in contemporary of culture. He concludes that there is a close relationship between religious (Protestant ethic) and the bourgeois economic development (Weber, 2005).

In assessing the position of religion and its effects, Weber has found a major sociological principle of social action that is unwanted results of it. He noticed that religious orders and decrees have the outcomes tend that is not one with the intent and desires of the founders of the religion, and sometimes it is completely "contradictory". For example, the founders of the cult of Confucius provide religious in the face of capital accumulation, but what has been achieved is unlike with primary goals. In another side, the Protestant believers that condemn wealth focused on capital accumulation and this leads to the wealth accumulation (Weber, 2005).

Weber argues that Protestantism by changing the criterion of "Predilection" and "Divine Grace" and new interprets of "destiny", emphasizes the responsibility and individual position and insisted on the need for hard work and austerity, this is the main factor in the emergence of the capitalist and social system in the west (Weber, 2005).

Can we find this concept in Islamic thought? To answer this question it needs the concepts and characteristics of Weber's principles about "duty" or "professional" to be expressed, and in practice, it should be pursued to what the faithful actually pay any attention. Weber's purpose of introducing the concept of professional is to compute activity and legal

responsibility. These are not deterrents of development, but what is actually acted by believers is underlie for development:

- Different understanding of the work as a spiritual duty, and goal to work as a means of achieving better life
- No contradiction between piety and fortune-seeking
- Spirit and moral attitude of honesty have the punctuality, diligence and frugality
- Earn more money with avoidance in all fleeting pleasures of living, is the complete avoidance of spirit.
- Hard stretched, calculating, daring and above all restraint, reliable, committed to working and committed to principles, means ideas of quite bourgeois (Rao & Walton, 2004).

If we assume the religion as an independent variable, thus the religious influence on individuals features such as honesty, thrift, work ethic which these impacts on economic performance and development (Epstein, 1973).

In the analysis of Weber, the religion is an independent variable that impacts on economic performance and results. The beliefs in religion by the ethic working, charity, thrift, honesty and trust, hospitality and other factors fostering the trait, thus in this way it influences on the economy, means great religiosity leads to increase investment and economic growth (Weber, 2005).

In his book, Weber asks, why the development occur in western and influence on the rest of the world, and did not occurred in other parts of the world? He pointed to:

- The science in India was well developed, but the method of experimentation did not used,
- Historical scholarship in non-western countries existed, but was not systematic,
- Western law originally comes from Roman, grown in the base of Roman,
- The western developed writing constitutions, trained officials, and the administration and management bounded to rational rules (Weber, 2005).

According to the Weber, the protestant ethic is disciplined work and acquisition with the denial of life pleasure and spontaneity of that. Weber's general claim, in the Protestant Ethics and Capitalist Spirit, is that the economic system of rational capitalism that emerged in the West, and dominated over most of the world, and brought a significant growth in technology, it's rooted partly was in the developments of reforms in Christian, means in the Protestant

religion. Weber's claim emphasizes on the influence of the religious factor in historical developments, it was, in fact, a form of confrontation with the Marxist materialist concept, which considers the religion as part of a superstructure, and not a result of economic conditions (Weber, 2005).

According to the Weber, the most important force that prevents the emergence of the spirit of modern capitalism is "traditionalism." The feature of this approach is that the person works and earns enough money to provide only his demands, needs, or expectations. Weber said, no one naturally wants work only for increasing his money incomes. Most people just want to live up to the common standard. This is precisely is the same common approach in the pre-modern era of capitalism and parts of the Third World, in which, if humans feel that three days working in a week are enough to meet the standard needs, only the same amount of work will be done. Therefore, more work and incomes based on a duty and task can exist in religious rituals, and this exists in Calvinism (the sects of Protestant), means work as a task (Weber, 2005).

According to the Weber, Calvinism was a pure type of Protestant austerity, and other patchy sects are different from it. A decisive point for all forms of Protestant religion has the belief in the enjoyment of divine mercy, which separates its owner from the abasement of this world, and leads us to know the relationship between Protestant and capitalist religion. In the modern evolution of Protestant morality, wealth is rejected to the point where it increased the unemployment and pleasure - but as a work task, either is morally permissible and actually practiced (Weber, 2005).

In this way, the social behavior for profitability, accumulation of wealth, the formation of private property and the logical use of it as a new order and logical culture is an idealistic and opposed to the old feudal system and the old decay culture. In this context, Max Weber constantly referred to the role of the different sects of the Protestant such as the propagator of the guardianship and factors of the formation of this new order, which the western culture is a sign of it. Max Weber also speaks of Protestant perseverance as a primitive fruit, which has been activated as a force against sexual lusts and irrational consumption of the property and also has created favorable conditions for the logical adjustment of social relations and economic activity. In this view, Weber always considers the relation of the inner world with the external world, and justifies social transformations towards the formation of modern capitalism by the ways that the psychological aspects of Protestant piety have occurred in the inner world of believers (Weber, 2005).

#### 4.1. The Religion of Islam and Muslim World

The contribution rate of Muslim world production in the scientific product or any field is the small fraction and their products have a low quality. According to the Salam in the Ideals and Realities, forty-one Muslim countries that are 20% of world population, just produced only 5% of science products. This is based on the articles that published in the world science journals. Other measures like the annual allocation budget to the research and development in comparison with the population are very low. In the past the situation and the share of world Muslim were better than now, according to the Madison the situation of the ME region in the past was as follows:

- The ME before a thousand years ago was richer than the Europe and was more influential in the world's economy, and the progress was in such areas: agronomy, chemistry, mathematics, botany, medicine, and optics.
- In the year 1000, the GDP of ME in world was about 9.5 percent, but for western Europe was less than 9 percent,
- In 1700, the situation reversed, the GDP of Western Europe was 22 percent, but for the ME was 3% (Salam, 1987).

According to the history, the situation of ME in the 10th century to 13th was better; after that time the Muslim world gradually was backward from other parts of the world. Since 19th century to now, the gap between world Muslim and other regions is much bigger than before (Bernard, 1993).

What went wrong?

According to the Bernard Lewis in Islam in the West (1993), the renaissance reformation or scientific revolution and the enlightenment did not occur in the Muslim world.

According to the Gallagher (1990), the declining in science resulted from these factors:

- The erosion of large-scale agriculture and irrigation system,
- The invasions of Mongols,
- Political instability,
- The rise of religious intolerance and,
- Technology have a root, and the rapid progress in technology took place in the period 1850 to 1914 in Western technologies not in Muslim world (Gallaghe, 1990)

The opening of Suez Canal in 1869 had many impacts such as:



- Reducing time and distance of shipping,
- New trade emerged,
- All the steamships and steam engines, railways, telegraph, automobiles, and telephone appeared (Gallaghe, 1990).

