



Why Has Globalization Eluded the Middle East?

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by [Robert Looney](#)

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Many people believe economic growth, development, and job creation in the Muslim world could help drain support from radical and fundamentalist groups. Few seem willing to do much about it.[1]

– Edward Gesser

The notion that the poor countries of the world can in any reasonable interval achieve rich-country incomes without trade and capital flows is utterly implausible. If the poor countries of the world have to depend on themselves for the saving to finance the investment that they need, or have to develop themselves the skills and technology they need to become rich by our standards, its going to take forever.[2]

– Nobel Laureate Robert Solow

Introduction

An increasingly held view is that many of the economic and social problems confronting most Middle Eastern countries stem from their failure to become more integrated into the global economy. The benefits of globalization are widely documented. As noted in a recent World Bank report:

Globalization generally reduced poverty because more integrated economies tend to grow faster and this growth is usually widely diffused. As low income countries break into global markets for manufactures and services, poor people can move from the vulnerability of grinding rural poverty to better jobs, often in towns or cities. In addition to the structural relocation, integration raises productivity job by job.[3]

Along these lines, President Bush has noted:

Across the globe, free markets and trade have helped defeat poverty, and taught men and women the habits of liberty. So I propose the establishment of a U.S.-Middle East Free Trade Area within a decade, to bring the Middle East into an expanding circle of opportunity, to provide hope for the people who live in that region.[4]

With that statement, on May 9, 2003, President Bush set out his vision of establishing a U.S.-Middle East Free Trade Area (MEFTA) by 2013. MEFTA's main focus is to work with countries in the region in graduated steps to increase their trade and investment with the United States in particular, and the world economy in general. A critical component of this program is the assistance to be provided to these countries in implementing domestic reforms, instituting the rule of law, protecting private property rights and in creating a foundation for openness, economic growth and prosperity.

The purpose of the sections below is to examine several conceptual issues surrounding the phenomena of world-wide globalization, the environment in which the MEFTA will operate and central to the program's ultimate success. In particular:

1. What are the best ways of measuring the progress at globalization?
2. The progress made towards globalization by the key Middle Eastern countries?
3. The policies most often associated with improved levels of globalization? In light of this discussion, a final section assesses the likely effectiveness of U.S. and West's efforts towards assisting the region's integration into the world system.

Magnitude of the Problem

The MEFTA is an ambitious plan, but one venturing into largely uncharted waters. The one thing most observers agree on is the magnitude of the problem—by most of the standard metrics the countries in the region are currently ill prepared to thrive in the world system (Table 1).[5] In this regard a litany of indicators documents the weakness of the region's linkages to the world economy: Import tariffs average over 20 percent; most of the larger countries in the region are not members (Table 2) of the World Trade Organization (WTO), the international agency largely responsible for reducing trade barriers and reconciling disputes over trade practices. Perhaps even more telling, the region's share of world exports has fallen steadily and the region as a whole attracts roughly as much foreign direct investment as Sweden.[6] A broader set of problems have been compiled by Anthony Cordesman:[7]

- *Massive population increases*: The Middle East and North Africa had a population of 112 million in 1950. The population is well over 415 million today. Most likely it will more than double again reaching at least 833 million by 2050.
- *A youth explosion*, especially in the 20-24 age brackets. This is the key age group for new job entrants and has grown steadily from 10 million in 1950 to 36 million today. Growth is expected to remain steady reaching at least 56 million by 2050.
- *A failure to achieve global competitiveness*, diversify economies and create productive jobs. Direct and disguised unemployment ranges from 12-20% in many countries. The high percentage of the population entering the labor force only compounds this problem.
- *A steady decline in non-petroleum exports* as a percentage of world trade over the last half a century, and an equal pattern of decline in regional GDP as a share of global GDP.
- *Over-urbanization and a half century decline* in agricultural and traditional trades impose high levels of stress on traditional social safety nets and extended families. The urban population seem to have been under 15 million in 1950. It has since more than doubled from 84 million in 1980 to 173 million today, and some 25% of the population will soon live in cities of one million or more.

- *Broad problems in integrating women* effectively and productively into the work force. While female employment in the MENA region has grown in recent years it still averages 15% lower than in high growth areas such as East Asia.
- *Growing pressures on young men and women* in the Middle East and North Africa to immigrate to Europe and the US to find jobs and economic opportunities—a process that inevitably creates new tensions and adjustment problems.
- *Little regional trade*. Almost all nations in the region have as their major trading partners economies outside the region. Furthermore increased intraregional trade offers little or no comparative advantage.
- *Increasing water scarcity*. Much of the region cannot afford to provide more water for agriculture at market prices—many countries have become permanent importers of food.
- *A failed or inadequate growth in infrastructure* and in key areas like housing and education.

The Middle East region also lags considerably behind other parts of the world in various aspects of liberalization ([Table 3](#)). In particular a significant gap exists across all measures of governance (in [Table 3](#) larger values indicate better governance) between MENA and non-MENA countries. While the MENA countries have closed this gap a bit in recent years it is still striking in the area of voice and accountability.

