Globalization and the Politics of Development in the Middle East

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1 Overview

Some readers may have memories of postwar Alexandria and Cairo or will have read Lawrence Durrell's *Alexandria Quartet* – the tales of a cosmopolitan high society. Egypt appeared in the mid-1940s to be as economically developed as war-torn Greece and equally ready to catch up with the rest of Europe. To the north, Turkey was singled out like Greece for special assistance under the Truman Doctrine (March 1947) and seemed virtually a part of Europe. To the west, in "French" Algeria, Algiers was at least as prosperous as the rest of France, and, further west, Casablanca was home to big French industrial interests poised to transform the picturesque Moroccan protectorate into Europe's California. At the eastern end of the Mediterranean, a newly independent and polyglot Lebanon was fast becoming the West's principal commercial gateway to Iran, Iraq, and the Gulf. Riding on the postwar oil boom in those states, Lebanon would become the Middle East's Switzerland in the 1950s and 1960s and apparently exemplify an easy "modernization without revolution" (Salem 1973). Beneath snow-covered mountains on the unspoiled shores of a clear and relatively unpolluted Mediterranean Sea, Beirut was as pretty as Geneva in those days, at least in the richer parts of the city, and rather more lively than Calvin's home. Inland, to the east of Lebanon's two mountain ridges, the open Syrian economy boomed with new manufacturing and agricultural development in the 1950s (Sachs and Warner 1995: 34). Morocco and Turkey also grew rapidly during this period because their open economies took advantage of expanding world markets. Of all the new states in the region, however, Iraq had the most promising prospects for balanced development. It was endowed with the world's second largest oil reserves, the most water of any country in the MENA including Turkey, some of the richest alluvial soils, a strong British educational system, and a relatively large, skilled workforce. Further east, Iran had thrice the population and a diversified economy with oil reserves only slightly less plentiful than Iraq's and very substantial natural gas deposits as well. Captivated by the cash flows, the young shah would dream of making his country into the world's third or fourth mightiest military power.

But over the decades of the Cold War (1946–1989) various conflicts within the region dashed any hopes of catching up with Europe. Egypt, Morocco, Syria, and Turkey closed their economies to foreign trade and investment, whereas Greece opened up in 1959 (Sachs and Warner 1995: 79). By the end of the twentieth century the only countries in the MENA reaching Greek levels of individual prosperity and welfare were little states that did not even exist in the immediate postwar period. Israel and the Greek part of Cyprus rank just above Greece on the United Nations' Human Development Index. The oil principalities of Kuwait, Bahrain, Qatar, and the United Arab Emirates come well behind Greece. Their populations, including their majorities of expatriates, comprise about 1 percent of the region's 400 million inhabitants. They enjoy "high human development" whereas the other oil-rich states of Iran, Libya, Oman, and Saudi Arabia are mired in the ranks of "medium human development" alongside most of the MENA's less mineral-rich Mediterranean countries. On the periphery, the Sudan and Yemen are at the "low" end associated with the Indian subcontinent and Sub-Saharan Africa.

Table 1.1 presents the information for 1997. It also shows that most MENA countries score lower on the Human Development Index than their adjusted per capita income (calibrated in Purchasing Power Parity dollars) would predict. HDI includes education, literacy, and life expectancy as well as per capita income, and most MENA countries rate relatively low for their income on these other variables. If enrolments in primary and secondary school today contribute to future economic growth, the worst is yet to come. Other growth factors are further causes for concern. The MENA's current situation may deteriorate in the coming decade because investment flows into the region have stagnated, and internal sources of capital tied to oil prices have diminished since the early 1980s. In recent years the region has failed to keep pace with economic development not only in East Asia, but also in much of the rest of Asia, as well as Latin America. Figure 1.1 presents the regional comparisons over three decades, together with the most recent available years. Figure 1.2 also shows that the performance of most individual MENA countries in 1985–1995 was poorer than in previous decades, whether or not they were oil producers. If current trends continue into the twenty-first century, much of the MENA region will slide toward the bottom of world development tables, with potentially serious consequences for political stability.

