Chapter 7

The Situation of Knowledge Economy in the Arab and EEE Regions

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ABSTRACT

This chapter introduces different knowledge components and indices and attempts to show their impacts on different economic and development indicators with focus on EEE and Arab economies. It uses mainly descriptive statistics and regression analysis to globally assess these performances. The sets of data used for EEE show already the data limitations faced by Arab economies.

INTRODUCTION

In a global world, it is rather straightforward to find similarities among regions located in different geographical areas or under different cultural regimes.

CEE: Central and Eastern Europe is a term describing former communist states in Europe, after the collapse of the Iron Curtain in 1989/90. In scholarly literature, the abbreviations CEE or CEEC or EEE are often used for this concept. In the sense of the current study, EEE includes all the Eastern bloc countries west of the post-World War II border with the former Soviet Union, the independent states in former Yugoslavia (which were not considered part of the Eastern bloc), and the three Baltic states – Estonia, Latvia, Lithuania – that chose not to join the CIS with the other 12 former republics of the USSR. The transition countries in Europe and Central Asia are classified today into two political-economic entities: CEE and CIS. The EEE countries are further subdivided by their accession status to the European Union (EU): the eight first-wave accession countries that joined the EU in May 2004 (Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, and Slovenia) and the two second-wave accession countries that joined in January 2007 (Romania and Bulgaria). According to the World Bank, the transition is over for the 10 countries that joined the EU in 2004 and 2007.

MENA: Middle East and North Africa is a term describing the Arab countries from the Middle East and the northern part of Africa. According to the World Bank definition, MENA” is an
The Situation of Knowledge Economy in the Arab and EEE Regions

An economically diverse region that includes both the oil-rich economies in the Gulf and countries that are resource-scarce in relation to population, such as Egypt, Morocco, and Yemen.” The Arab Region refers mainly to the following Arab countries: Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Sudan, Tunisia, United Arab Emirates, West Bank/Gaza and Yemen.

LITERATURE REVIEW

EEE and Arab countries are almost at the same level of economic growth, according to the development pattern from Kharas (2010). The author of this study identifies four drivers of global economic growth:

- Technological advance of the global production frontier at the rate of 1.3 per cent per year.
- Catch-up technology in a group of fast growing converges who are in the midst of a process of shifting resources from low to higher productivity activities; the speed of catch-up depends on each country’s income level relative to the US.
- Capital accumulation, derived by assuming each country maintains its investment rate at its historical average.
- Country specific demographic changes of the 15-64 age group, assuming constant labour force participation rates in each country.

In the past years, countries like Morocco, Algeria, Tunisia, Libya have become attractive for foreign investment. Until recently, multinational companies looked to the east, when they wanted to establish low-cost offshore production and other operations at the door of Europe. This has led to billions of dollars in investment in the former Soviet bloc countries like Poland, Slovakia, Romania and Bulgaria. However, as wages have risen in Eastern Europe, countries from the Arab region became more attractive.

While their appeal to potential investors may be similar, Eastern Europe and the Arab countries are totally different, both economically and socially.

Moreover, from a social point of view, the ex-communist states of central Europe can be a role model for nations in North Africa and the Middle East in their fight for democracy and freedom of expression.

In the following sections we will discuss the main aspects regarding the knowledge economy indicators for EEE countries, as a benchmark for Arab countries.

The Work Foundation Report *Defining the Knowledge Economy* reviewed the common definitions used. The knowledge economy has most commonly been defined in terms of technology and knowledge based industries reflecting R&D intensities, high ICT usage, and the deployment of large numbers of graduates and professional and associate professional workers. An industry-based definition is not entirely satisfactory because, the knowledge economy applies across all industries.

However, an industry-based approach has the advantage of being able to draw on official statistics based on internationally agreed definitions of knowledge-based industries. For this chapter, we have drawn on the definitions developed by Eurostat and the OECD (2003).

The Eurostat definition includes high to medium tech manufacturing and communications, financial, business services, health, and education. Eurostat also includes recreational, cultural, sporting services and some travel services (sea and air) that the OECD excludes (OECD, 2005b).

Eurostat also breaks the knowledge service sector down into four groups: high tech services (R&D and computing); financial services; market knowledge services (communications, travel and business services) and other knowledge services (health, education, and recreational and cultural services).
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