On the other hand the MENA countries compare fairly favorably to non-MENA countries in several areas of economic freedom (in [Table 3](#) large values indicate lower levels of economic freedom)—monetary policy, regulation and the size of the informal (black) market. Still, the region's trade policies, government intervention, foreign investment, and flexibility in wages and prices lag behind other parts of the world.

Globalization—Conceptual Issues

When examining globalization, one of the first and most difficult issues to address is an operational definition of the phenomena. Even a casual reading of the literature leads one to the realization that globalization means quite different things to different people. Somewhat in the spirit of the MEFTA program, globalization can be seen as the growing liberalization of international trade and investment that results in increases in the integration of national economies.^[8] Henderson has expanded this definition to define globalization as consisting of five related but distinct parts:

- The increasing tendency for firms to think, plan, operate and invest for the future with reference to markets and opportunities across the world as a whole.
- The growing ease and cheapness of international communications, with the Internet as the leading aspect.
- The trend towards closer international economic integration, resulting in the diminished importance of political boundaries. This trend is fueled partly by the first two trends, but even more powerfully by official policies aimed at trade and investment liberalization.
- The apparently growing significance of issues and problems extending beyond national boundaries and the resulting impetus to deal with them through some form of internationally concerted action.
- The tendency towards uniformity (or harmonization by which norms, standards, rules and practices are defined and enforced with respect to regions or the world as a whole rather than within the bounds of national states.)

Mujahid^[9] suggests we view globalization in the manner in which it is perceived by various governments/groups. To Mujahid, globalization is the blending of four main perspectives: economic, technological, development and societal. The economic perspective focuses primarily on the growth of world trade and the recent explosion in foreign direct investment whereas the

technological perspective of globalization stresses the importance of new technologies in the communication and transport sectors. The development perspective focuses on the impact on growth brought on by increased globalization. In this regard and depending on the circumstances globalization may provide the mechanisms for converging incomes around the world—the neo-classical interpretation. Or, under another set of circumstances, globalization may result in diverging income levels with the world split between rich and poor countries—the endogenous growth interpretation.[10]

Lastly, the societal perspective focuses on some key factors that the globalization process impacts, and may include the condition of human rights, women empowerment, gender sensitization, civic education, status of women in the society, political status becoming more democratic, freedom of speech a, rule of law, equal access to resources and level of education. As with much of the globalization literature, Mujahid is unclear as to causation. For example do improvements in the governance indicators noted above (Table 3) cause increased levels of globalization or are they induced to higher levels of attainment by the globalization process? Or, does a feedback process exist between the two?

A third way of examining globalization is to view it as a historical process. This approach is best summarized by Sen [11] who has noted that globalization is neither new, nor is it just Westernization: globalization has progressed over thousands of years through travel, trade, migration, spread of cultural influences and dissemination of knowledge and understanding and has enriched the world scientifically and culturally. Sen suggests that various parts of the world have evolved somewhat differently over the last several decades and, as a result, possess economic environments that have different potentials for growth, technological absorption, responding to external shocks and interacting with the global economy.

The different approaches to examining globalization while providing valuable insights to the phenomena also illustrate the problems confronting researchers in the area. Globalization is a complex, multi-dimensional, historical process that does not lend itself easily characterization or measurement. In fact, despite the volumes written on globalization, relatively little progress has been devoted to coming up with a generally accepted measure of the concept. Has globalization progressed more in Turkey than Egypt and if so by how much and in what respect? Or as noted by the A.T. Kearny Corporation:[12]

For instance, how do we determine the extent to which a country has become embedded within the global economy? How do we demonstrate that globalization is racing ahead, rather than just limping along? Clearly, the lack of a clear, precise definition underlies much of the current arguments and debates overmuch the extent of globalization and the manner that phenomenon is changing the structure of national economies. Without the means to quantify the extent of globalization, any meaningful evolution of its effects will remain elusive.

The Measurement of Globalization

The few attempts made at quantifying globalization are often little more than rankings of countries according to various criteria, such as the share of trade in Gross Domestic Product, or the percentage of investment accounted for by foreign direct investment (FDI). Such comparisons may be informative, but they suffer from arbitrariness in the selection of data. More fundamentally, since countries usually rank differently depending on the data series selected, how should these series be combined to form an unambiguous summary metric of globalization?

An attempt to overcome these problems has been made in the annual A.T. Kearney/Foreign Policy Magazine Globalization Index (KFPGI).[13] This aggregate index includes over 60 countries and is derived from measures of four main dimensions of globalization: (1) technology (number of Internet users, Internet hosts, and secure servers), (2) political engagement (number

of memberships in international organization, U.N security council missions in which each country participates and foreign embassies that each country hosts), (3) personal contact (international travel and tourism, international telephone traffic, and cross-border transferees) and (4) economic integration (trade, foreign direct investments and portfolio capital flows and income payments and receipts). The four dimensions are then aggregated into an overall summary measure of globalization.[14]

While the KFPPI represents a breakthrough in conceptualizing the globalization process, it is not without its critics. As with any index of this sort, it contains a certain element of arbitrariness:[15] (1) Are the measures included in the index better than any other conceivable set? (2) Is the weighting system more meaningful than other possibilities? (3) Should efforts be made to correct for the size of countries?—if Sweden doesn't host as many foreign embassies as the United States is it somehow less globalized—the Kearney index would say yes.