Table 1.1. *The Human Development Index 1997*

HDI rank		Country	Adult literacy rate (%), 1997	Combined 1st-, 2nd-, 3rd-level enrolment ratio (%)	Education index	GDP index	Human Development Index	Life expectancy index	Real GDP per capita (PPP$)	Real GDP per capita rank minus HDI rank[a]
High	23	Israel	95.4	80	0.90	0.87	0.883444	0.88	18,150	3
	26	Cyprus	95.9	79[b]	0.90	0.83	0.869706	0.88	14,201[c]	6
	27	Greece	96.6	79	0.91	0.81	0.866786	0.89	12,769[c]	8
	35	Kuwait	80.4	57	0.73	0.92	0.833392	0.85	25,314[c]	−30
	37	Bahrain	86.2	81	0.85	0.85	0.831955	0.80	16,527[c]	−8
	41	Qatar	80.0	71	0.77	0.89	0.814055	0.78	20,987[c]	−23
	43	United Arab Emirates	74.8	69	0.73	0.88	0.812217	0.83	19,115[c]	−18
Medium	65	Libyan Arab Jamahiriya	76.5	92	0.82	0.70	0.755763	0.75	6,697[c]	−6
	69	Lebanon	84.4	76	0.82	0.68	0.749385	0.75	5,940	−4
	78	Saudi Arabia	73.4	56	0.67	0.77	0.739612	0.77	10,120	−37
	86	Turkey	83.2	61	0.76	0.69	0.727806	0.73	6,350	−22
	89	Oman	67.1	58	0.64	0.77	0.724615	0.76	9,960[c]	−47
	94	Jordan	87.2	66[d]	0.80	0.59	0.714969	0.75	3,450	2
	95	Iran, Islamic Rep. of	73.3	72	0.73	0.68	0.714699	0.74	5,817[c]	−29
	102	Tunisia	67.0	70	0.68	0.66	0.694838	0.74	5,300	−34
	109	Algeria	60.3	68	0.63	0.63	0.664504	0.73	4,460	−31
	111	Syrian Arab Republic	71.6	60	0.68	0.58	0.663026	0.73	3,250	−11
	120	Egypt	52.7	72	0.59	0.57	0.616487	0.69	3,050	−14
	125	Iraq	58.0[e]	51	0.56	0.58	0.585659	0.62	3,197[c]	−22
	126	Morocco	45.9	49	0.47	0.58	0.582414	0.69	3,310	−27
Low	142	Sudan	53.3	34	0.47	0.46	0.475148	0.50	1,560	−7
	148	Yemen	42.5	49	0.45	0.35	0.448503	0.55	810	18

Notes: [a] A positive number indicates that the HDI rank is better than the real GDP per capita (PPP$) rank, a negative the opposite.
[b] UNESCO 1997. [c] Heston, and Summers 1999. [d] Human Development Report Office estimate.
[e] UNICEF 1999. Data refer to a year or period other than that specified in the column heading, differ from the standard definition or refer to only part of the country. Data from Human Development Report 1999.

