

# Cambridge Elements

Elements in the Politics of Development

edited by

Rachel Beatty Riedl

*Einaudi Center for International Studies and Cornell University*

Ben Ross Schneider

*Massachusetts Institute of Technology*

Mario Einaudi

CENTER FOR  
INTERNATIONAL STUDIES



MIT CENTER FOR INTERNATIONAL STUDIES

## LOCKED OUT OF DEVELOPMENT

*Insiders and Outsiders in Arab  
Capitalism*

Steffen Hertog

*The London School of Economics and Political Science*



CAMBRIDGE  
UNIVERSITY PRESS

Cambridge University Press & Assessment  
978-1-009-04557-5 — Locked Out of Development  
Steffen Hertog  
Frontmatter  
[More Information](#)



Shaftesbury Road, Cambridge CB2 8EA, United Kingdom  
One Liberty Plaza, 20th Floor, New York, NY 10006, USA  
477 Williamstown Road, Port Melbourne, VIC 3207, Australia  
314–321, 3rd Floor, Plot 3, Splendor Forum, Jasola District Centre,  
New Delhi – 110025, India  
103 Penang Road, #05–06/07, Visioncrest Commercial, Singapore 238467

Cambridge University Press is part of Cambridge University Press & Assessment,  
a department of the University of Cambridge.

We share the University's mission to contribute to society through the pursuit of  
education, learning and research at the highest international levels of excellence.

[www.cambridge.org](http://www.cambridge.org)  
Information on this title: [www.cambridge.org/9781009045575](http://www.cambridge.org/9781009045575)

DOI: 10.1017/9781009042444

© Steffen Hertog 2022

This publication is in copyright. Subject to statutory exception and to the provisions  
of relevant collective licensing agreements, no reproduction of any part may take  
place without the written permission of Cambridge University Press & Assessment.

First published 2022

*A catalogue record for this publication is available from the British Library.*

ISBN 978-1-009-04557-5 Paperback

ISSN 2515-1584 (online)

ISSN 2515-1576 (print)

Additional resources for this publication at [www.cambridge.org/hertog](http://www.cambridge.org/hertog).

Cambridge University Press & Assessment has no responsibility for the persistence  
or accuracy of URLs for external or third-party internet websites referred to in this  
publication and does not guarantee that any content on such websites is, or will  
remain, accurate or appropriate.

## Locked Out of Development

### Insiders and Outsiders in Arab Capitalism

Elements in the Politics of Development

DOI: 10.1017/9781009042444  
First published online: December 2022

---

Steffen Hertog  
*The London School of Economics and Political Science*  
Author for correspondence: Steffen Hertog, S.Hertog@lse.ac.uk

**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

© Steffen Hertog 2022

ISBNs: 9781009045575 (PB), 9781009042444 (OC)  
ISSNs: 2515-1584 (online), 2515-1576 (print)

## Contents

1	Introduction: Arab Capitalism	1
2	Historical Roots	14
3	Segmented Market Economies	29
4	Individual Country Outcomes and Alternative Explanations	72
5	Comparative Puzzles and Gaps	77
6	Conclusion	80
	References	84

A Further Online Appendix can be accessed at  
[www.cambridge.org/Hertog](http://www.cambridge.org/Hertog)