A quick look at the KFPPI ([Table 4](#)) shows the Middle Eastern countries clustered towards the bottom. Out of the 62 countries covered, the region's most globalized country in 2002 was Israel (22). Tunisia (35) is the only other Middle Eastern country in the top 40.

Several features of the index are also of interest. First, there seems to be great year-to-year variation. Morocco 's ranking fell 18 notches between 2002 and 2001 while Egypt's fell by 12. Ruling out some sort of calamity (natural or financial), this is not something one would expect in the real world. Because there is considerable over-all stability in the rankings of countries, occasional movements such as Morocco 's can not be attributed an ordinal ranking system that by its very nature might overstate the degree of change. Second, country rankings vary considerably across the different dimensions of globalization. The United States ranks first on the technological dimension, but 56th on the economic dimension. Third, some of the rankings seem counter-intuitive. One would not expect the United States (at 56th on the economic dimension) to be less globalized than Pakistan (at 55th). Is Tunisia at 35th really more globalized than Taiwan at 36th? Common sense says no.

Several of these anomalies can be eliminated by smoothing over the KFPPI through the use of Factor Analysis.[16] Clearly the four KFPPI dimensions of globalization are not independent of each other, and a factor analysis of them can test to determine the extent to which they are correlated to another (unmeasured) dimension which we might dub "General Globalization." In turn each country can be ranked in terms of its attainment on this "General Globalization" dimension.

The results of this smoothing exercise ([Table 5](#)) suggest a possible alternative to the KFPPI. The KFPPI summary index (0.815), the technical dimension of globalization (0.924) as well as the personal (0.660) and economic dimension (0.586) are all fairly highly correlated with this General Globalization measure. Only the political dimension seems to stand alone and represent a somewhat independent aspect of globalization. Using this new General Globalization scale, the ranking of countries changes somewhat. The United States is now ranked 2 rather than 7, while Taiwan is ranked 6th rather than 36th. These changes seem more realistic than the original KFPPI rankings.

On the other hand, the picture for many other countries is more or less the same—Morocco is now 46th rather than 47th, Egypt is 54th rather than 60 th and so on. More importantly, the new rankings illustrate the fundamental problem of globalization indexes. Ultimately, all are arbitrary.

Globalization and Reforms

Despite its limitations, the KFPPI is still the only readily available quantification of globalization. As such its value to policy makers lies in its potential to identify many key relationships critical for

national economic development. In their efforts to globalize, should the Middle Eastern countries focus on economic reforms or improved governance? Or, are both types of reforms of relatively equal importance? Are some reforms more effective in the economic area while others best for improving the technological aspect of globalization?

The Kearney/Foreign Policy Summary Measure of Globalization

Splitting the KFPPI over-all ranking of countries into two groups—the top 31 countries or highly globalized economies and the bottom 31 countries or, lesser globalized countries, produces several patterns. First significant differences in governance exist between the two groups of countries ([Table 6](#)). On all of the major dimensions of governance, the top group has significantly higher scores. The greatest gap between the two groups appears to be in the control of corruption followed by the rule of law and government effectiveness.

While the high globalizers also outperform the low globalizers in most of the economic areas (high values in the economic areas indicate a lower level of attainment), the differences between the two do not appear nearly as large as in the governance measures. In fact the low globalizers have lower fiscal burdens than their high globalizer counterparts. In the economic area the high globalizers have the biggest lead in eliminating the informal (black) markets, developing sound banking and finance sectors and in implementing good trade policy (openness).

Given the KFPPI rankings and country reform efforts in the governance and economic freedom areas, its possible to assess [[17](#)] the extent to which globalization is linked to the progress made in a country's liberalization efforts. Put differently, which reforms or interaction of reforms drive globalization [[18](#)]?

The results of this assessment produced some interesting findings ([Figure 1](#)). First, governance measures dominated the country grouping structure best describing the KFPPI ranking. Specifically, based on progress made in improving the rule of law, countries can be grouped [[19](#)] into three distinct categories: (1) a low rule of law grouping of 31 countries with a mean globalization score of 45.8, (2) a medium attainment rule of law grouping of 19 countries with a mean globalization score 22.6, and (3) a final group of 12 countries at the high-end of the rule of law scale. This group's mean ranking on the KFPPI scale was 8.5.