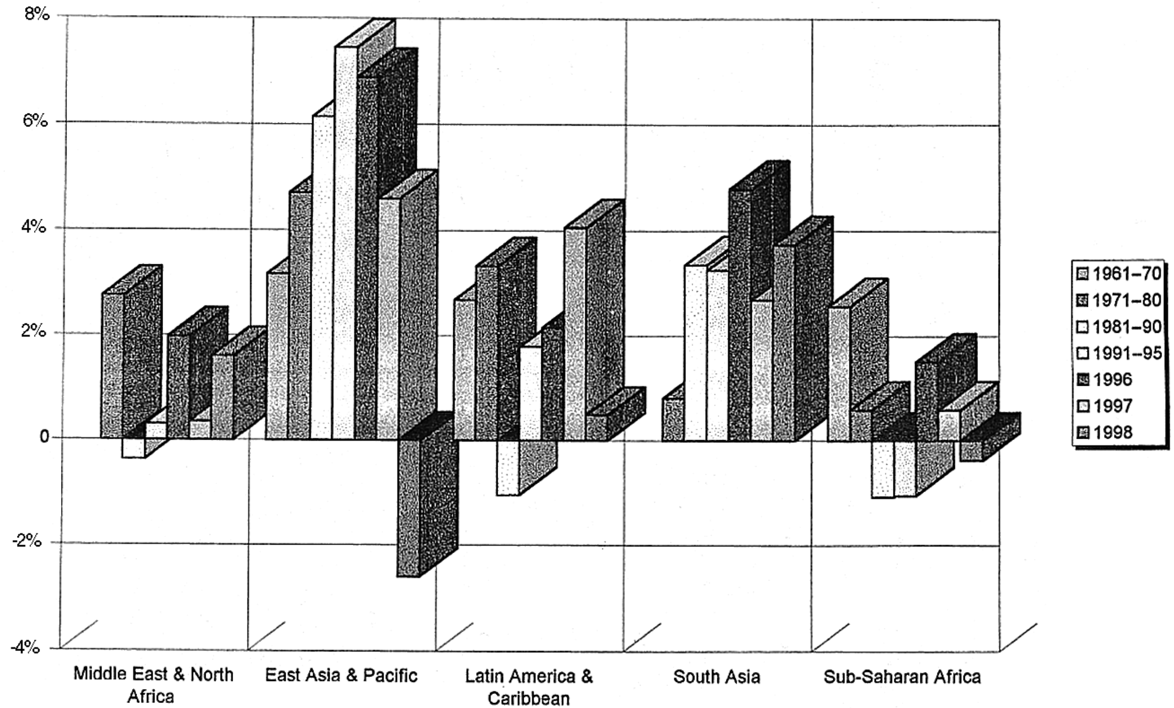

Figure 1.1 Per capita GNP growth rates by region, 1961–1998
Source: World Bank, World Development Indicators 2000 on CD-ROM

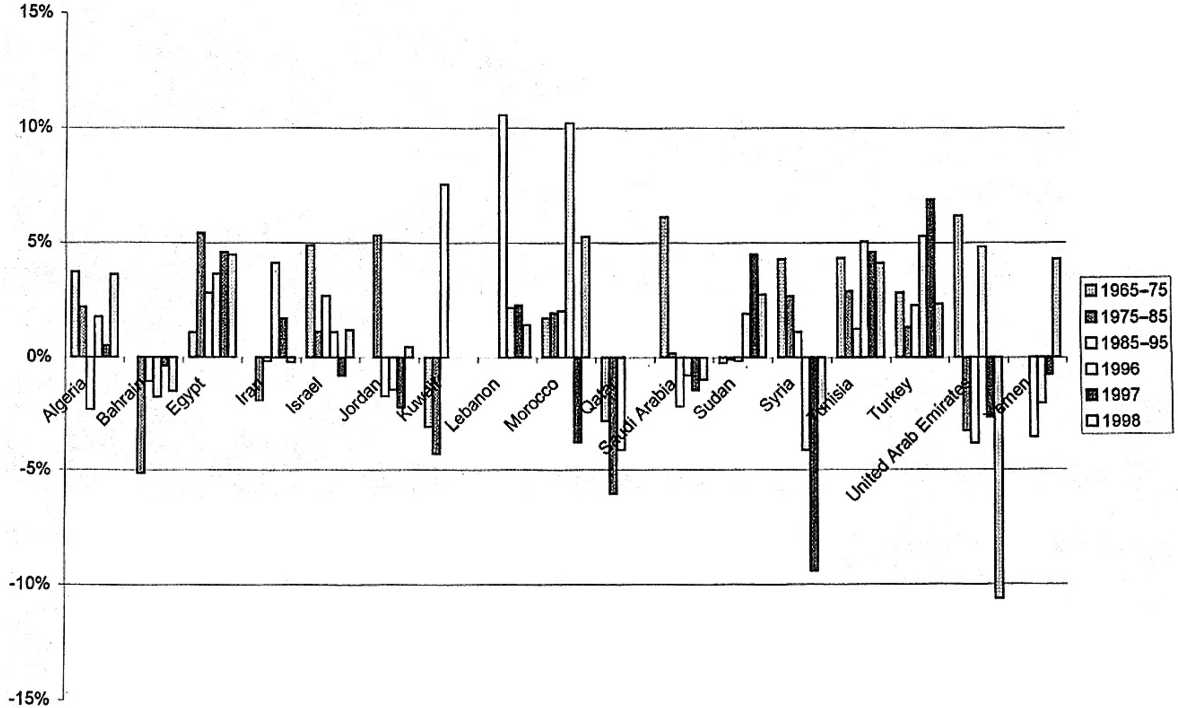

Figure 1.2 Per capita GNP average annual growth rates, 1965–1998
Source: World Bank, World Development Indicators 2000 on CD-ROM

Indeed, much of the Arab world already suffered poverty on levels not far removed from those of Sub-Saharan Africa and South Asia. Table 1.2 presents the sad accompaniment of development, the Human Poverty Index that the United Nations Development Program (UNDP) also publishes annually. The Arab average of 32.4 percent is closer to those of the poorest regions than to Latin America and the Caribbean or East Asia.