Most of these areas in the ME was monopolized by European firms and had little concern in capabilities of ME in the adaptation of technology, design, and maintenance.

In the period 1914 to 1945 some Muslim countries such as Turkey, Egypt, Syria, and Sudan take some steps to strengthen indigenous science, for instance, they created universities with the emphasis on medicine and engineering (Gallaghe, 1990).

According to the Pakistan physicist and science policy writer, in the response to the modern science the Muslims have three groups:

- The First group is the small number of Muslim fundamentalist that rejects the science, because they see the science as immoral and from the materialists, for example, some Muslim leader declared several times that the God developed the microbe and kept it away from those things that God wants, so the epidemic of science is a form of divine punishment, they argue against scientific efforts to eliminate problems.
- The second group is a large number of interpretations of Quran that wants to conciliation revealed truth with reality,
- The third group is ones that argue there is no relation between religion and faith with modern science and Islam has not conflicts with science (Hodgson, 1974).

Table 4.1 R&D Expenditure as a Share of GDP (%).

MIDDLE EAST	2015	2014	2013	2012	2011	2010
Bahrain	-	0.1	-	-	-	-
Iran	-	-	-	0.3	-	0.3
Iraq	0.0	0.0	0.0	0.0	0.0	0.0
Israel	4.3	4.3	4.1	4.2	4.0	3.9
Jordan						
Kuwait	-	-	0.3	0.1	0.1	0.1
Lebanon	-	-	-	-	-	-
Oman	0.2	0.2	0.2	0.2	0.1	-
Qatar	-	-	-	0.5	-	-
Saudi Arabia	-	-	0.8	0.9	0.9	0.9
Syria	-	-	-	-	-	-
Turkey	-	1.0	0.9	0.9	0.8	0.6
UAE	0.9	0.7	-	-	0.5	-
West Bank Gaza	-	-	0.5	-	-	0.4
Yemen	-	-	-	-	-	-

Source: Prepared by researcher based Knoema (2017).

By the R&D expenditure as a share of GDP in the world, only the Israel in 2015 was the top country, the share of R&D in its GDP was 4.3%. Other countries did not take a good

ranking in this field. Expenditures for research and development are current and capital expenditures (both public and private) on creative work undertaken systematically to increase knowledge, including knowledge of humanity, culture, and society, and the use of knowledge for new applications. R&D covers basic research, applied research, and experimental development (Knoema, 2017).

According to the Quran the holy book of Muslims, the God is the creator of everything, all lives, and destiny of human and person. God is responsible for any natural events such as earthquakes, rains, snows and all others, all events driven from him and go back to him. Some scholars talk about the biology, ecology and some sciences in Quran. But defining all sciences according to Quran raises many problems; it devastates such areas like geology, cosmology, astrophysics and other sciences (Kuran, 2004).

In the Muslim world except for Turkey, Malaysia, and Indonesia, the value and worth of science are after the religion value. All scientific books must be compatible with religion. This is caused the Muslims lagged behind the science. The most and deleterious effects are that the religion takes away Muslims from direct contact with science. In most ME countries, with private religious school, most books should not be in conflict with religion (Platteau, 2010).

A famous saying is from Albert Einstein, a famous German-American physicist who says: God's job is not to play backgammon and bald. In other words, Einstein's point is that the issues of the universe, which human beings and human societies are also part of it, and did not cause by incidents and probabilities to bring a lucky to a nation for progressing and advancing that nation, and others be unlucky and remain in history and not progressed. The world is subject to the laws that govern our world. In other words, the law function is cause and effect. For example, when among 57 Muslim countries, with a population over than one billion and two hundred thousand, that spread on different continents, especially in Asia and Africa, with enormous human and natural capital, only we find one or two or three developed and democratic countries among them. Most of these countries are run by corrupt and autocratic regimes. The reason is in the nature of these societies, in different dimensions of their cultural and economic that remained from different periods of their history (William, 2004).

The European enlightenment, with the exception of Turkey, did not influence the Muslim world. Although some philosopher and thinkers such as Rumi and Yunus in Turkey, Ibn Rushed (Averroes) in Andalusia, and Ibn Sina and Sohrawardi in Persia were taken steps toward the European enlightenment, but until now the role of religion in social and political life

has not declined, according to those philosophers the God is ultimate reference for everything and the divine not abandoned world yet (Bernard, 1993).

Today the Islamic societies clearly delay in understanding the realities of the present and adapting these current realities to the Islam, damages the recuperation to Muslims, and lagged so much Muslims from civilization, science, cultural, and social advances of the Muslim world is behind other countries. This backwardness of Islamic societies can be summarized as four parts:

Political and governmental systems of Muslim countries are fragile and autocratic, which have not real support of their own nations; therefore, these systems used the Islam religion as a political ideology to legitimize their absolute and autocratic system. These corrupt systems, by misuse the religious beliefs of mass people, place this kind of ideological propaganda as a means of strengthening their authoritarian power. Iran is a prominent example of this system (Bernard, 1993).

The backward economy of Islamic countries. Low productivity and inefficiency are the main characteristics of Islamic countries economy. The traditional and backwardness agriculture of these countries even cannot provide and guarantee the daily needs of these nations. This weak economy along with traditional commerce and handicraft limited trade is other characteristics of these traditional societies. In this traditional economy, some countries have the oil revenue that is like a mask for deception and covering, which only allocated to the seemingly advanced consumption, and this is preventing a fundamental reform in the economy of these countries. This economic backwardness, especially in the industrial sector, shows the negative results of the irrational behavior and actions of Muslim nations, in which the lack of structural reform, the scientific and industrial backwardness, prevented the growth of scientific outlook to the social issues.

Education and contest of cultural development of the community are awesome. In the term of curricula content and teaching methods, most of the learning is superficial, repetitive and readout of the contents of the book. Such method in education and learning is an obstacle for thinking, critique, growing of personality and personal initiative among students and graduated. Despite the fact that some Muslim countries allocated large budget to the education of their young generation, but they do not get the desired results because of the traditional education method. In most Muslim countries the education and teaching of religious learning, instead of teaching with scientific, rationality and critique methods in academia, it is taught by

religious cleric in dogmatic methods, in which they have not compatibility with real and subjective realities of the current world (Bernard, 1993).

Patriarchy structure in Muslim families. Although the structure of the paternal family of Muslim families has been somewhat changed due to the development of cities and township, this Patriarchy structure is still the measure of moral and social values in Islamic societies. The solidarity of ethnic, tribal, clan, provincial is very strong and still exists. With the solidarity of ethnic, tribal and religious, the solidarity of religious, linguistic and customary (the private traditional and customs of any tribe and clan) exists. Also, in recent years significant improvement in health and health care programs led to rapid growth in population in the Islamic countries. National income growth relative to massive population growth is so little, so the people's living standards remain at the same level of poverty (Bernard, 1993).