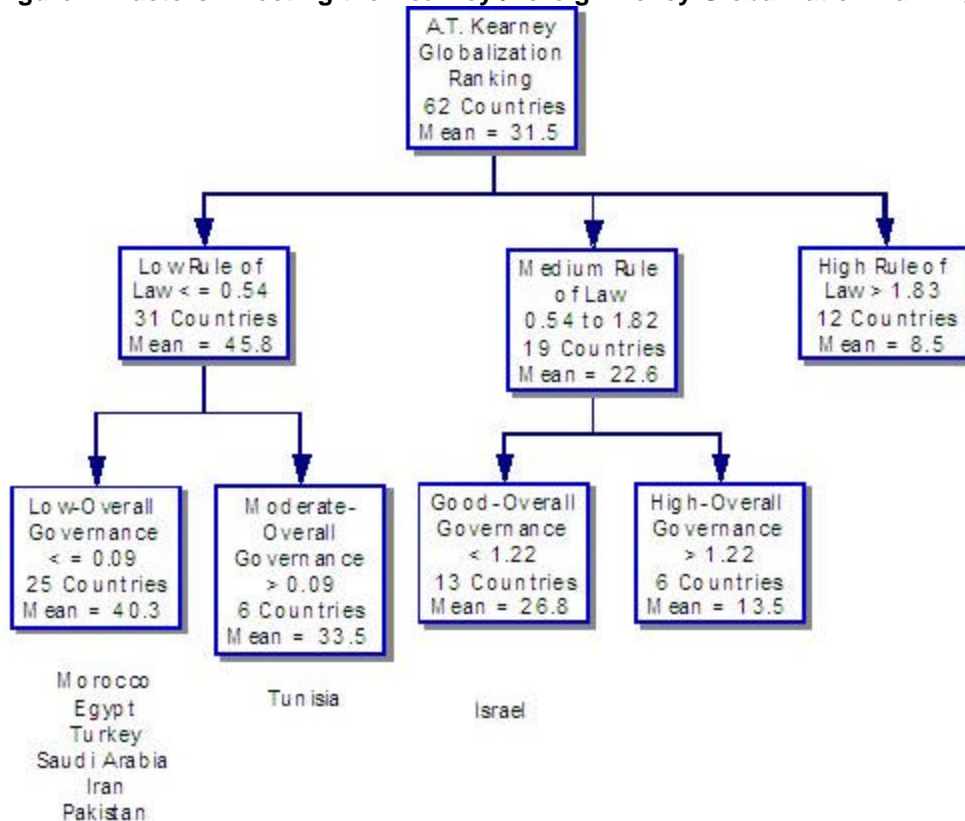
Second, for the bottom two clusters of countries, an additional statistically significant split exists. This split is controlled by progress made in an average of the six measures of governance. For the 31 low rule of law countries, this split produces two more distinct sets of countries—25 countries with low overall governance and 6 countries with a moderate level of governance. The first group contains 6 Middle East (and Pakistan) countries, Morocco, Egypt, Turkey, Saudi Arabia and Iran. These countries clearly are at the lower end of the governance scale with there globalization prospects held back by the lack of progress in this area. Tunisia 's governance efforts have paid off somewhat placing that country in the next set of countries. Finally, Israel with the highest level of governance and globalization in the region is classified along with 12 other countries in the medium rule of law, good overall governance grouping. This group has a mean globalization score of 26.8.

As noted earlier, causation is always an issue in discussions of globalization. In this case is it possible to argue that improved levels of globalization (however attained) placed pressure on governments to improve their rule of law in order to remain competitive in the world economy? Or is the relationship from mainly from one of improved rule of law facilitating a higher level of globalization?

To test the manner in which globalization and the rule of law impact each other a similar classification tree exercise was performed with the rule of law assumed to be determined by

globalization. The other 5 governance measures and the 10 economic freedom measures were included as possible determinants of the rule of law. The results (Figure 2) suggest that improvements in the rule of law are largely controlled by corruption and not globalization. As control of corruption improves, there tends to be a corresponding gain in the rule of law—globalization does not appear to place an independent set of pressures on countries to revamp their legal systems. From this, we can tentatively conclude that improved governance, in this case through the rule of law, provides support for increased degrees of globalization.

Figure 1: Factors Affecting the Kearney /Foreign Policy Globalization Ranking



The General Globalization Index

To see if the general globalization index derived (Table 5) from the KFPGI rankings paints an analogous picture, a similar classification analysis was performed on the index presented in Table 5. The results (Figure 3) are of the same rough order of magnitude as was the case with the KFPGI. Again, governance reforms dominate the structure of relationships, with corruption entering directly (rather than through the rule of law as with the KFPGI) to partition the globalization index into three groups of countries.

As expected, a country's globalization ranking improves with improved control over corruption. Countries with high levels of corruption can offset this impediment somewhat through improving their regulatory quality as in the case of Turkey. Clearly though, a more efficient strategy is to face corruption directly as in the case of Israel, Morocco, Tunisia and Saudi Arabia. Finally causation likely runs directly from corruption to globalization (higher negative means in Figure 3 represent higher ranks on the general globalization index).

