

**Human Development, Globalization and the Deficit of
Capabilities in the Arab World**

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Introduction

While it may be convenient to argue that the Arab economic difficulties in the 1980s and 1990s can be explained totally by the decline in oil prices, the truth lies elsewhere. The fact that oil prices can affect so adversely all economic indicators of performance of the region is itself revealing. The heavy dependence on oil rents is symptomatic of a general economic malaise.

The Arab economy today remains partially undiversified. Oil exports are still the exclusive economic engine of the entire region. The Arab World with over 260 million people does not export outside oil what Finland does with 6 million people. Rentierism is a widespread phenomenon and is not restricted to the oil rich countries. There is now a "secondary dependence" on oil revenues throughout the region. Exports of manufactured renewable commodities and services contribute very modestly to the external sources of finance of all Arab countries. Non-oil producing Arab countries have exported their producers to the Gulf and have enjoyed the convenience of remittances to the development of domestic exports. Manufacturing activity outside oil is limited, and is generally disarticulated, traditional, inward looking, and technologically dependent on outside sources. Limited technological capabilities have been developed within the region; however, there is still strong preference for "turn key" projects. Expenditures on research and development are modest if not totally conspicuous at about 1/7 of the world average. Regional co-operation is limited and could be expanded to the benefit of all. Most Arab countries are linking to non-Arab economic centers with little or no concern for their Arab neighbors. External indebtedness is massive and is beginning to sap the energies of the region. The Arab region is still gambling on "sun set" industries and old Fordist and smokestack manufacturing activities. There is little evidence of the new economy in the industrial and other economic structures of most Arab economies. High and unproductive consumption habits have been staunchly ingrained in the operating systems of most Arab societies. Illiteracy is still excessively high at about 47%. Mean years of schooling have increased but remain far below other successful developing countries. Industrial policies are almost too stringent or absent and there is a tendency to adopt IMF peddled "policy fads" that are inappropriate for Arab development and values.

Surely these problems are serious and there is little that a disjointed development policy framework can do to deal with them individually or collectively. Yet, an appreciation of what went wrong and that simplistic and borrowed solutions will not suffice is critical for reversing the negative operating mechanisms of the recent slow down and entrenched Arab economic underperformance.

There is also a dominant tendency in the Arab World to underestimate the positive achievements realized and to exaggerate negative trends. When oil is excluded, intra-regional exports are a quite respectable proportion of total Arab exports. They are about 19 per cent of total Arab non-oil exports. This percentage is comparable to intra-regional exports in the Mercosur and ASEAN groupings, although evidently it is far smaller in absolute amounts (\$8 billion) than the corresponding magnitudes achieved in these two successful collective trade regions. This is a crucial and positive point. It indicates that more may be going on in terms of intra-regional trade than aggregated data that include

oil would suggest, and that intra-regional non-oil trade may have the potential for acting as a basis for developing international competitiveness in non-oil goods.ⁱ

Arab intra-regional trade in non-oil products has increased at the rate of 11 per cent per year throughout the 1990s. This is double the growth rate achieved in the 1980s. The 1990s have also seen more rapid growth in intra-regional non-oil exports than in global non-oil exports. Whatever these trends may suggest about the region's integration into the global economy (or lack of it) they **call into question the conventional view of a region that barely trades with itself and has little prospect of doing more in the future.**ⁱⁱ

Among the bright achievements of the Arabs are the solid gains in the upstream development of oil into higher value added products in the GCC and some successful achievements in some specific downstream sectors in each of Syria, Saudi Arabia, UAE, Tunisia, Jordan and Egypt.

There are still more to be done but what must be avoided are simplistic solutions that tend to exaggerate the implications of one paradigm or another. Most of the tendered recommendations these days involve Neo-Schumpeterian solutions and/or the perpetuation of the mythology of technological solutions. A more balanced and eclectic perspective is needed.

Arab Economic Challenges and the Human Development Paradigm

It is a well-known fact that the global economic environment is changing. These changes should be anticipated and harnessed. A proactive picture of the emergent trends and challenges need to be developed and examined by Arab countries as the boundaries and imagination of space have become autonomous from location and time. The new Information and Communication Technologies (ICT) are reshaping the ways in which people live, work and interact with each other. Governments are in "retreat", and more political and economic space is left to the market and the private sector. Global competition is intensifying and competitors are only a fraction of a second away from each other and the consumer instead of being thousands of miles apart.