But on the contrary, according to the İbrahim Halil SUGÖZÜ, the Islam has a number of core economic principles and builds its economic model over these core principles. Once these principles are established a more distinctive economic model is created. Islam's economic model is shaped with the Quran and Sunnah. The Fair Economic Order follows and accepts Islam's perspective regarding interest, and does not see interest as a necessity of its economic system. Moreover, Fair Economic Order does not consider the Zakat as an economic tool. Fair Economic Order does not allow the printing money without a corresponding value creation, it also demonstrates strong resistance to bank money or fictional currencies, and thus the economic revival is confirmed without providing any base for inflation. He referred to the 54th Government of Turkey under the administration of Prof. Dr. Necmettin Erbakan which made a significant contribution to the literature of science of economics with the exact opposite of stagflation and by proving that the economic revival can be established without inflation. Also according to the research, the Fair Economic Order provides strong evidence in order to answer how to offer remedies to contemporary issues. However, the main argument regarding whether or not the Fair Economic Order is an Islamic economy remains. Erbakan's Fair Economic Order borrowed its essential principles from Quran and Sunnah to form a new economic order with modern tools by considering the current needs of the economy. Fair Economic Order contains essential economic dimensions of Islamic economy. Therefore, it would be appropriate to say that the Fair Economic Order is an Islamic Economics Model which can be expressed as an Islamic Economics. An Islamic Economics is not an alternative, synthesis or antithesis of the mainstream economic schools that make up Liberal Capitalism. The Islamic Economics is an alternative economic system to both Capitalism which represents the general

thought of all of these schools, and Socialism which is considered anti-capitalism. The Islamic Economic Model, which is included in the Islamic Economics, can be perceived as a school within the Capitalist Economic System. For instance how schools of orthodox economic thought generally have the principles of Liberal or Neo-liberal Capitalist economic thought, and these Islamic economic models carry the basic principles of the Islamic Economics. The research suggested the Fair Economic Order as an appropriate economic model for the economy (Sugozu, 2017).

In comparison with democracy, the religion is based on faith and democracy is based on the contract. The relationship in religion is vertical, the relationship of person is with the super-human creature, while the democratic relationship is horizontal and the relationship is between human and human, or the relationship is between citizen and citizen. This was the fundamental difference between Plato and Aristotle (Bernard, 1993).

Religions do not recognition citizens. The community of religions is believers. These have the rights that others do not have. In the democracy all have equal rights, whether believer or atheist or whatever else, but the principle of religion is discrimination (Kuran, 2005).

If we limited the discussion only to the Abrahamic religions, none of these religions create a creative democracy and consistent with democracy. But today some persons want to established democracy in the basic of Jews and Christians do not claim that. During the course of democracy in Europe and Protestantism, they both have operated separately. The renaissance begins in Europe. Means, religion was abandoned and the principle of democracy of ancient Greece begun in Europe. The secularism movement was very strong and Christianity was forced bowed down and was associated with this wave (Gorski, 2005).

Dominated religious worldview means that religious faith is instead of the human wisdom and in all fields of human the reference is superhuman not individual and collective wisdom and justification of everything is due to religion (Hodgson, 1974).

The problem in the ME is belief which it is instead of wisdom and philosophy. We see Islamic philosophers, but their thought and expression have not conflicted with religious beliefs (Tawney, 1990).

Hegemony and worldview religion domination has weakened creativity and destroyed it. Free thinking is a base for creativity and true innovation. This means creative thinking due to the creative process is a critical process. It is a doubtful process, doubts, experiment and reviews the experiment. In a word, the process of creativity and innovation is not only

criticism, although is criticism on criticism. Hence, this trend does not consistent with religious worldview dominance in ME (Kuran, 2004).



## SECTION FIVE

### 5. THE MAIN FACTOR OF ME UNDERDEVELOPED

The main factor of ME underdeveloped is political instability. Political instability is one of the most prominent features of the Middle East. In the last 100 years ago this feature has been in the region. This instability wasted the human and non-human resources of the region. The ME countries are consists of different religions and ethnic, which they always have been in conflict and civil wars. Except for Israel and somewhat Turkey, other ME countries have non-democratic political systems, and this is the main cause of this instability. On the other hand, these countries are in conflict over security and geopolitical issues. The Iraq, Syria, and Yemen involved in civil war. The problems between Shi'a and Sunni and ethnic problems caused the region more vulnerable to war and political instability. In this section, based on statistic and data political instability for ME will be cleared. Also, this section related the main cause of the political instability to the lack of democracy and introduces democratization as a solution to political instability.

Since the eighteenth century, the role of the governments in development steadily has increased so much that the growth is not possible without the government's active supports. If a government cannot or does not want to play such an important role, then the existence of this government should be considered a barrier to development or it is the fundamental cause of poverty. Governments must provide a stable environment for the activities of modern firms, including public ones or the private one. At least, it should prevent the country to face civil war, continuous insurrection, and foreign invasion. Prominent examples of this instability are Iraq, Syria, and Yemen. A large part of the infrastructure of these countries has been destroyed. In a country where it has no political stability, investors do not invest their money for their long-term profits, especially when short-term changes in government to confiscate property, or designed new laws and other restrictions, they lead to a decline in investment. The rich will stop investing in local economies and transfer financial resources to banks in Switzerland, United States or other countries, and also they will come to conspicuous consumption (Gills, Perkins, Snodgrass, Roemer, & Donald, 2009).

Alesina, Alberto, Ozler and Roubini (1996) is about political instability and economic growth for 113 countries for the period of 1950-1982. The purpose of the study is that to show the relationship between political instability and per capita GDP growth. Most important point

is that, when the unstable of political environment increased, the investment and the speed of the development declined. The conclusions of the study are:

- The relationship between economic growth and political instability is negative, means, when political instability increases the economic growth declined.
- The growth has not any relationship with political regimes.
- The low economic growth does not lead to increasing government changes.

Sorli, Nils, Tsch, and Strand (2005) shows that the conflicts are a permanent feature of ME and it is due to the political system, the civil war weakened the political and economic institutions and effects on other variables such as growth, leaving the ethnic minorities and so on. The study compares the ME with other regions; it finds that authoritarian regimes, oil, development economics, Islam and conflict between Israel and Palestine are the main features of this region.

The study conclusions are as follows:

- Economic development and growth with long periods of peace reduced the conflicts.
- The ethnic dominance in the region is significant.
- The regime types matter for economy.
- Islamic countries and oil-dependent are not significant.

Alissa (2013) examines the situation of state-owned enterprise (SOEs) in MENA region . The purpose of the study is: first, it shows the role of SOEs in economic development in the region and its contribution to industrial development for elimination of poverty, diversification and the providing the public goods and services; secondly, it explained the role of SOEs, the problem of ownership and governance on the performance of companies; third, it recommended the procedure for management of SOEs (Alissa, 2013).