Figure 2: Factors Affecting the Rule of Law Index

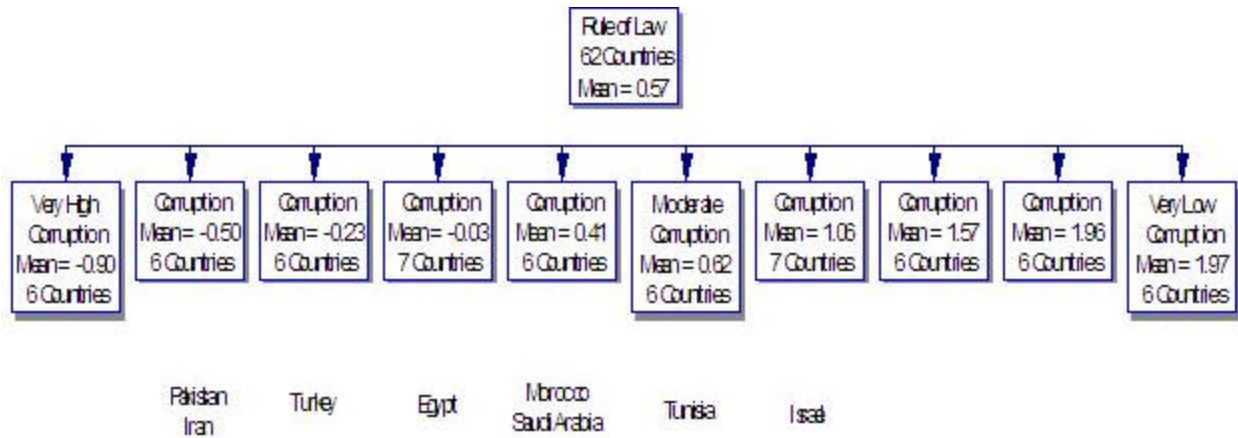
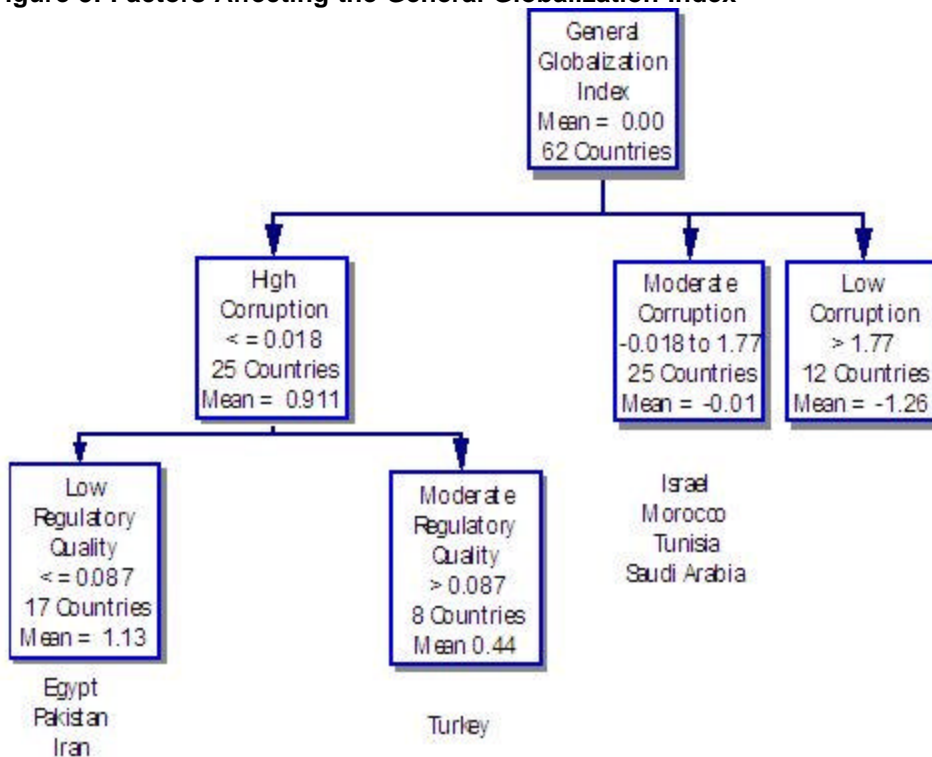


Figure 3: Factors Affecting the General Globalization Index



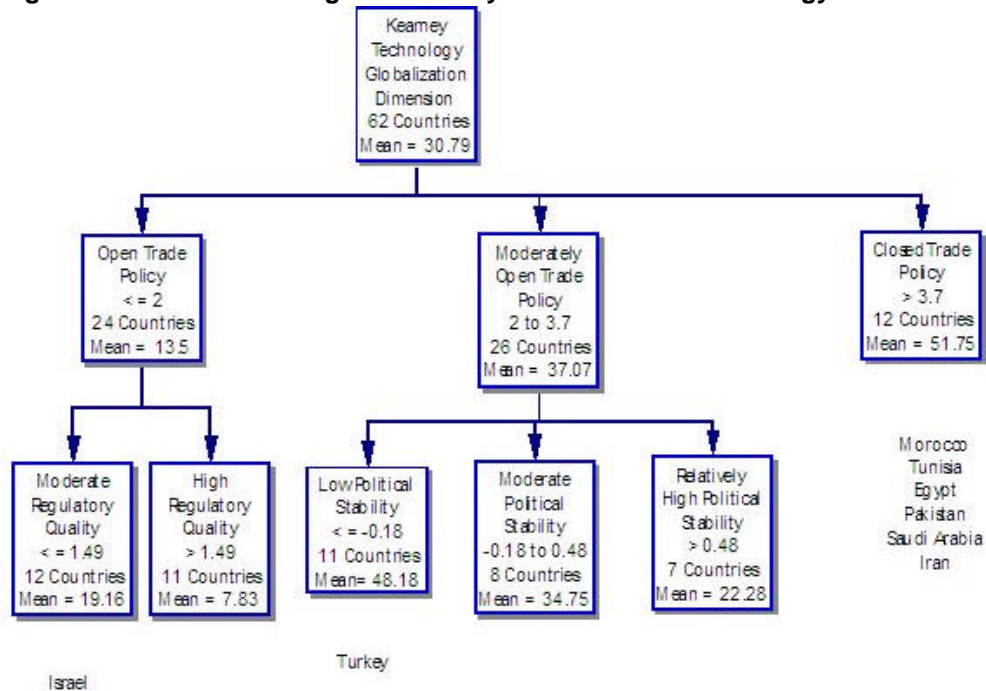
The results from the analysis of the general globalization index suggest that the KFPGI rankings in the sub categories of technology, economic globalization, personal globalization, and political globalization are likely to be robust enough to warrant further analysis.