This book will assess the prospects for reversing these tendencies and accelerating economic development in light of the major regional and international changes currently influencing the region. The end of the Cold War, the new international economic and political order, the increasing attention of Europe to its "Mexico," and the Arab–Israeli peace process, however precarious, are having a major impact on the region's domestic political economies. All of its regimes are faced with the challenges and opportunities of globalization, yet they also share a defensive legacy ingrained by over two centuries of interaction with major European powers, joined in the past half-century by the United States. Many Middle Easterners view the globalization of finance and business as a threat to their national, religious, or cultural identities comparable to that of an earlier period of globalization prior to 1914, when the foreign intrusions were associated with European imperialism.

Indeed, a complex of political and economic factors is responsible for this region's comparative lack of economic success. Overgrown and inefficient states constitute the primary factor at the national level. In their size and relative involvement in and control over economies, many of these states are comparable to communist states prior to the collapse of the USSR. "To this day," observes the annual review of a leading regional economic think-tank, "the public sector still dominates most MENA economies, far more than in other low and middle income countries in the world" (*Economic Research Forum*, 2000: 11). Despite preponderant positions within their political economies, these states lack the necessary capacity and will to promote sustained and rapid economic growth. Insufficient capacity results from the well-known deficiencies of state management in command economies, while the lack of will results from political calculations taking precedence over economic ones.

Yet the size and nature of Middle Eastern states cannot be understood without reference to the regional, global, and economic contexts which facilitated their creation and within which they presently operate. Just as the global Cold War produced "national security states," so has protracted conflict in the MENA region caused and justified the emergence of states with overdeveloped coercive capacities. Hobbesian regional and

Table 1.2. *Human Poverty Index, 1997*

HDI Rank	Country	Human poverty index: Rank	Human poverty index: Value (%)	Adult illiteracy rate	% of population dying before age 40	Population without access to: water	Population without access to: health	Population without access to: sanitation	Underweight children under 5	Real GDP per capita: Poorest 20% (1980–1994 latest)	Real GDP per capita: Richest 20% (1980–1994 latest)	Real GDP per capita: Rich to poor[a]	Real GDP per capita: Below poverty line (%)
23	Israel	–	–	–	2.6	–	–	–	–	4,539	29,959	6.6	
26	Cyprus	–	–	4.1	3.2	0	0	3	–	–		–	
27	Greece	–	–	–	2.8	–	–	–	–	–		–	
35	Kuwait	–	–	19.6	2.9	–	0	–	6	–		–	
37	Bahrain	10	9.8	13.8	4.7	6	0	3	9	–		–	
41	Qatar	–	–	20.0	4.9	–	0	3	6	–		–	
43	United Arab Emirates	27	17.7	25.2	3.1	3	10	8	14	–		–	
65	Libyan Arab Jamahiriya	22	16.4	23.5	6.4	3	0	2	5	–		–	
69	Lebanon	14	11.3	15.6	7.5	6	5	37	3	–		–	
78	Saudi Arabia	–	–	26.6	5.9	5	2	14	–	–		–	
86	Turkey	24	16.7	16.8	9.6	51	0	20	10	–		–	
89	Oman	39	23.7	32.9	6.4	15	11	22	23	–		–	
94	Jordan	9	9.8	12.8	7.1	2	10	23	9	1,292	10,972	8.5	15
95	Iran, Islamic Rep. of	34	20.4	26.7	9.7	10	27	19	16	–	–		
102	Tunisia	38	23.1	33.0	7.8	2	10	20	9	1,460	11,459	7.8	
109	Algeria	52	28.8	39.7	9.1	22	–	9	13	1,922	12,839	6.7	14
111	Syrian Arab Republic	32	20.1	28.4	8.5	14	1	33	13	–	–		
120	Egypt	57	33.0	47.3	10.3	13	1	12	15	1,653	7,809	4.7	
125	Iraq	–	–	–	17.4	19	2	25	23	–	–		
126	Morocco	67	39.2	54.1	11.8	35	38	42	9	1,079	7,570	7.0	13
142	Sudan	61	36.8	46.7	27.1	27	30	49	34	–		–	
148	Yemen	78	49.2	57.5	21.8	39	84	76	39	–		–	
	Arab states		32.4	41.3	13.1	18		29	19				
	Sub-Saharan Africa		40.6	42.4	34.6	50		56	32				
	East Asia		19.0	16.6	7.8	32		73	16				
	South Asia		36.6	47.8	16.1	18		64	48				
	Latin America		14.5	12.8	9.9	22		29	10				

