

*Akimov A., Belokrenitsky V., Deryugina I.\**

## **Peculiarities, Problems, and Perspectives of Economic Development of South Asia, Middle East, and North Africa. General Issues of Economic Development (Presentation of discussions held on March 20, 2017 at the Economic Conference in the Institute of Oriental Studies, RAS)**

Technological section and discussions on East Asia and South East Asia held at the conference were covered in previous publications of *Eastern Analytics*. At the conference the South Asian issues were discussed by V. Belokrenitsky, A. Goriacheva, S. Kamenev, A. Obukhova, U. Okimbekov, L. Pechishcheva. The main point of discussion was economic gap and perspectives of the region.

*S. Kamenev* (Institute of Oriental Studies, RAS) in the report **Challenges for GDP estimation in India and Pakistan** argues that the main figures of the economic development for the major Asian countries are the growth rates and per capita income despite shortcoming of these characteristics. The System of the National Accounts Statistics provides an opportunity to estimate GDP with three different methods – output, income and expenditure, which any country may use independently.

But in practice the Asian countries can use the first and the third methods only. Moreover, one can watch the failure of full use expenditure method in a proper way. This is due to the absence of the regular data for private consumption which is important and significant part of GDP. It leads to the failure to check the GDP rates, calculated with two possible independent ways. Unfortunately this is natural for two giant South Asian countries, India and Pakistan, with the common population of more than 1.5bln which is twenty percent of the world population.

Another kind of distortion is connected with the change of the base of GDP estimation. From one point the base adjustment is necessary to accommodate changes in the structure of the economy, new definitions, methods or latest surveys. But from another point the frequent and proofless change of GDP base make the growth rates incomparable. Exactly it has been done in India and Pakistan in the first decade of the 21<sup>st</sup> century, i.e. shifted in Pakistan from 1999–2000 to 2005–06 and in India from 2004–05 to 2011–12.

One can find also several external reasons that impede economic growth and the main bar in this regard is a poor weather condition, which restrains agricultural development. It was happened so in India and Pakistan in 2015–16, when the volume of value added in agriculture decreased. As a result the growth rates in both countries were less one or two percent versus planned.

But sometimes crude monetary measures may challenge slowdown not only in banking system, but in the economy in a whole. It happened so in India in November 2016, when the government of Narendra Modi announced the two largest denomination notes, Rs 500 and Rs1000, were “demonetized” with immediate effect. At one fell stroke, almost 90 percent of the cash in circulation was thereby rendered invalid. These notes were to be deposited in the banks by December 30, 2016, while restrictions were placed on the convertibility of domestic money and bank deposits. The purposes of the action were beneficial and aimed to curb corruption and especially the accumulation of “black money”, but triggered short-term collapse in banking system and as a consequence reduced the growth rates for 1 percent in fiscal year 2016–17.

*L. Pechishcheva* (Institute of Oriental Studies of the Russian Academy of Sciences) in her report **India and Germany: Contemporary Economic Cooperation** insists that today economy is one of the main directions of the Indo-German cooperation. India and Germany conduct forums and sign mutually beneficial agreements, among them are Trade Agreement of 31 March, 1955; Exchange of Notes on the protection of German investments in India of 15 October 1964; Agreement for the Avoidance of Double Taxation, which came into force on 19 December 1996; Agreement for the Promotion and Protection of Investments, which came into force in July 1998. Among the key Indo-German trade and economic institutions are the Indo-German Chamber of Commerce (IGCC) (1956). The CCI headquarters is located in Mumbai, and its foreign offices are situated in New Delhi, Calcutta, Bangalore and Dusseldorf, as well as the German Corporation for International Cooperation (GIZ).

Germany is one of India’s largest economic partners in Europe, as well as it is one of India’s top ten trading partners in the world. In 2015 India ranked the 25<sup>th</sup> in Germany’s trading partners. Moreover, Indo-German investments were increased from 2000–2008 more than by 3 billion euro, thus, making Germany the third largest investor after Great-Britain and the Netherlands in Europe and the seventh in the globe. In general, from 2000 to 2016 Germany’s direct investment in India was estimated at 9.54 US billion dollars.

India’s trading partners consider its growing economic and political influence in Asia and the world. However China leaves behind India in a number of indicators. Since the 1980s China annually demonstrated an economic growth rate about 10 per cent, and India, thanks to its economic reforms of the 1990s, could reach about 8 per cent. In addition, India still has serious problems in the social sphere: a higher level of poverty than in China, drawbacks in school education, a lower level of literacy, there are also trends disintegrating the society, including religious and caste characteristics. Moreover, the implementation of economic reforms in a multi-faith and multi-ethnic society under the conditions of democracy and multi-party system entails some difficulties.