The Kearney/Foreign Policy Globalization Sub-Components

In the case of technological globalization (Figure 4), economic variables enter for the first time. Countries fall into groups of ascending technological globalization depending on the extent to which they formulate an open trade policy. Specifically, the twenty-four countries with a very open

trade policy have a mean technological globalization ranking of 13.5, whereas the bottom 12 countries in terms of trade openness have a mean ranking of 51.75 (with 62 the lowest rank).

Figure 4: Factors Affecting the Kearney Globalization/Technology Index

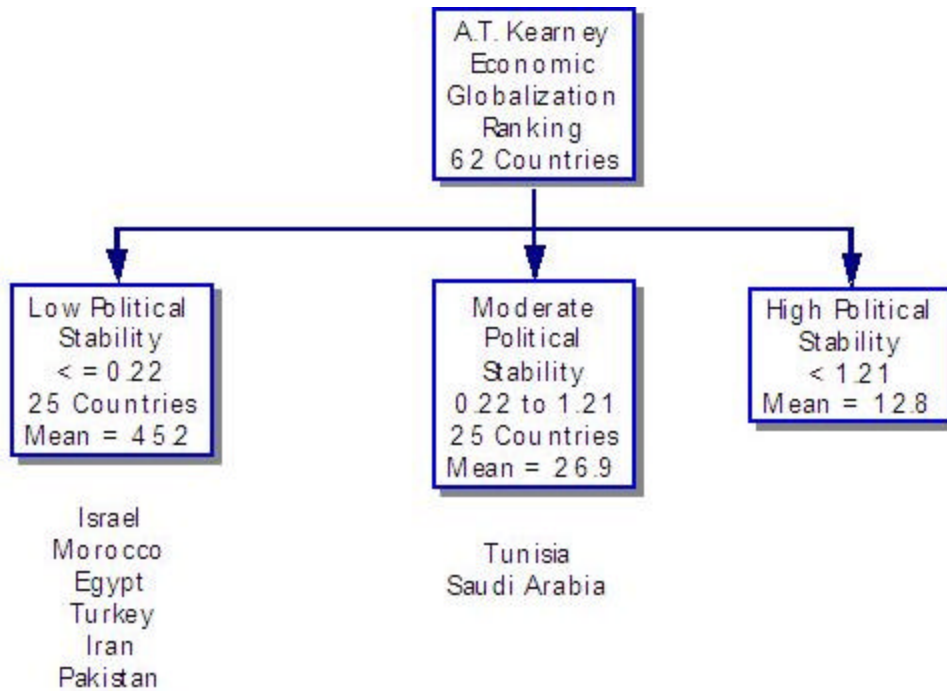


Those countries at the top of the trade policy scale have improved their technological globalization ranking even further through the establishment of a high quality regulatory environment. Of the Middle Eastern countries in our sample, only Israel appears position to increase through improved regulation its regulatory environment. Turkey on the other hand falls in an intermediate trade-openness group. The country's low mean score on the technological globalization index is due to its trade policies, but within that context, could be improved somewhat through improved political stability.

Unfortunately most of our sample Middle Eastern countries fall in the bottom category due to their relatively closed economies. If these countries want to get linked in with the flow of world-wide technological information, they must place concerted efforts into opening their economies through improved trade policy. As noted above, given the fact that several of these countries are not even members of the World Trade Organization, it may take some years before significant progress is made in the technological area.