The conclusion of the study is that the role of SOEs in MENA region, especially in oil-exporting countries, is not high and they have some obstacles such as the problems of ownership, the problems of law and regulation of government about SOEs and so on (Alissa, 2013).

According to Alesina, Alberto, Ozler, & Roubini (1996), the political instability can be viewed in two ways:

- First, it emphasizes executive instability. This approach defines the political instability as the propensity to observe government change, this change can be occurred in law or



it can be unconstitutional change. High executive changes leads to uncertainty and in some cases threats property rights. Propensity to executive change is differ from the actual frequency changes, it measured by probity regressions that related to several variables of economic, socio-political, and institutional.

- The second is based on political violence and social unrest indicators. Socio-political instability measured by an index that consisting of various variables which leads to social unrest, this approach does not directly focus on executive changes.

The political instability is the repeat events in specific conditions which challenged and threatened the political system. This concept has two dimensions: "mass protest" and "civil war". For example, continue of the collective action violent in public system measured as a mass protest, such as general strikes, anti-government protests, and riots. The second dimension of political instability includes events such as political assassinations, guerrilla, and revolutionary that are "civil war". This is referred to the organized events that mainly involved the use of violence by opposition groups (Alesina, Alberto, Ozler, & Roubini, 1996).

"Internal vulnerability" and "external threats and violence" are two main causes that play a critical role in political instability, regional development, and national insecurity. In the ME region, a lot of internal reasons potentially can threat to debilitate or destroy patterns and governing institutions. Following to this situation and because of people's demand for assistance to change their authority, the wars in this region is blazing, because the interests of other countries within a country (such as Yemen and Syria) deteriorate the condition of that country and their situation will be more complex. External causes depend on internal causes that lead to foreign intervention. The intervention comes from the gaps between people and political system, and this is due to the lack of democracy. At one hand, the ME countries consist of different ethnics and religions, at other hands, the lack of democracy in these countries caused severe bloody conflicts in the region and within countries for many years (Mirjame, Petter, Tsch, & Strand, 2005).

In other words, political instability defined in several ways:

- It is the propensity for regime or government changes,
- It is the incident of political upheaval and violence in a society like demonstration and assassinations,
- It means instability in policies not instability in political systems,

- It is the political and social unrest that those events poses the extra-institutional or extra-parliamentary threats to government or to the existing political order, and
- It is the process in which the political life or atmosphere of a country suddenly fails or changes.

### **5.1. Is ME Politically Stable?**

More than half a century, the ME is mired in civil wars and wars between countries, most important of them are such as Arab-Israel war in 1947, north Yemen civil war in 1926-1927, Iran-Iraq war in 1980-1988, Iranian civil war 1970-1990, Iranian-Kurdish conflict 1980-1991, Intra-Iraqi Kurdish warfare 1978-1979, Jordanian civil war in 1970, Israel-Lebanon war in 1982-1984, First gulf war United State-Iraq in 1991, Yemen-Saudi in 1979, north Yemen civil war in 1970, Islamic uprising in Syria in 1979-1982, uprising in Iraq at 1991, most recently uprising in Tunisia in 2010 and spread it to other countries, the coming of Islamic state war since 2014 to now in Iraq and Syria and the current proxy war in Syria and Yemen and so on (The History Guy, 2014).

Theses wars lost many economic opportunities and led to further political instability. Political instability is caused by political, economic and social factors. For the ME region, the main factor is political unrest such as civil war or conflicts between religions and ethnics. The recent instability in ME was begun in December 2010 in Tunisia and spread to other MENA countries, to Egypt, Libya, Yemen, Iraq, and Syria. This wave is still ongoing and continues to other ME countries. The autocratic regimes collapsed one by one, but the future is unclear. Since the coming of Islamic State in Syria and Iraq in 2014, both countries have suffered from devastating war. The human and material resources have been wasted, their economies have been destroyed, the war continues but the roots of the war not addressed. The internal conflict between Sunni, Shiite and the Kurds have brought these countries into a throughout the war. The variety of risk and violence continue and made worse the region, and this is due to the political instability (Mirjame, Petter, Tsch, & Strand, 2005).

This instability effects on ME economy, increased instability in macroeconomic, increased the rate of refuge and destroy the economic infrastructure. The perspective for the 2018 or short run is clear and the tension within countries and among them will increase. Tension and civil war in Syria that seems a war zone is pervasive and the future of the region will be darker.

For showing the political instability in MENA countries the thesis uses the indicators of worldwide governance, political stability, and absence of violence or terrorism.

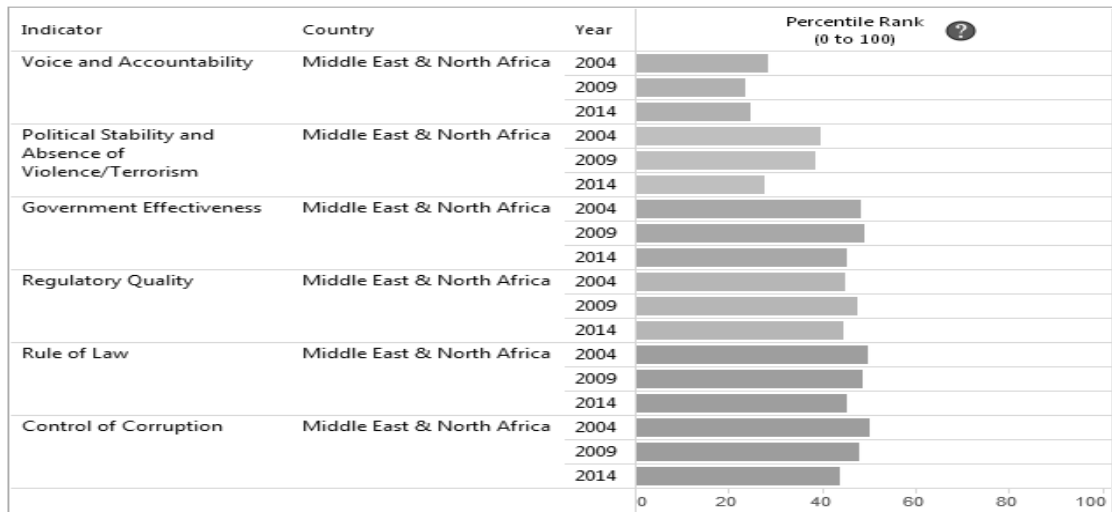


Figure 5.1 The Worldwide Governance Indicator for MENA.

Source: The World Bank (2015).

According to the figure, the political stability in 2014 is below forty, privately since 2014 the condition worse than 2004 and 2009, and this means the MENA politically is unstable. This instability comes from appraising, revolution, regime change, and security risk. Other indicators such as voice and accountability, government effectiveness, regulatory quality, rule of law and control of corruption show the worse condition of MENA region. Generally, these indicators show the political instability for MENA. These indicators published annually by World Bank.