Technological and political factors are now equal ingredients that have combined to transform the classical international economy. The new economy in its most fundamental arrangement is *global*, just as the classical economy was in its essential aspect *national*.

Successive rounds of trade liberalization under the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO) and cross-border investment and financial deregulation have led to major changes in world trade, finance, investment and the rise of transnational corporations.

Ironically the most advanced countries have consolidated their markets and moved to integrate deeper and further their economies when third world economies remain disjointed and economic integration among them is limited, superficial and unraveling.

Regional trading blocs dominated by the US, Japan and the European Union are expanding and consolidating their markets and their competitive advantages. Newly industrialized countries, such as South Korea, Taiwan, Singapore and many others are rising again. China has practically become the factory of the world increasing competitive pressures in many industries and setting strong examples for others to follow.

A new competitive dynamic has emerged in which countries are expected to open up their markets and to restructure their economies with greater emphasis on exports and become more welcoming and hospitable to foreign investments. This is precisely what the advanced countries of the past did not do when they embarked on their industrialization. This has led many economic historians to charge the first world countries with “kicking the ladder” so no new industrial countries can emerge. The Arab economies and particularly those in the Gulf region will have to confront these challenges head on precisely when many basic structural weaknesses in the Arab economy hamper its ability to adjust to global change. By and large, the Arab economies are still at “a very low entry point into the Information Age”.

From the Atlantic to the Gulf, people – women, men and children - are the real wealth and hope of Arab counties. Human development anchored on broadening people’s choices and unleashing their talents and capabilities is key to a better Arab future. But first the Arab economy must overcome some severe structural problems and build sustainable sources of income. Awareness of the Arab people needs to be raised on the dangers of the heavy dependence on nonrenewable resources, scarcity of water, laggard entry into the new economy and the emergence of highly competitive new competitors.

New competitive advantages must be created in the Arab world meet the future challenges and to quicken the pace of development that is capable of providing jobs to the millions that would enter the labor force each year. Focus must be given to illuminate the new competitive advantages. The broad outlines of feasible future scenarios have to be drawn. Critical masses in strategic domains must be established. This presupposes the existence of regional and collective identification of these strategic domains.

Any strategy for sustainable Arab development has to be anchored on human development, a regulated entry into the new economy, improving the transformative capacities of the state and on co-operative Arab joint strategies.

There are four obvious dimensions of HD in the Arab Region and five obvious achievements in this regard. The HD dimensions include:

First and foremost it must address the formation of human capabilities. This covers a wide spectrum of systems from primary to secondary to tertiary education to training and to research and development.

Second, formation of capabilities is not independent of a strategy of utilization of human capabilities in socio-economic and political activities.

Third, this is not a one shot deal. It requires building an institutional structure that supports the development of a broad based social contract enabling human development.

Fourth, the successful human development framework requires developing an enabling and open environment where human talents can be developed and unleashed and where innovation and creativity can thrive.

While the five major achievements in the Human Development performance include:

- **Lower mortality, especially among children**
- **Higher life expectancy at birth**
- **Quantitative expansion in education**
- **Tangible progress in improving literacy**
- **Economic Diversification success stories**

But there are still serious indications of failed development and there are still many pervasive deficits and gaps that require serious

The Six Deficits

The first Arab Human Development Report identified three major deficits constraining Arab future development and progress. These included:

- **Freedom**
- **Empowerment of Women**
- **Knowledge**

It is now clear that there are another three major deficits that need to be highlighted and dealt with. They are part of the causes and symptoms of failed development that characterizes the Arab current economic malaise. These include:

- **Capabilities**
- **Opportunities**

- **Recognition**

I will focus here on the last three deficits aiming at evaluating their contributions and the way they impede Arab Human Development. As well, I will examine the alternative options to deal with them. I will argue that the formation of capabilities domestically and internationally and their utilization within a sustainable and efficient institutional framework is critical for sustainable Arab Human Development.

Deficit of Capabilities

Weak human capabilities manifest themselves in a number of areas. **First**, there is still pervasive and widespread illiteracy; about 70 million, mostly women are considered functionally illiterate. **Second**, it is still the case that millions of children in the school age cohorts are still outside schools. This number is estimated at over 10 million mostly girls. **Third**, the quality of education at each educational level without exception is suffering from deteriorating quality of education. This includes large class sizes, poor credentials of the teaching staff, limited and inadequate laboratory and library space as well as poor recreational and sport amenities not to mention meager ancillary services and basic technological support equipment like computers and Internet access. **Fourth**, the educational system typically lacks career counseling services and displays severe imbalances in the arts/science ratios. **Fifth**, anachronistic teaching methods and learning strategies are still prevalent. **Sixth**, the system offers limited diversification of career choices typically offering limited technical and vocational education with closed exit points. **Seventh**, a wide chasm characterizes the outputs of the educational system and the requirements of the labor market. **Eighth**, the educational system does not provide the students with adequate foreign language training that are considered necessary attributes for the labor market.

