

Topics for the June Dubai Executive Program

WITH READINGS

Growth, Globalization, and the Gulf

Length: 16 Time slots, including 12 Topics =
(3 topic-lectures of 1.5 hours each + 1 overview lecture with discussion) each day x 4 days

JF = Jeffrey Frankel AK = Asim Khwaja

Sunday, June 10

I. Introduction and the Global Outlook [JF]

READING:

World Economic Outlook (International Monetary Fund: Washington, DC), Chapter 1.
Global Prospects and Policy Issues, April 2007.

[Available at: <http://www.imf.org/external/pubs/ft/weo/2007/01/index.htm>]

- a. Growth rates globally and by region
- b. Downside vulnerabilities
- c. Current Account imbalances:
 - i. US deficits
 - ii. surpluses among East Asians and oil-exporters
- d. Financial Boom and Bust Cycles
 - i. Patterns across markets
 1. Stock markets
 2. Real estate markets
 3. Mineral Commodities
 4. Emerging markets
 5. Currencies
 - ii. Fundamentals
 1. The role of productivity and growth
 2. The role of liquidity and interest rates
 - iii. Possible bubbles and crashes
 1. Managing capital inflows
 2. Speculative attacks
 3. Contagion
 4. Managing crises in emerging markets
 - iv. What, if anything, is different this time?

II. Why Do Some Countries Perform Better Economically? [JF]

An overview of the factors that economists believe – based on theory or statistical evidence – cause some economies to grow faster in the long run than others

READING:

"Why Economies Grow the Way They Do," *Canadian Business Ec.*, 6, no. 1, Sept. 1998. [Working Paper version available at <http://ksghome.harvard.edu/~jfrankel/Topicindex.htm> Trade and Growth]

- a. Domestic factors from neoclassical growth theory (investment, human capital, population growth)
- b. Total Factor Productivity
- c. Climate for markets (incl. economic freedom, political and monetary stability, rule of law, etc.)
- d. Geography (e.g., tropics vs. temperate zones)
- e. Convergence
- f. Openness

III. Asian success [JF]

READING:

[Charles Hulten and Sylaja Srinivasan, "Indian Manufacturing Industry: Elephant or Tiger? New Evidence on the Asian Miracle," NBER Working Paper 7441. Dec. 1999.]

- a. factor accumulation vs. TFP
- b. initial conditions: income distribution & education
- c. the flying geese pattern
- d. What about culture and "Asian values"?
 - i. Max Weber: Protestantism vs. Confucianism
 - ii. Communist vs. capitalist China
 - iii. Barro & McCleary: Religious denomination has no effect
- e. China
- f. What about the crises of 1997-98?

IV. Overview: Performance Across Countries [JF]

Monday, June 11

V. The Role of the Public Sector : proper balance between government & private sector [AK]

READING:

Chapter 2.1 of Arab Competitiveness Report. (Future trends in healthcare, 10 pages)
http://www.weforum.org/pdf/Global_Competitiveness_Reports/Reports/chapters/2_1.pdf)

- a. Proper role of the public sector: How big should it be?

- b. How are outlays financed: taxes, domestic borrowing, monetization, foreign borrowing?
- c. The case for letting the market allocate resources
- d. Market failures:
 - i. externalities and public goods,
 - ii. monopoly,
 - iii. income distribution,
 - iv. imperfect information and missing markets
- e. Appropriate responses
 - i. Regulation vs. budget policy
 - ii. Targeting the remedy to the market failure
 - iii. Price mechanisms (taxes) vs. quantities vs. command-and-control

VI. Problems of governance [AK]

READING:

“Improving Public Sector Governance: The Grand Challenge?” The World Bank, [at <http://www1.worldbank.org/publicsector/anticorrupt/corecourse2007/Campos.pdf>]