Table 5.1 shows the worldwide governance indicator (the political stability with the absence of violence and terrorism) to show political instability for ME countries. All countries except Qatar, United Arab Emirates, Oman and Kuwait have a negative score, and this means the political instability in this region is sever. For the government score, the Syria takes the lowest value and that is -2.76 and other countries have not a good condition. Most MENA countries have a negative degree; it means political instability in this region exists.

There are many reasons that contribute to political instability such as:

- If the heads of state holding in power for a long time. Most ME countries suffer from this, where the head of state only by natural death or pressure step down from power
- High rate of unemployment and poverty, the unemployment people especially the youngest, attracted to extremist groups

- If for the apparent reason, the government rulers suppress the opposition parties deliberately

Table 5.1 Political Stability with Absence of Violence and Terrorism.

Country	Year	Governance Score (-2.5 to +2.5)	Percentile Rank (0 to 100)	Standard Error
Bahrain	2004	0.29	55.77	0.28
	2009	-0.16	39.81	0.24
	2014	-0.94	14.56	0.21
Iran	2004	-0.78	21.63	0.29
	2009	-1.55	8.53	0.25
	2014	-0.91	16.99	0.20
Iraq	2004	-3.18	0.00	0.32
	2009	-2.19	2.37	0.28
	2014	-2.47	2.43	.22
Israel	2004	-1.33	11.06	0.28
	2009	-1.62	7.11	0.24
	2014	-0.99	13.11	.20
Jordan	2004	-0.23	37.02	0.28
	2009	-0.36	32.23	0.24
	2014	-0.56	26.21	0.20
Kuwait	2004	0.31	57.21	0.29
	2009	0.34	54.50	0.25
	2014	0.14	52.43	0.20
Lebanon	2004	-0.75	22.60	0.29
	2009	-1.58	8.06	0.25
	2014	-1.72	7.28	0.20
Oman	2004	1.07	84.13	0.29
	2009	0.80	74.41	0.24
	2014	0.66	67.96	0.21
Qatar	2004	1.08	85.10	0.29
	2009	1.21	91.00	0.24
	2014	1.00	83.01	0.20
Saudi Arabia	2004	-0.68	24.04	0.29
	2009	-0.51	27.96	0.24
	2014	-0.24	35.44	0.21
Syria	2004	-0.31	35.10	0.29
	2009	-0.49	28.44	0.24
	2014	-2.76	0.00	0.22
Turkey	2004	-0.84	20.19	0.28
	2009	-1.03	15.64	0.24
	2014	-1.06	12.14	0.20
UAE	2004	0.75	73.56	0.28
	2009	0.91	81.04	0.24
	2014	0.81	75.73	0.20
Yemen	2004	-1.58	6.25	0.29
	2009	-2.32	1.90	0.25
	2014	-2.53	1.46	0.21

Source: The World Bank (2015).

- If the government prevent people to express their opinions and views freely
- Intolerance of the view and opinion of others
- Non-free and unfair election

- Overwhelm the freedom and rights of people
- Mismanagement and corruption of the wealth by authority and rulers, higher corruption country means unstable
- If the government is not transparent and open
- High level of prejudice that unreasonably hatred the different people (Mirjame, Petter, Tsch, & Strand, 2005).

## **5.2. The Reasons of Political Instability in ME**

The ME is unstable. Historically, the crises have been begun after the Second World War. The ME is a diverse region; each country consists of many religious and ethnic groups, with non-democratic regimes (Hodgson, 1974).

Many of these countries are not homogeneous in terms of demographics, and they have different ethnic, languages and religions. This diversity has prevented them from achieving a kind of national solidarity and territorial cohesion. When after the collapse of the Ottoman state these countries were formed, their primary concern was to preserve national solidarity and territorial cohesion. They knew that the formation was not due to the nation's efforts; thus they create an ideology; an ideology in the base of the culture of ruling nation, and by any definition of this ideology, some religious or ethnic group have not any statue in this ideology. As a result, a significant rate of the population felt a sense of rejection because they were defined in the form of a country, which they have not any statue in the dominant ideology and language. Since then, most of the wars, conflicts, and movements occurred in the forms of regionalism, ethnic, linguistic and religious in areas that had the least degree of identity with the central ideology (Mirjame, Petter, Tsch, & Strand, 2005).

Most of these countries have an undemocratic political system, and the ethnic and religious groups have not any role in domestic affairs. In most ME countries the presidency not determined by election or by people (Acemoglu & Robinson, 2012).

In one hand, the ME countries have the diverse structure, in other hands, they are non-democrat regimes. The political regime is the main factor for stability and vice versa because the non-democratic system cannot manage the ethnic and religious differences in peaceful ways (Kuran, 2001).

Except for Israel and partly Turkey, most ME countries have no real pluralistic structure and political parties. Some countries such as Iran, Saudi Arabia, Oman, Qatar, Kuwait and

UAE, their political systems are monarchies and they have a history from this view. In these countries, there is no political compromise, a clear basis for representative government, no effective election or any election and effective governance. Their justice systems are corrupt and weak, and the ethnic and religious conflicts run are endless in short (Kuran, 2005).

### 5.3. Political Regime

In one side, all ME countries internally consist in different ethnics and religious, in other side most ME countries have not the democratic regime, thus this is the most probably reason of instability in this region because the authoritarian regime solve the problem by hardware policy which it has a temporary effect. ME countries regimes are:

#### 5.3.1. Democratic Systems

- Leadership: Key decision-makers elected through regular, fair and free elections
- Civil liberties: strengthen the protection for citizens

#### 5.3.2. Authoritarian Regime

- Key political leadership gains power through means other than fair and regular elections (consolidation of authority).
- Little protection for citizens' civil liberties (little tolerance of opposition)
- Two main types: Republics and monarchies

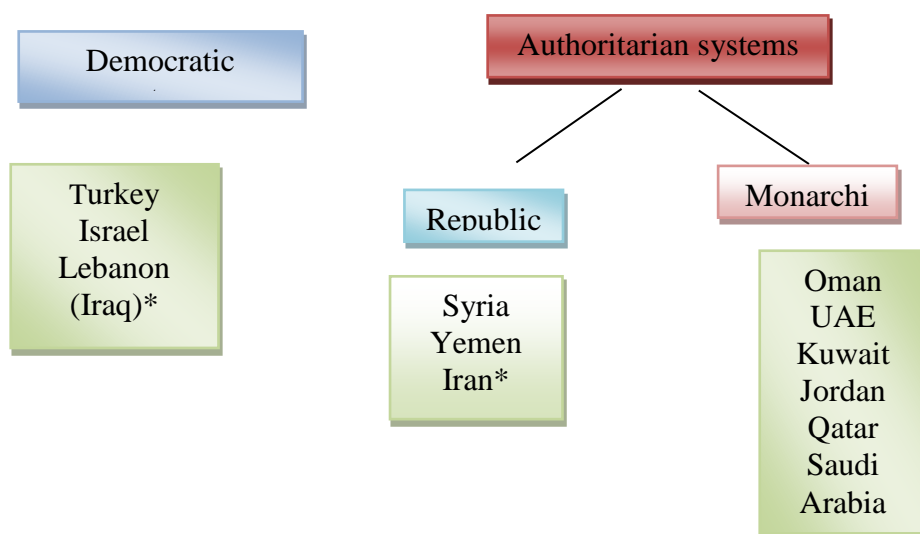


Figure 5.2 Regimes Classification for the MENA, Using Traditional Schema.