At the same time, India in comparison with China has a number of advantages that could provide it with the economic success. So, India has a well-developed system of democratic institutions, the bedrock of civil society, legal proceedings

that protect private property. India has an actively developing sector of high technologies, based on major achievements in the system of higher education. Besides, India does not face the problem of aging population like China. The advantage of India, compared to China, is that liberalization and globalization of its economy are not threatened by the undermining or destruction of its political system. There is also a good infrastructure for the privatization of the state-owned enterprises in India.

Thus, the cooperation between India and Germany in the 2000s passed through the period of active transformation and it is currently developing quite rapid. In the context of globalization, India and Germany possess political, economic, cultural, scientific and technical resources for the development of their strategic partnership.

Middle East and North African situation was discussed by S. Babenkova, G. Gukasian, A. Fedorchenko, and A. Filonic. Political influence on economic development was discussed especially.

G. Gukasian, (Institute of Oriental Studies of the RAS) in his report **The Strategies of Economic Development of the Gulf Co-operation Council Member States** says that when we discuss interconnection between economic and political factors of socio-economic situation in Arab region, on the example of GCC states it is obvious that here a “pillow” of safety in the form of oil income reserves provided absence of any political tension for all past years (except some unrest on Bahrain and single terrorist attacks in Saudi Arabia). Economic strategies of GCC states were based on gradual movement towards economic diversification with leading role of state sector and state investments, and promotion of private sector productivity.

Since 2014 oil prices slump nudges GCC monarchies to begin deep changes in strategy of utilization of oil revenues. Requirements for changes have been announced on the top level, particularly in Saudi Arabia new Transformation Plan “Saudi Vision 2030”, and demands to raise non-oil government revenues and the private sector contribution into creation of non-oil income and employment. However, the rate of economic changes will depend on the oil prices fluctuations, as higher oil prices usually held up restructuring steps (especially in Qatar and Kuwait).

In the case of long-term stagnation of oil prices at a level of 50–55 \$ per barrel, Saudi Arabian economy, the largest economy of the Arab world, will have to undertake restructuring first amongst GCC, as Saudi Arabia has large-scale economy and labor force. But any acceleration of economic restructuring would not occur until oil prices plunge at a lower level. As GCC economies are closely linked to Saudi Arabian economy, Saudi situation must influence socio-economic stability in the GCC.

The central problem of the GCC economic strategies restructuring is changing of fiscal model, as well production and employment model. Reducing of subsidies and introducing of different taxes in GCC states must be combined with investments and privatization steps aimed at establishment and effective development of new

sectors of non-oil economic activity, including innovative and export-oriented industries. But still now it is not clear how soon GCC economies could reach real results in the course of economic restructuring without undermining of social well-being (at first in Saudi Arabia, Oman, Bahrain and partly in the second Arab economy – UAE, where small local population and the place of UAE as transport and tourist center makes problem of reforms easier).

S. Babenkova (Institute of Oriental Studies, RAS) in her report **Characteristics and Prospects of Development of «Shadow Economy» of Arab Countries** insists that «shadow economy» is one of the biggest problems in the modern economy of the countries of Middle East. It is influenced by ISIS (terrorist organization prohibited in Russia) created on the territory of Syria and Iraq, military operations occurring in Yemen with the participation of representatives of Saudi Arabia, actions of new Libyan authorities that came into power after the deposition of Moammar el-Gadhafi, consequences of «Arab Spring». As it was mentioned in the theses, at the present time there is no consistent definition of the concept «shadow economy», and researchers disagree on its components. The aim of this speech is to offer the following definition: «Shadow economy» is the economy whose activity causes socio-economic damage to the state».

It is needed to mention that calculations of the volume of «shadow economy» by specialists haven't been produced since 2007. The actual calculations of the volume of «shadow economy» given in the theses to the conference are not based on calculation data, but on empiric evidence. It is needed to mention that to some peculiarities of «shadow economy» of Arab countries can be related big illegal migration movements between countries (from countries with the low level of economic and social development to countries with the high level of development), fund transfers circuit-wise «Hawala», large volumes of slave trade (not only in the areas under the control of ISIS), and, for instance, selling minority girls from Yemen to sexual slavery to the Gulf states, narcotic drugs and arms smuggling (network of these deliveries is spread from the Gulf states to the Maghreb countries). The issues of corruption also arouse interest as it is known that in some Arab countries the issues of «financial and material gratitude» are not in the field of the Penal or the Administrative Code but included in traditional business practice. In the field of banking or financial markets it needs to be mentioned that non-using entirely laws regulatory stands counter to legalization (laundering) of proceeds got illegally, financing of terrorism, and the absence of transparency in disclosure of information about ultimate beneficiary at the financial reporting of major national corporations can also contribute to supporting of «shadow economy».