A typology of shortages and gaps in capabilities formation include the following statistics:

- Public expenditure in the Arab World on education actually declined since 1985.
- Higher education is generally characterized by declining enrollment.
- 53 newspapers per 1000 in Arab countries compared to 285 per 1000 in developed countries.
- 18 computers per 1000 compared to the global average of 78.3 and 1.6 percent have Internet Access
- Translation is one of the important channels for the dissemination of information and communication with the rest of the world. The Translation movement in the

Arab World is static and chaotic. On average, only 4.4 books are translated per million of the population, In Hungary 519 books and in Spain 920 books. The entire Arab World translated less than Greece.

- Arab expenditures on R&D as a share of GDP is 0.2%.
- There are 371 scientist and engineers working in R&D per million persons in the Arab World, the global average is 979 per million.
- The Arab World produces 1.1% of the world's book production which is way below its 5% share in world population. Books on religion account for 17% of the total number of books produced in the Arab World compared to a world average of 5%.

It is clear that a set of measures and policies are required to deal with the deficit of capabilities. Here is a subset of required measures:

- *Adoption of a government policy that considers human resource development as a first national priority;*
- *Evaluation of all educational institutions with a view to determine their role in the development of the labor force;*
- *Making it obligatory for employers to provide training for students as part of their educational program;*
- *Revision of salary and incentive system on a regular basis to enhance the establishment of a competition system that rewards performance;*
- *Establishment of a labor force development authority that works with all large government institutions;*
- *Establishment of a central training agency within the government sector that takes up the responsibility of organizing and supervising practical training;*
- *Making the duty of training others a major criterion for promotion;.*
- *Revise the educational system patterns and structures to provide better education for the new economy;*
- *Institute career counseling at the secondary level and job placement services at the post-secondary level.*

Deficit in Opportunities

The demographic transition in the Arab World is signaling high fertility and low mortality rates resulting in high population growth exceeding 3.1 percent annually. This rate is perhaps the highest in the world. The growth of the population is beginning to impinge on the capacity of the educational system and the economy to provide adequate educational and employment opportunities. Unemployment in the Arab World is three times the world average at 15% and this is only what economists consider as open unemployment. If we were to add to it disguised unemployment and discouraged workers this rate will double. It would take an annual real rate of economic growth of over 6% per year to clear the labor market and maintain unemployment at its current levels. The required rates of growth are substantially higher than the rates achieved in the 70s, 80s and 90s. High levels of unemployment are an economic waste of human effort and a social calamity. There is also a special and unique feature of this unemployment in the Gulf where nationals are experiencing high rates of unemployment when thousands of expatriate labor are employed in their midst. This unemployment rate is particularly evident among the highly educated cohorts in the Gulf.

Deficit of Recognition

The Arab World is under siege. It is at the forefront of the clash of civilizations as dialogue takes back seats to the remnants of the Mission Civilisatrice. It is the only region with occupation forces on its grounds. The Palestinians are still waiting for the implementation of 1500 UN resolutions in their favor when every resolution against them is implemented in haste and without hesitation.

The contributors to the Arab Human Development Reports took a look at themselves in the mirror so to speak and tried to identify and concentrate on the weaknesses in the Arab economy and society that they can deal with. They aimed at owning the process of reform. There is a corollary to this, the West must take the same look at itself in the mirror and recognize the pain they have inflicted on the Arab People and the evident hypocrisy with which they have and continue to deal with Arab and Muslim issues. This mutual recognition is conducive to a proper understanding and reduction of uncertainties and building the enabling environment for development and peace in the region.