Source: Based on constitutions of ME countries.

Democracies but not fully

Israel

- "Flawed democracy" (faulted for civil liberties)
- Influence of the military & religious authorities in politics, treatment of non-Jewish citizens and secular populations

Turkey

- "Hybrid regime" (faulted for political participation, political culture, civil liberties)
- Influence of military in politics (changing in past), treatment of dissidents

Lebanon

- "Hybrid regime" (faulted for functioning of government)
- Consociation system and problems with the National Pact
- Influence of Syria

Where to put Iran? Iran has a dualistic system, republic, and monarchy. President and parliament are determined by the electorate but according to the Islamic rules is not by free election, and the supreme leader is constant and determines the Council of Guardians, Expediency Council, Assembly of Experts, Security Forces, and Judiciary.

According to the constitution, the Iraq is democratic federation but the reality is difference, since the last century war, insecurity and conflict between Shia, Sunni, and Kurd is the permanent feature of this country. (According to the constitution of ME countries)

#### **5.4. The Importance of Democratic Regime for Political Stability**

In comparison with other systems the democratic regime has legitimacy because it relies on people's poll, and it brings political stability, reduce investment risk, attract domestic and foreign investment and increase economic growth, also, the behavior of politicians and political parties that controlled by democracy, prevents unbalanced and dishonest politicians to adopt policies (to reduce the chance of this). In the case of incorrect policies, democratic with peaceful way, by providing government change, reduces the economic and social cost of correcting flawed policies, and increase the long-term capacity of the economy. In fact, democracy is a cost-effective system for adjustment and correction of systematic government policies to harmonize them with the needs and demands of the people. Radical change,

revolution and regime change reduce economic growth and destroy the development (Rao & Walton, 2004).

The legal framework for a peaceful democracy and economic, with political competition will strength political stability, improve competitiveness and boost sustainable economic development. The democratic regime solves economic and political tensions through the peaceful ways, thus the basic value system of the social structure, political and economic of society will be institutionalized. The obligations in the democratic regime are more credible because democratic governments are inherently having a more respect for the rule of law. Democracy and political openness can reduce the cost of information exchange, compromise, cooperation and facilitate social cooperation, this creates the political stability. On the contrary, the violation of political freedom leads to political instability makes polarization of political groups, spread of strikes and unrest the political situation, and all of these are harmful to sustainable economic development (Lipset, 1995).

### **5.5. Definition of Democracy and Some of Its Features and Effects, Briefly**

According to Schumpeter's definition, democracy is a democratic institutional structure of political decisions that individuals acquire the right to participate in decision making. The definition of administrative and organizational democracy has no intrinsic value, such as the desirability of individual happiness and equality, it means:

- There are politicians who have the moral courage and political ability
- It limits and makes conditions for authority of government
- The being of an honest and effective bureaucratic device
- Adherence to electoral system and acceptance of results
- Enhance the culture of tolerance (Schumpeter, 1942).

Schumpeter defines the democracy in terms of the institutional order. According to Lipset, the democratic political system has regular and periodic opportunity to change the government through the law. Huntington defined democracy as a political system that elects powerful decision-maker through regular elections; all candidates freely compete to have the votes of people. Finally, Przeworski defines democracy as a system in which the rule of the political party will be changed, the election is always possible, and power stems from the people's vote (Lipset, 1995).



A formalist interpretation of free democracy is synonymous with fair regularly elections. But taking a more comprehensive, owners of power does not necessarily winners and the real political choice involves accountability and broader freedom and collectivism. In this regard, some researchers, such as Sartori believe that the concept of democracy has the ideal value. The concept of liberal democracy is the intrinsic value of political freedom that exists in the democracy. For example, the government in the liberal democratic system, the primary has the objectives to foster the growth of individuality and individual freedoms. Another pillar of liberal democracy is the right to participate in political and social decision-making. In this regard, according to the Bollen, democracy consists of two main elements:

- Political freedom, the right to free opinion, expression and political parties for all citizens.
- Democratic government, the accountability of government to the people and the people's right to participate in government directly or through elected representatives (Lipset, 1995).

The concept of democracy has expanded the scope of liberal democracy that requires the citizen's benefit from economic opportunities and political liberties. Therefore, the government believes to the right of economic freedom, including the right to private property and regulates income distribution. This concept covers a broad spectrum. In a liberal democratic system, the government has minimal intervention in individual freedom and economy; in contrast, in a social democratic system, the government provides most opportunity and economy (Adams & Sydie, 2001).

The Social Liberal Democrats try to make the optimal balance between two sides of the equation, the appropriate level of government intervention in economy and politics, with give the economic freedom to ones based on historical experience. For example, most of ME countries suffered from dictatorship. Such society requires social reforms to push back the boundaries of state intervention and to increase individual liberties, political freedoms, and economic security (Lipset, 1995).

In the end, according to Marxism, the economic freedom is in the context of the class struggle and is a tool for study and considers of the interests of the classes. In Leninist theory this means, the dictatorship of the proletariat remove political freedom and free economic and create the monopoly of government (Adams & Sydie, 2001).

## 5.6. Statistical Data about Freedom and Stability in ME Countries

The freedom House published annually a report about the political rights (PR), civil liberties (CL) and the overall status of regimes. The score of 1 to 7 shows the level of PR and CL. The number 1 is most free and the number 7 is least free. All regimes classified as free, partly free and not free regimes. Table 5.2 summarize the freedom of ME countries for 2010 to 2015.

Table 5.2 Political Variables.