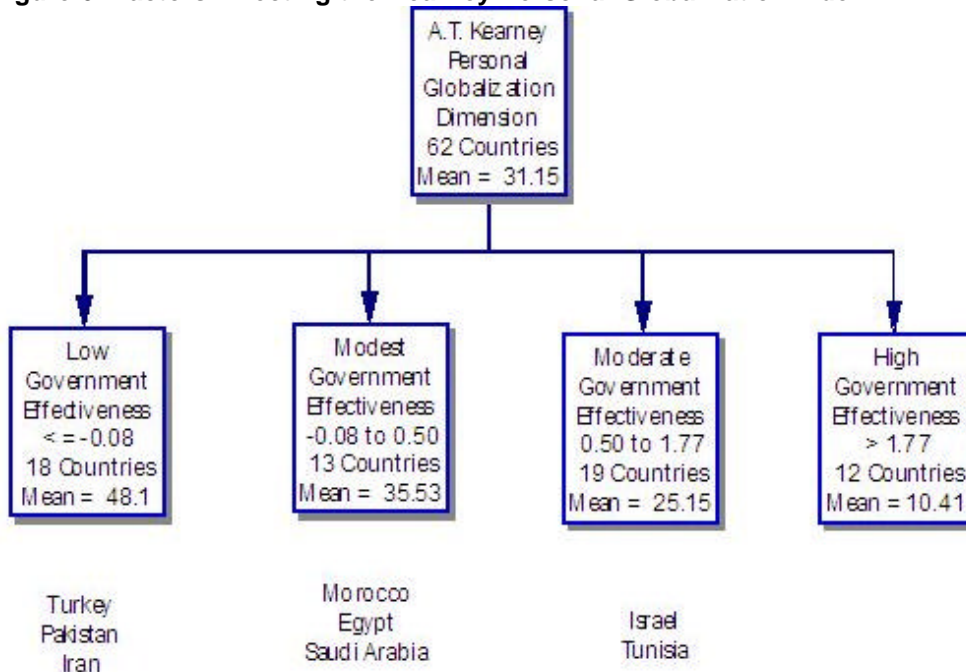
KFPGI rankings are controlled by political stability with three main clusters of countries partitioning the rankings (Figure 5). Most of the Middle Eastern countries fall in the lower group, with only Tunisia and Saudi Arabia advancing to an intermediate group of countries with a mean ranking on the globalization scale of 26.9. Again governance measures dominate the country grouping process. Still, this result is somewhat surprising in the sense that none of the 10 major measures of economic freedom play a statistically significant role in affecting the grouping of countries along this dimension of globalization.

Figure 5: Factors Affecting the Kearney Economic Globalization Index



Government effectiveness is the most significant factor clustering countries along the personal globalization dimension (Figure 6). In contrast to several of the previous globalization dimensions, the Middle Eastern countries are fairly spread out along the personal globalization scale, with Turkey, Pakistan and Iran in the bottom group of countries, while Israel and Tunisia are in a group of 19 countries just below the top group.

Figure 6: Factors Affecting the Kearney Personal Globalization Index



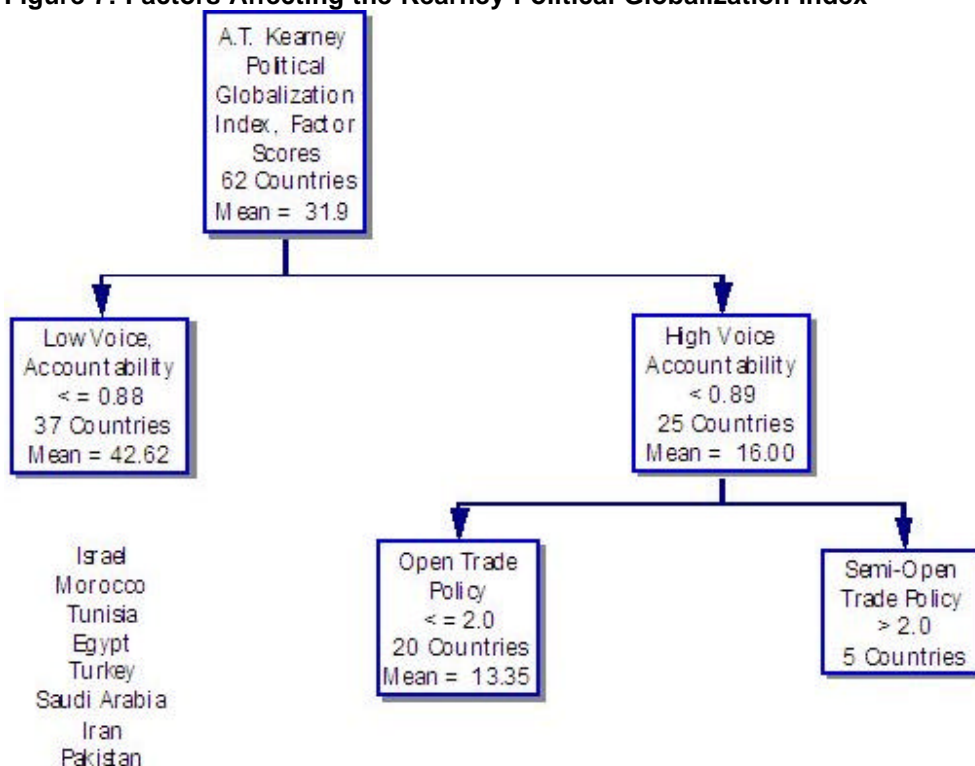
Finally, the main split in the political globalization scale of countries is formed by the voice-accountability measure of governance (Figure 7). Two groups of countries are present: a fairly large group of 37 countries with relatively high deficiencies in voice and accountability and a higher group of 15 countries with a mean political globalization ranking of 16. All of the Middle Eastern countries fall in the low group. While countries in the high group appear to have the option of increasing their globalization along this dimension through improved trade openness, the Middle Eastern countries will have to place most of their efforts into improved voice governance before this option becomes available.