Are the prospects of development of «shadow economy» possible? In general, we can mention the fact that «shadow economy» will always exist as a counterpart of legal economy. In Arab countries, as well as in Western countries, it is impossible to eliminate it entirely; it is only possible to reduce its volume and influence on the socio-economic life of population. Will its volume reduce, when will the war with ISIS in Syria and Iraq finish, will there be peace in Yemen, will

the Israel-Palestine conflict be resolved, etc.? The answer will be positive, but the difficulty of researching processes occurring in the «shadow economy» lies in the fact that this field of study is not in the economic (financial) sphere, but in the sphere of *social relations* between the state (represented by the authorities) and the people.

Several general issues of economic development of Asian and North African states were also discussed in the conference.

V. Kandalintsev (Institute of Oriental Studies, RAS) in the report **Globalization and the investment process** says that the current stage of globalization is often associated with the manifestation of authoritarian tendencies in economic policy. This became especially evident after the election of Donald Trump the President of the United States. In my opinion, we are dealing with the usual “pendulum” between dirigisme and liberalism. At a certain stage of economic development dominated by liberalism, then it is replaced by a roll to the dirigisme, which in the future will again take a backseat to liberalism.

Relating to the investment process logic dirigisme is appropriate. In this process “launching” stage is the investment climate, the development of which is closely connected with the efforts of the state. This is especially true for such components of the investment climate as openness to foreign direct investment, the quality of the regulatory environment, infrastructure development etc. Comparative analysis of the investment climate in different countries shows that even at approximately equal levels of overall favorability of the climate the particular set of competitive advantages in attracting FDI in each country is unique.

To clearly identify this set, build a strategy for the development of national competitive advantages and to implement it through coordinated action of dozens of public institutions and social organizations is a priority that is impossible to implement without a certain degree of dirigisme. In some cases, such dirigisme may be perceived, especially by the adherents of liberalism as authoritarian tendencies. However, in a broader historical context, we can say that the increase in the diversity and complexity of the problems of economic development makes it relevant to the agenda of more active macroeconomic management, including methods of strategic management.

V. Ivanova (FGBU VGNIKI) in her report **Dynamics and Perspectives of Economic Development of Countries and Regions of the East** says that the human factor (the level of morality, competence of people, willingness and ability to work efficiently) has a large impact on the pace and direction of development of modern country. Its role is very different in Asia. The share of expenses on services of public administration in the consolidated budget expenditure in Pakistan 80.4 per cent, compared to in India –56 per cent (2013), and (2012) in China –9,8 per cent. At the same time, the pace of development of the country is not always proportionate to the management costs. GDP (in national currency; at constant prices) in comparison with the benchmark 2005: in Pakistan – 140 per cent, in India – 192 per cent, in China – 232 per cent. At the same time, there is a direct relationship between the number of individuals enrolled in programs of higher

education in the country, and the growth of the national economy. The number of students in tertiary education per 1000 persons of the population was in 2014 in China. – 31, (in 2005–16), in India in 2013–22 (2005–10), in Pakistan 10 (2005–5).

Choosing the right strategy of development of the country requires a comprehensive knowledge of the formation by the national planner of perspective directions of development of certain industries on the basis of organization of the country, by collecting and discussing information about these areas and various strata of the population. Implementation of the strategic directions for the development of the country requires the understanding and support of the population from these areas, the availability of state resources for these purposes, a certain level of morality and responsibility by the state officials, availability of an effective system of control over the use of public resources, understanding and willingness private investors cooperation, both within the country and abroad.

The growth of the economy, the increase of competitiveness of production on the domestic and international markets can be ensured when the growth of social stratification, political instability and the lack of understanding and support of the people of the country are eliminated or greatly reduced the current political structure, including the system of laws by which the country lives.

The most difficult part in solving these problems is to educate the population to a certain level of morality. Education should be based on national culture, on respect tradition, on understanding of the need to preserve these traditions, to transfer the knowledge and skills from one generation to the others.

V. *Nemchinov* (Institute of Oriental Studies, RAS) in his presentation “**Oriental Political Economy: Past, Present and Future**” briefly outlines the concepts of socio-economic evolution of the East starting with primordial households, hydraulic conglomerations, despotism, Asian mode of production, proceeding then to center-periphery theories, concepts of dependent, catch-up and leap-frog development. Views of such prominent economists as S. Tulpanov, A. Levkovsky, V. Yashkin, G. Shirokov, A. Petrov and other orientalists laid foundation to the newest concepts of Eurasian political economy, to prospects of regional cooperation and to innovative economic development. Positive scenarios drafting the future are contrasted to dissipatory and negative developments in dual economies, plagued by growth of archaic relations and anti-systemic economic destruction that haunts weak and failed states of the region.

Participants of the conference emphasized that the reports cover important and live issues of economic development of the global East.