Country	2010 PR CL Free	2011 PR CL Free	2012 PR CL Free	2013 PR CL Free	2014 PR CL Free	2015 PR CL Free
Bahrain	6 5 not	6 5 not	6 6 not	6 6 not	6 6 not	7 6 not
Gaza Strip	6 6 not	6 6 not	6 6 not	6 6 not	7 6 not	7 6 not
Iran	6 6 not	6 6 not	6 6 not	6 6 not	6 6 not	6 6 not
Iraq	5 6 not	5 6 not	5 6 not	6 6 not	5 6 not	6 6 not
Israel	<b>1 1 free</b>	<b>1 1 free</b>	<b>1 1 free</b>	<b>1 1 free</b>	<b>1 1 free</b>	<b>1 1 free</b>
Jordan	6 5 not	6 5 not	6 5 not	6 5 not	6 5 not	6 5 not
Kuwait	<b>4 4 partly</b>	<b>4 5 partly</b>	<b>4 5 partly</b>	<b>5 5 partly</b>	<b>5 5 partly</b>	<b>5 5 partly</b>
Lebanon	<b>5 3 partly</b>	<b>5 3 partly</b>	<b>5 4 partly</b>	<b>5 4 partly</b>	<b>5 4 partly</b>	<b>5 4 partly</b>
Oman	6 5 not	6 5 not	6 5 not	6 5 not	6 5 not	6 5 not
Qatar	6 5 not	6 5 not	6 5 not	6 5 not	6 5 not	6 5 not
Saudi Arabia	7 6 not	7 6 not	7 7 not	7 7 not	7 7 not	7 7 not
Syria	7 6 not	7 6 not	7 7 not	7 7 not	7 7 not	7 7 not
Turkey	<b>3 3 partly</b>	<b>3 3 partly</b>	<b>3 3 partly</b>	<b>3 4 partly</b>	<b>3 4 partly</b>	<b>3 4 partly</b>
UAE	6 5 not	6 5 not	6 6 not	6 6 not	6 6 not	6 6 not
Yemen	6 5 not	6 5 not	6 6 not	6 6 not	6 6 not	6 6 not

Source: Freedom House (2015).

Note: Political Rights, Civil Liberties and the Situation of Freedom, Free, Not Free and Partly Free of ME Countries.

The bold color means partly free, green is free. According to the Table 5.2, the countries of Bahrain, Oman, Qatar, Syria, Saudi Arabia, UAE, Yemen, Iraq, Jordan, and Iran was not free. The countries of Kuwait, Lebanon, and Turkey are partly free. The country of Israel is free. The table shows that most ME countries have-not good score in civil liberties and political right, so they are not free and this is the main factor for political instability.

According to the Figure 5.3, the %72 of MENA countries are not free, %17 are partly free and %13 are free. Lacks of democratic laws, regulations, and policy causes civil war and humanitarian crisis. So, this is the most probably the reason of conflict between minority groups, and it's impacts inevitably spread beyond national borders, provide the condition for external intervention, makes the situation more complex and finally lead to political instability (Robinson, 2012).

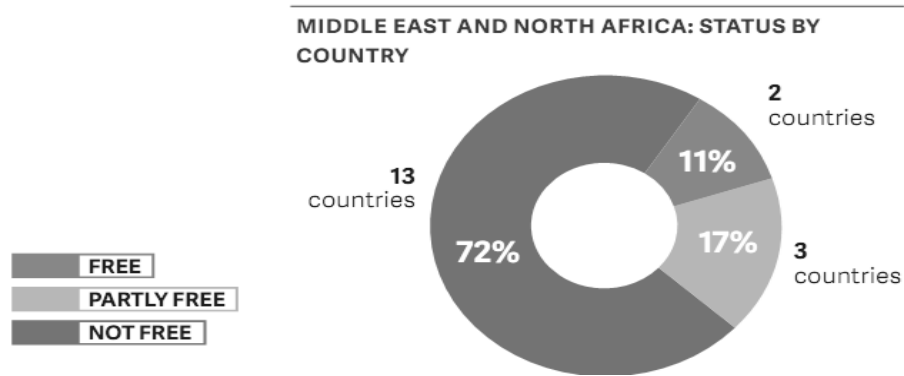


Figure 5.3 The Percentage of Free, Partly Free and Not Free in MENA.

Source: Freedom House (2015).

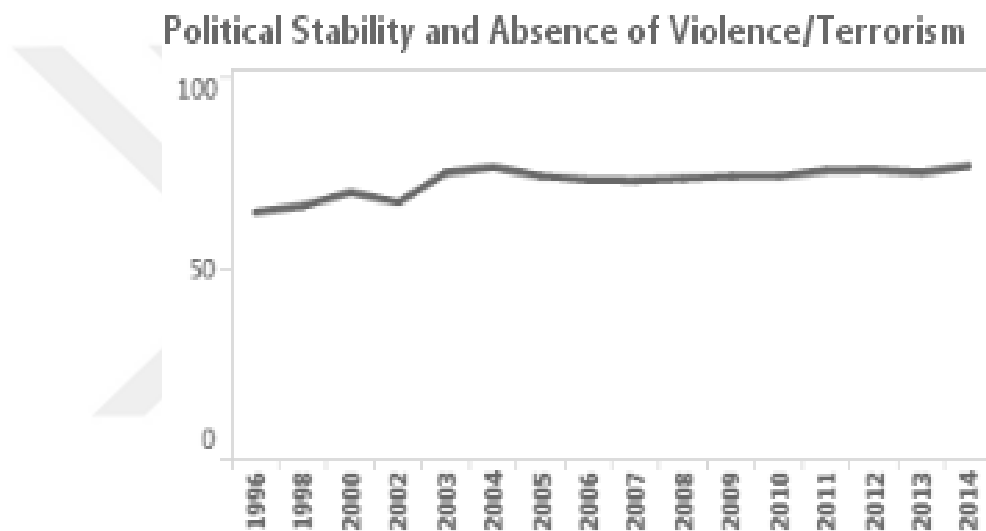


Figure 5.4 The Political Stability Trend For MENA.

Source: The World Bank (2015).

The trend shows that the political stability of ME countries is low and means the ME countries politically is unstable and more fragile. The trend shows the political instability gradually is increased, and this is the main feature of ME.

### 5.7. The Role of Democracy in Political Stability

Democracy promotes political stability in many ways. These are the main points for ME countries to stabilize their situation. According to Machiavelli in 1970 (Lipset, 1995):

- The democratic systems in comparison with authoritarian regimes have a better mechanism for transition the political power among rivals or from one leader to

another one. Election is peaceful and practical way for choosing the desired leader among rival leaders.

- The democratic system creates an opportunity for different leaders to compete for power in the appropriate circumstance. If one leader fails, through the election replace him to another different quality.
- Democratic regimes have freedom of speech that warning the early serious problems to political leaders. According to the Albert Hirschman in 1972, the leaders know better than others the complaints of citizens, privately for poor countries have the least cost to realize the troubles. Also according to Amartya Sen in 1984, the democracy gives the tools to citizens to express themselves. There is no any kind of massive famines in democratic regimes, but nondemocratic regimes have suffered from it.
- The political conflict in democratic regimes settle by debate and civilized discourse, which expanded the values of compromise and consensus seeking, thus offset political instability because the minority groups contribute in debate and their demands.
- The democratic systems are responsive to citizen need; the needs appear in the demands of the electorate and political party form this demands in their plans.
- Economically the democratic system is very dynamic, the stability in this system is good environment for economic growth, and government can redistribute the wealth from rich to poor without any conflict.
- Through the electoral system the citizen can express their dissatisfactions.
- The democratic system allows the citizen to express their dissatisfactions under the rule of law and organized and civilized the collective dissent (Lipset, 1995).