Assessment

While imperfect, the FKPGI is capable of providing some useful insights to the process of globalization. For the Middle East countries wishing to improve their integration into the world system, improvements in the various areas of governance have the greatest pay-offs at the present time. In this sense the U.S. approach developed in its recently proposed Broader Middle East Initiative[20], focusing on democracy and governance issues appears on the right track.

The task is enormous, however, facing considerable resistance throughout the region. In part, some of this resistance may stem from the fact that there is a sizeable imbalance in the way the region has preceded with liberalization. Much more progress has been made in the economic freedom area relative to the various dimensions of governance. No doubt this has resulted in many of the key countries being exposed to some of the competitive rigors of international competition, while at the same time not possessing the domestic institutions capable of enabling the countries to take advantage of opportunities opened up by increased integration into the world system. This has resulted in a negative perception of globalization throughout most of the region.

Figure 7: Factors Affecting the Kearney Political Globalization Index



Several years ago and before September 11, the CIA's[21] view of globalization in the Middle East resembled in part the bleak picture painted at the start of this essay:

1. By 2015 in much of the Middle East populations will be Significantly Larger, poorer, more urban and increasingly disillusioned.
2. More than half the population of the Middle East region is below 20 years of age; this will also be the case in 2015, with the labor force growing at an average rate of 3.1 percent a year. Weak educational systems will have produced a generation lacking the technical and problem-solving skills required to accelerate economic growth.
3. Attracting foreign direct investment will also be difficult: except for projects in the energy sector investors will, on the whole, tend to shy away from these countries, discouraged by overbearing state sectors, heavy, opaque and arbitrary government regulation, underdeveloped financial sectors, inadequate physical infrastructure, and the threat of political instability.
4. With the exception of Israel, Middle Eastern states will view globalization more as a challenge than an opportunity.
5. Although the internet will remain confined to a small elite due to relatively high cost, underdeveloped infrastructures, and cultural obstacles, the information revolution and other technological advances probably will have a new destabilizing effect on the Middle East by raising expectations, increasing income disparities and eroding the power of regimes to control information or mould popular opinion.
6. Most Middle Eastern governments recognize the need for economic restructuring and even a modicum of greater political participation, but they will proceed cautiously fearful of undermining their rule.
7. The nature of many Arab regimes is likely to push them to cling to more traditional paradigms. Inequalities between and within states will grow with devastating effects on economic opportunity, resulting in increasing poverty and alienation of the masses.
8. No single ideology or philosophy will unite any one state or group of states in response to these challenges, although popular resentment of globalization—which is perceived in the Middle East as a western intrusion—will be widespread.

In addition to these factors and the negative perception of globalization stemming from the reform imbalances noted above, the failure of most Middle Eastern countries to participate actively in the world system stems from the fact that, with the notable exception of Israel, globalization has been presented in largely ideological terms. It has been promoted by a few, but attacked by many more as a new version of imperialism or unequal power.[22] A common perception throughout the region, perhaps a holdover from colonial days, is that increased globalization is a threat to political, economic and cultural independence. Imagined dangers include:[23]

1. The imposition of a cultural homogeneity based on western secular market-based values;
2. The example set by internationally sanctioned and highly selective interventions against “pariah states” such as Sudan, Libya and Iran;
3. The use of notions of human rights to push agendas driven by European and US concerns with gender equality, youth culture and sexual freedom; and
4. The destruction of local industry by outside competition and the imposition of unattainable labor and work-place standards.

Many of these negative views of globalization are reinforced by governments afraid of transparency and a variety of vested interests anxious to protect privileged monopolies created during the high tide of protectionism. Even regimes which claim to be committed to promoting globalization—such as Egypt, Jordan, Tunisia and Morocco—hover ambiguously between entry into the new global order and the type of managed modernization more characteristic of the immediate post-colonial period.

In short, while the attempts on the part of the West to encourage more democratization and improved governance in the region are well intended, these efforts are not likely to find many like minded advocates in the region in positions of authority. These realities suggest that the U.S. and the West's objectives might be better served through a more low-key approach toward assisting the Middle Eastern countries into the world system. In this regard the recently proposed Middle East Free Trade Association (MEFTA) might be an effective alternative to the more direct Middle East Initiative approach.

For one thing, the analysis above suggests that a more open trade policy has a direct link to improved technological globalization. Trade policy also appears to improve political globalization. Building on these types of relationships a recent OECD study^[24] found that increased trade openness was a strong factor reducing corruption, a key governance dimension currently holding back the region.

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17. For this purpose a classification tree was developed. See AnswerTree 3.0 User's Guide (Chicago: SPSS, Inc, 2001) for a description of the program and logic underlying classification trees.
18. The predictive variables were the six governance measures and ten economic freedom indices listed in Table 6, as well as an overall average of the governance variables and the economic freedom measures. The reforms are averaged over the 2000-2002 period and the Kearney globalization rankings are for the year 2002 (the latest year available).
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