The Elements of a New Arab Development Strategy

The Arab economy should move away from its rentier structure that is a defining and dominant characteristic (heavy dependence on rents from oil, or the monetization of oil wealth) of the past to productive economies based on high value added and renewable production. This will increasingly depend on building innovation capabilities, entrepreneurial and technical skills, appropriate educational and research policies, broader democratization of their political and social systems, and a full fledged and deliberate entry into the new economy. To move into high value added and renewable production (sustainable) the Arabs must build and strengthen their competitive fundamentals. These call for:

- Massive literacy campaigns, particularly for females. The aim is to empower people to participate fully in the development project.
- Improving, balancing and reforming the educational systems at all levels. There is definite need to emphasize quickly science, computer literacy and high-tech subjects.
- Embarking on a serious streamlining of the bureaucracy (removing red tape), making more transparent government decisions, policies and procedures and instituting better and more effective governance systems with greater room for participation of the citizens in the formulation and review of policies. This follows from the realization of the importance of the State in the liberalization strategy, in building the requisite ICT infrastructure, in coordinating investment allocation towards the higher productivity sectors, in upgrading skills, in guiding the move to the new economy, in the push towards diversification, in ensuring the protection of domestic interests against currency speculators and volatile capital markets, in thwarting excessive use of self interest and power by strong hostile external governments and in the contributions of democracy to the unleashing of the energies and innovative powers of people. In building of the transformative capacity of the State, the Arabs will be following the lead of some of the most durable, successful and sustainable developmental efforts in Southeast Asia. Improving the transformative powers of the state is not synonymous with size. It is a question of qualitative reinvention of the State and assuming new roles but relinquishing old ones.
- Empowerment of the private sector and community initiatives through partnerships with the public sector and by providing the enabling macroeconomic environment to sustain and solidify their participation.
- Effective policies and institution building to encourage and develop domestic savings and co-ordinate investment decisions and risk taking.
- Raising skill levels (learning by doing, abandoning turnkey projects and implementing massive and widely accessible training programs). The emphasis here should be on building domestic productive capacities that can absorb and train on the shop floor, in the schools and everywhere Arab skills.
- Increasing domestic technological capabilities by building University Centers of Excellence, Local Technological Incubators and by coalescing domestic consulting houses and engineering-design contractors into viable international competitors.
- Developing linkages and networks between firms that should be seen as technoeconomic laboratories and agents of knowledge creation and dissemination. This is accomplished by helping firms strengthen their internal problem-solving capacities (through skill upgrading and building competencies) and through fostering external linkages to other firms and knowledge producing institutions.

- Developing linkages and networks within each state and among Arab states. There is a crucial advantage to developing competitive structures among similar and neighboring economy. There is a teething period that allows the member countries to develop sharper and more pronounced capabilities before they expose themselves fully to world competitive currents.
- Building international capabilities in all production aspects.
- Increasing the share of the new economy and the knowledge economy. Competitiveness now seems to depend on getting the right information and knowledge to the right place at the right time. This needs a viable and efficient informational infrastructure from Internet connections, to web sites, to satellites, to fiber optics, to governments opening up the information highway corridors.
- Continuous innovation through a national and regional innovation policies and dismantling barriers that preclude the full participation of people and in ensuring that they realize the principal benefits of development.

Each one of the elements above can be the subject of an entire research. What is intended here is a general outline of the fundamentals that have to be debated. These are chosen because they are proven ingredients in the success of other advanced and rapidly-developing countries, because they address directly observed weaknesses in the Arab economy in capability formation and utilization, because they build on Arab strengths as a means to meet the challenges facing them, and because they create large indirect and spin-off benefits throughout their economies.

Focusing on the competitive fundamentals and increasing value added activities that are divorced from natural resource dependency have implications for change throughout the economy - for business, for other sectors, for individual state governments, for regional institutions and for the Arab economy and society as a whole. A consistent picture has recently emerged from the diverse literature on technological gaps, information gaps and knowledge gaps. The potential for “catch-up” is there, but is only realized by countries that have a sufficiently strong “social capability”, e.g., those that manage to mobilize the necessary resources (investments, education, R&D, etc.) and actors (people, firms, entrepreneurs, government, universities, unions, etc.). These factors should also be seen as complements rather than as substitutes in economic growth.

It is equally crucial to not treat technology as “blueprints” or “designs” that can be bought and sought in the market. Rather it should be treated as organizationally embedded, tacit cumulative in character, influenced by the interaction between firms and their environments, and geographically localized

Governments will still have to act in critical areas for catch-up to happen and to have the greatest benefits in strengthening Arab competitive fundamentals:

- Changing the way they invest for the future: Putting strong emphasis on investing in people, training, information and knowledge.
- Changing the way the public sector relates to the private sector: Emphasizing the development of sectoral strategies, strategic groups of companies, community initiatives and regional co-operation. Above all removing the impediments on the full participation of people in all aspects of development.
- Changing the management of the economic change: Finding winners, building on strength and creating flexible systems for a more adaptable economy.
- Changing the structure of bureaucracy: Emphasizing efficiency, merit, expertise, accountability, transparency, service, objectivity and integrity.
- Changing the balance of power between the public sector and civil society: Emphasizing balance and empowerment of institutions that mediate between the state and the citizens. Solidifying the democratic practices that allowed the industrial countries to realize their advantages and progress.
- Building the needed infrastructure in all of its aspects—the physical, the informational, the organizational and technological.