- a. Government failures
 - i. information,
 - ii. regulatory capture,
 - iii. rent-seeking and corruption.
 - 1. What, if any, are the economic costs?
 - 2. Good and Bad Corruption?
 - 3. Cultures of Corruption?
 - 4. Case: Political Rent provision
 - 5. Case: Creating a “market” for corruption - Corruption and competition
- b. Organizational Challenges
 - i. Selection vs. Incentives
 - ii. Decentralization & Delegation
 - iii. How much to regulate
 - iv. Case: Public vs. Private Education
 - v. Case: Higher Education – Creating the teachers of tomorrow
- c. Investment projects
 - i. Time discounting
 - ii. Decision-making under uncertainty
 - iii. Cost-benefit analysis
 - iv. Financing (e.g., issuing municipal bonds, Build-Operate-Transfer, etc.)
 - v. Project evaluation

VII. Alternative Institutions and Models of Capitalism [JF]

READING:

J. Frankel, "[Promoting Better National Institutions: The Role of the IMF,](#)" [KSG RWP03-010](#). *IMF Staff Papers*, 50, 2003. [WP version available at <http://ksghome.harvard.edu/~jfrankel/currentpubsspeeches.htm> #On Economic Development]

- a. In the 1980s, Japan and East Asia seemed to offer specific brands of capitalism that were superior and suitable for emulation by others:
 - i. Government guidance

- ii. Importance of social groups over the individual
- iii. Long investment horizons, not short
- iv. Firms maximize size (capacity or market share)
- b. In the 1990s, the Asian model was tarnished:
 - i. US triumph over USSR
 - ii. Japanese stagnation
 - iii. East Asia crises of 1997-98 .
- c. The U.S. seemed to offer a superior model.
 - i. Laissez faire approach of government
 - ii. Rule of law instead of crony capitalism
 - iii. Good accounting practices & corporate governance; dotcom startups
 - iv. Firms maximize profitability or equity price
- d. Now the superiority of the US model has been tarnished
 - i. Examples in economics
 - 1. Bursting of IT bubble in 2000
 - 2. Enron & other corporate scandals in 2001
 - 3. return thereafter of huge twin deficits and powerful special interests.
 - 4. Lack of gains for median household and below.
 - ii. Other examples
 - 1. Contested 2000 election
 - 2. Foreign policy: unilateralism
 - 3. Domestic social policy: government intrusion on private rights.
- e. Where is the next model to come from?

Small countries on the periphery offer individual lessons:

 - i. New Zealand's inflation targeting
 - ii. Mexico's poverty programs (Progresa) & electoral commission
 - iii. Estonia's flat tax
 - iv. Chile's fiscal rule
 - v. Norwegian Pension (Petroleum) Fund
 - vi. Botswana's governance
 - vii. Singapore's openness & Provident Fund
 - viii. Ireland's low corporate taxes and welcoming of FDI.
- f. Should political reform come before or after economic reform?

VIII. Overview: Role of the Public Sector [JF & AK]

Tuesday, June 12

IX. Religion and Economic Development [AK]

READINGS:

Summary of Robert Barro and Rachel McCleary's "Religion and Economic Growth," NBER WP No. 9682, 2003, in *NBER Digest*, Nov. 2003.

available at <http://www.nber.org/digest/nov03/w9682.html>

Letter written by Malcolm X on the Hajj, in chapter titled "Mecca," The Autobiography of Malcolm X. First Ballantine Books: February 1992. Pages 390-93.

[Available at: <http://www.lancs.ac.uk/socs/islamic/documents/hajj2.htm>]

- 1. "Spiritual Capital" as an endowment
 - a. Is Islam compatible with growth
 - i. controlling for oil and female literacy/labor force participation?
 - ii. Barro & McCleary: Religious denomination has no effect
 - b. Islamic banking

- c. The Broader Islamic economic system? (finance, trade, contracts)
- d. Case: The impact of the Hajj
- e. Case: The economics of Extremism/Madrassas

X. Industrial Policy and The Case of Regional Hubs [AK]

READINGS:

Michael Porter, 1998. "Clusters and the new economics of competition," *Harvard Business Review*: 77-90.

