Elements in the Politics of Development
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locked out of development

Insiders and Outsiders in Arab Capitalism

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Abstract: This Element argues that the low dynamism of low- to mid-income Arab economies is explained with a set of interconnected factors constituting a “segmented market economy.” These include an overcommitted and interventionist state with limited fiscal and institutional resources; deep insider–outsider divides among firms and workers that result from and reinforce wide-ranging state intervention; and an equilibrium of low skills and low productivity that results from and reinforces insider–outsider divides. These mutually reinforcing features undermine encompassing cooperation between state, business, and labor. While some of these features are generic to developing countries, others are regionally specific, including the relative importance and historical ambition of the state in the economy and, closely related, the relative size and rigidity of the insider coalitions created through government intervention. Insiders and outsiders exist everywhere, but the divisions are particularly stark, immovable, and consequential in the Arab world.

Keywords: Arab economies, dual markets, insider–outsider, segmentation, varieties of capitalism
## Contents

1 Introduction: Arab Capitalism  
2 Historical Roots  
3 Segmented Market Economies  
4 Individual Country Outcomes and Alternative Explanations  
5 Comparative Puzzles and Gaps  
6 Conclusion  

References  

A Further Online Appendix can be accessed at  
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