Although governments have an important and vital role to play in the economic development process, they cannot alone make the policy work. Everyone must work together to develop an economy with built-in capacity to upgrade and continuously move to higher value added and to the newer realms of the international economy. But the state must retain its adjudicating powers and eminence in protecting the vulnerable and national interest.

It used to be fashionable to compare countries in terms of their R&D systems. But it has been increasingly realized that a **national system of innovation**, of the type we are suggesting here, is far more than an R&D system. It is imperative to evaluate the qualitative features of an innovation system as well as quantitative ones such as the level of R&D expenditures. On the qualitative side there is considerable agreement on the importance of user-producer relationships, of sub-contracting networks, of external linkages within the science/technology system, of the training system in industry, of the importance of the physical/informational infrastructure, of skills and tacit knowledge, of the consultancy system and markets, of technology import capacity, of reverse engineering, and of linkages between R&D, production and marketing.

The innovative development strategy we are defining is not a budget, or a short-term stabilization policy or even a plan. It is a framework that is intended to create a shared vision and a common sense of direction that shapes the way all segments of the economy and society can work together.

Value added is the difference between an industry's total sales and the cost of raw materials and the goods and services it buys from other industries. The higher the value added, the larger the income that can be shared by business, labour and government. Companies can increase their value added by becoming more efficient and reducing unit costs. Alternatively, they can produce something that is worth more to their customers. Higher value added activities include continuous improvements in design and engineering, research and development, training, marketing, quality control and customer service. Other activities such as organizational innovations, more work-place flexibility, adoption of the state-of-the-art technologies and reducing cycle times can dramatically reduce cost or material inputs and thereby increase value added.

Moving into higher value added is not a one-time event. It should be seen as a process, not a destination. Higher value added is a result of both doing different things and doing them differently. In the Arab world, moving into higher value added takes six principal directions.

First, moving into higher value added will require a lot of research and development effort and placing emphasis on developing technological capabilities. This is precisely what is needed to address a fundamental structural weakness in the Arab economy of today.

Second, universities should spearhead the technological transformation process. They did so in Brazil and Malaysia. Government, industry and universities can team together to build technological incubators and consulting houses can work together and independently to build the enabling environment for domestic technological innovations.

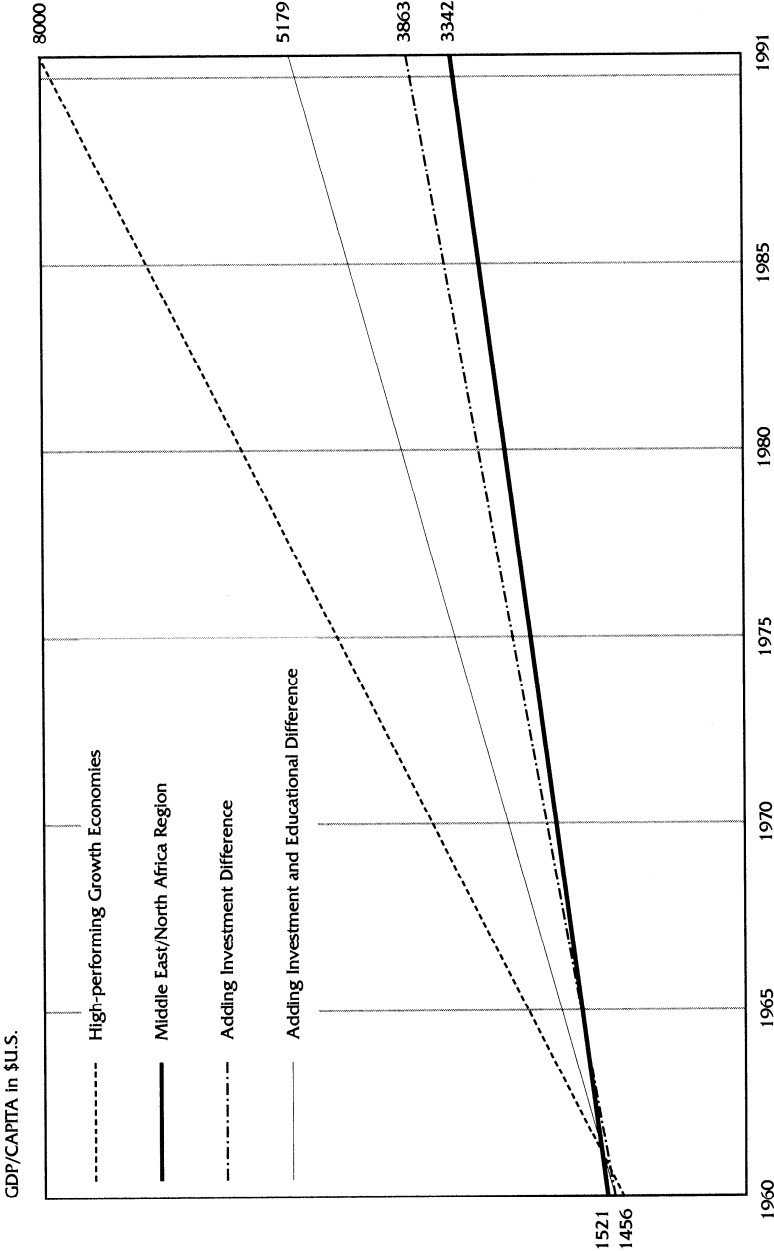
Third, we can no longer depend on low wages to compete on the world market. Most wages in the Arab World even those in the non-oil economies of the region under pressure from wages and alternative employment in the Gulf are relatively high. What is needed is high factor productivity that can reduce cost of production and increase the competitive capabilities of domestic production. Low wages do not necessarily mean low costs, particularly if productivity is low. What counts is not the cost of labor but the unit labor cost (this is the total labor cost divided by total output).