Afshin Molavi. "The New Silk Road" *Washington Post*, Monday, April 9, 2007, PA13. Chapter 2.2 of *Arab Competitiveness Report*. (Competitiveness of Tourism industry)
http://www.weforum.org/pdf/Global_Competitiveness_Reports/Reports/chapters/2_2.pdf

- a. Global patterns of industrialization & firms in developing economies
- b. Industrial Policy: Picking winners vs. Identifying Constraints
- c. Theories of clusters and networks
- d. Possible functions of hub(s) in the Gulf
 - i. Entrepots for trade; transportation nodes (Singapore analogy)
 - ii. Financial centers
 - iii. Cultural/Intellectual centers
 - iv. Bridge between the Muslim world and the rest (Hong Kong analogy)
- e. Examples
 - i. Global (by time zone): London, New York, Tokyo
 - ii. Regional: Singapore, Sidney, Johannesburg
 - iii. Mideast: Beirut, Cairo, Dubai, other possible Gulf rivals

XI. Labor Markets and Migration [AK]

READINGS:

Roula Khalaf. "Gulf struggles to narrow nationals jobless gap." *Financial Times*, April 26 2007. p.10.

Al-Kibsi, G., Benkert, C. and Schubert, J., *Getting labor policy to work in the Gulf*. The McKinsey Quarterly. 2007 special edition: Reappraising the Gulf States

- a. Guest workers: Skilled and Unskilled
- b. Locals: Entrepreneurs or Capitalists?
- c. Labor Dynamics - Future concerns
- d. Case: Guest Workers and "Home Production"
- e. Emigrants remittances
- f. Education

XII. Overview: Some special problems of the Gulf [AK]

Wednesday, June 13

XIII. Oil and the Natural Resource Curse [JF]

READINGS:

Xavier Sala-i-Martin and Arvind Subramanian, "Addressing the Natural Resource Curse: An Illustration from Nigeria," NBER Working Paper No. 9804, June 2003.

Nancy Birdsall and Arvind Subramanian, "Saving Iraq From Its Oil," *Foreign Affairs*, July/Aug. 2004, vol. 83, no. 4, pp. 77-89.

- a. Examples (oil-rich Mideast vs. Japan, Korea, Singapore, HK; Peru vs. Chile; Zambia vs. Botswana)
- b. Relative price of mineral commodities
 - i. More volatile than for other sectors
 - ii. Is there a long run price trend for oil, up or down?
- c. The Dutch Disease from commodity booms
- d. Resource abundance may adversely affect quality of institutions
 - i. Engerman-Sokoloff hypothesis (extraction by mine & plantation => societies without incentives; e.g., colonial N. America vs. S. America).
 - ii. Corruption
 - iii. Mechanisms to deal with it
 1. Extractive Industries Transparency Initiative
 2. Norway's Petroleum/Pension Fund
 3. Chile's fiscal system: system: rule, commissions & Fund

XIV. The Challenge of Globalization [JF]

READING:

J.Frankel, "Globalization of the Economy," in Governance in a Globalizing World, J. Nye & J. Donahue, eds., Brookings Institution Press, Washington, DC, 2000, 45-70.

- a. How far has globalization of trade gone?
- b. The effects of trade openness on growth
- c. Effects of globalization on other objectives (environment, inequality)
- d. Global Governance (WTO, IMF, World Bank, etc.)

XV. Macroeconomics in the Gulf [JF]

READINGS:

"Oil exporters learn to favour investment," *FT*, Oct. 4, 2005.

"Dubai calls a halt to breakneck development," *FT*, March. 23, 2007.

"Inflation-hit Saudis plan spending curbs," *FT*, May 9, 2007 .

"The Petrodollar Peg," Economics Focus, *The Economist Newspaper*, Dec.7, 2006. at http://www.economist.com/finance/displaystory.cfm?story_id=E1_RPRDSTP

"GCC Revaluation Watch," Brad Setser, Apr.3, 2007. <http://www.rgemonitor.com/blog/setser/187233/>

"Gulf rulers agree to keep dollar peg," Reuters, in *The Peninsula*, Qatar, Apr.18, 2007.

- a. Use of the recent windfall by oil exporters, as compared to 1970s
- b. Exchange Rate Regimes and the GCC
 - i. Fixed exchange rates vs. Floating vs. Intermediate
 - ii. Optimum Currency Areas, Regional Monetary Unions & prospects for GCC MU
 - iii. What should be the external exchange rate policy of a GCC currency?

XVI. Overview: Prospering in a Globalized World [JF & AK]