## CONCLUSION AND RECOMMENDATIONS

### Conclusion

For each country and region there are specific variables that affect development. This thesis investigates the main factor of development for Middle East (ME) from the perspective of an Iraqi person. Through this thesis, the following conclusions can be drawn:

The relationship between rentier economy and economic development is negative. The rentier state is a product of non-democratic countries with high oil revenues. The large oil revenue, instead of being a source of happiness for these societies, because of the inappropriate management, it becomes a source for the oil curse. Regarding the political instability and to the regional undemocratic competition, a large part of their oil revenue is allocated to non-development policies and military sector (Section 2).

The size of the public sector for ME oil countries is more than 60%. The oil revenue in the hands of the non-democratic countries has caused the public sector of these countries to be larger than their normal and standard size, and this is a waste of their oil and gas revenue. This leads to Dutch disease, and the weak private sector is a product of non-democratic systems and rentier economy. Corruption, imported inflation, hidden unemployment, weak taxation system and large public sector leads to inefficiency in currency allocation and conspicuous consumption, which all of these results from rentier economy (Section 2 and 3).

The relationship between economic growth and political stability is positive; also the relationship between FDI and political stability for ME is positive. The high subsidy due to the high oil revenue wastes much of ME revenue (Section 3).

A religious worldview is one obstacle for the economics of these countries; this worldview is a major obstacle to modern banking, independent and effective institutions, property rights and land reforms (Section 4).

Political instability is a permanent feature of ME. The political stability and political regimes have a deep relationship, the relationship between them is positive. With democracy, the political stability increased and vice versa. The lack of democracy in most ME countries causes the domestic conflict or war, and it has a potential probability that the ME countries face the regional war (Section 5).

## **Recommendations**

In the light of the study, the following recommendation can be reached:

Democratization is the first step to treat the political instability. The democracy brings good government, transparency, and responsibility. Also, reduce the conflict between the central government and minority groups such as ethnic and religious groups. With democracy, the transparency in oil revenue enhanced and the oil revenue will be spending as well as other revenue. So the free election with the participation of different parties is the main point and the first step for this process (Section 5).

Building Fund for oil revenue and managing petroleum revenue like Norway and learning from Norway is an important experience for ME countries. Norway builds Fund for oil currency reserves. Rather than crude oil export revenues calculate in annual budgets, poured it into the Fund. The World Bank in recent years recommended to the oil-exporting states that make a currency reserve Fund. First, manage the income of a country's national wealth in terms of time between the generation and distribution. Second, the Fund will have an effective role in stabilizing the exchange rate and avoiding from the shocks exchange rates fluctuation or in the currency reserve. The World Bank (2006), also recommended that countries that have established the Funds, they should have complete transparency in managing of income and expenditure of that Fund, such as Norway, that acts in full transparency are due to the management of the Fund. If the government wants to use the Fund, it should have economic reasons, and cannot use Fund reserves at any time according to the government wants. The remarkable thing is that Norway's oil currency reserves Fund does not connect primarily to the budget and the government cannot predict any figure of the fund for its expenditures. There are potential difficulties in the fund. Corruption is the main threat of the fund, if the Fund will be managed on the basis of personal preferences, the corruption can be done. The corrupt administration of managing currency reserves Fund is an issue that should not be ignored. Working with World Bank, IMF, non-governmental organizations and civil society organizations, is vital to avoid from corruption in currency Fund reserves and is an attempt to monitor the performance of governments in managing the Fund for using this national wealth in proper expenditure policy (Section 1-2).

Fiscal policy. The spending of Fund revenue should be equal to the expected real yield of that revenue. With the Fund return, the ME governments can manage their budget, increase public spending without increasing taxes, the government has no budget deficit and the Fund

never be smaller. The total net cash of oil revenue should be transferred to the Petroleum Fund, and it should be invested in economic infrastructure and in diversified portfolio abroad (Section 3).

Reducing the subsidy of non-production sectors and release the domestic price to goes up with world prices (Section 2-3).

Reform in the private sector is vital and necessary for minimization the size of the public sector from the point of view of expenditure. The private sector is not attractive for the labor force. This needs to involve the reforms in compensation, regulation, job security and work hours. For most occupations, wages in the public sector are more attractive than those offered by the private sector. Civil servants also have the regular working hours and higher job security than the private sector, and thus making the government sector more stable and predictable than the private sector. Private sector workforce has no job security; the employer can dismiss workers when he wants (Section 2-3).

The reform in religious worldwide for this region like the renaissance and enlightenment period in Europe is vital and important for the tolerance among society and between society and state (Section 4).

### **The Proposal for Future Studies**

This study explained the most probably reason of ME economic underdevelopment. This thesis showed that the non-democratic regimes with the mismanagement of natural resources, privately the oil revenue, are the main factors of ME underdeveloped.

The future studies could perform how can these reasons will be resolved in the future. This needs some studies to explain and approve this, such as:

- How can the private sectors in ME countries will be progressed?
- How can the non-democratic regimes changed or transitioned to the democratic system?
- How can political instability address in ME?
- The proper management of oil revenue in ME rentier states
- The proper managing for oil revenue in ME oil exporter countries.

New discoveries; however, might yield a better economic system, which can make the concepts in this thesis obsolete.

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### Highlight of Qualification

2002-2006 **Bachelor** of economic  
 (College of Administration and Economic, Salahadin University)  
 2000 Diploma in **accounting** Iran-Saqiiz  
 2005 participating in the **conversational English course** sponsored  
 by language center Of Sallahadin university  
 2013 Certificate of computer training course (ICDL) Sallahadin University Irbil  
 2015 to now Student at **master** in Regional Economic Development (Siirt Universty,  
 Turkey)

### Experience :

**Teacher** for 6 years

As economic **reporter** for TV and newspaper (2005-2007)

As **Interpreter** English to Kurdish and vs. versa

As a **supervisor** of an agriculture cucumber project (2014 to 2015)

**Translated** English text book to Kurdish

As a **writer** I have several writing about economic issues such as (Tourism in Kurdistan, Economic finance crisis in the world (2008), , Pass the Books. Hold By the Oil. THOMAS L. FRIEDMAN, translated to Kurdish, Globalization: Treat or opportunity by IMF staff translated to Kurdish language, Political structure and economic, ....

### Skills:

Languages: Fluent in Kurdish, Persian, elementary at Turkish and good level at English  
 IT: Good knowledge of all components of Microsoft Office.