It is legitimate to ask whether these prescribed actions can deal with the complex and endemic difficulties constraining the Arab economy and society. Indeed, it is difficult to suggest that following the program above would bring about total economic success. What we have in Figure 1 is the kind of returns that the Arab economy can realize if it were to “adopt” the Asian ingredients and proportions. It is clear, from Figure 1, that if the Arabs can add only the “investment difference”, per capita income in the Arab region would rise from the current \$3,342 to \$3,863. A much larger return can be expected when we add the “investment and education difference”. Per capita income would rise to \$5,179. The net educational return is \$1,316 per person. If all the ingredients of high performing growth economies were factored in, per capita incomes could rise above \$8,000.

The returns to education, investment, and export of manufacturing products are high and real. The Arab economy does not have time to spare. The reach changes are needed fast and now.

Figure 2

DIFFERENTIAL IN PER CAPITA INCOME GROWTH



Over the 70s and 80s and more recently the Arab economy's "success" was based on deriving a huge rent on oil exports, which masked many structural problems and allowed the Arabs to coast into the 1990s and may allow them to coast now for a few years without having to restructure or reform their economies to improve their productivity. The harsh economic realities of the new millennium, however, will leave no options for the Arabs but to adjust and confront the challenges of the globalized economy or face the prospects of being left behind. Ultimately Arab success will depend on the extent to which we can engender meaningful collective action to face these challenges and on how our governments, businesses, investors, workers, and communities respond to the challenges before them.

There is a critical and definite need for the establishment of a broad-based agreement among the Arabs on what it takes to succeed in the global economy. They need to be encouraged, guided and provoked into a common sense of purpose and a shared vision that will help them raise productivity of their economic activities, improve their competitiveness in the world, build efficient and sustainable structures, transparent institutions, raise the overall standard of living of the common people and protect their values and specificity. Individual state action is necessary but not sufficient; it will always be small and insignificant in today's global world markets with colossal trading blocs, giant transnationals, ideological hype and the strong hegemonic interests of the dominant and unipolar state power of the United States. The regional perspective and regional institutions are indispensable to this effort.

Arabs need a collective, co-operative and innovative economic and social policy as part of a broader economic and social renewal agenda for the new millennium. This effort is not about setting out elaborate blueprints for the economy. Nor is it about establishing an array of expensive government programs. Rather, it is about providing a framework, an understanding and a strategy that enables all segments of society to work realistically together as partners. Grand schemes and large and uncoordinated government programs did not bear the fruits they were supposed to in the Arab region. While some of these blueprints and grand schemes were necessary at the earlier stages of Arab development; they are no longer workable. Arab sustainable development is too complex a process; no single sector or scheme can carry it through.

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