Note: [a] The ratio of the average per capita income of the richest 20 percent to that of the poorest 20 percent.
Source: The Human Development Report CD-ROM

global environments of “war of all against all” further detached the states from their respective societies. Ruling elites seek legitimacy by manipulating symbols and finding scapegoats for any troubles, while also engaging in rent-seeking and misallocating human and physical resources. Moreover, exogenous revenues (or rents) have accrued to these states, freeing them still more from any constraints. Oil rents have been especially critical to the formation of welfare states in the Gulf. They enabled regimes to seek legitimacy by distributing goods and services to people rather than through the more interactive, demanding, and risky approach of taxing them directly and being accountable to them. Volatile oil markets and regional security thus largely condition any internal economic structural adjustment and political reform but are both also largely subject to extra-regional interventions.

The MENA’s special colonial legacy

It is not so much Islam that defines the MENA – or Arab culture its heartland – as the tradition of external intervention in the region. The Middle East and North Africa is defined here as extending from Morocco to Turkey along the southern and eastern shores of the Mediterranean and as far east as Iran and south to the Sudan, Saudi Arabia, and Yemen. It is the non-European parts of the old Ottoman Empire, plus its respective western, southern, and eastern peripheries in Morocco, Arabia, and Iran. Leon Carl Brown has succinctly captured its distinctive characteristic:

> For roughly the last two centuries the Middle East has been more consistently and more thoroughly ensnarled in great power politics than any other part of the non-Western world. This distinctive political experience continuing from generation to generation has left its mark on Middle Eastern political attitudes and actions. Other parts of the world have been at one time or another more severely buffeted by an imperial power, but no area has remained so unremittingly caught up in multilateral great power politics. (Brown 1984: 3)

In the earlier era of financial globalization lasting until 1914, the encounters tended to produce tensions and fragmentation. The region was too strategically situated to be ignored, yet the Great Powers generally prevented their rivals from definitive conquests while fighting each other for influence, thereby exacerbating internal divisions within the various states or former provinces of the Ottoman Empire. With the discovery of oil in Iran in 1908, then in Bahrain and Iraq in the 1920s and Kuwait and Saudi Arabia in 1938, the region acquired a new strategic importance for international superpowers. During World War I the British coined the term Middle East for their Cairo regional command post. Outmaneuvering their French ally's military and diplomatic administrative bureaux of the "Proche Orient" (Near East), they politically and symbolically redefined the region as if to anticipate the world's energy needs. Oil discoveries, coupled with new transport and communications technologies, spread the stakes of Great Power competition out from the Near East to the Middle East, and eventually to North Africa as well. In World War II Winston Churchill understood the entire region to be Europe's "soft underbelly," and the Allies' campaign to liberate Nazi Europe started in North Africa. The American and British forces converged on Tunisia in 1943, driving Rommel's forces out, before liberating Sicily, Italy, and eventually France.

Outside parties rarely established responsible local government institutions because they were too busy competing with each other for power and influence. In other parts of the world they usually achieved colonial hegemony – the Spanish and Portuguese in Latin America, the British in India and much of North America, and the Dutch in Indonesia. The stakes of conquest were higher in the MENA than elsewhere, however, because it was closer to the European heartland of the Great Powers. And where one power did prevail, the impact upon the local society was often more savage than elsewhere, except in the Americas. The French decimated the Muslim populations of Algeria in the mid-nineteenth century, and the Italians followed suit in Libya after World War I. The British protection of harbors along sea-lanes to India was more benign but concerned only a very small fraction of the MENA's population: Aden, Kuwait, Qatar, and other little Trucial States that comprise the United Arab Emirates today. Britain's control over other parts of the region was either transitory (Palestine 1918–1948) or veiled in various ways (Egypt 1882–1954, Iraq 1918–1958, Iran 1921–1953). French rule over Algeria (1830–1962), Tunisia (1881–1956), and Morocco (1912–1956) was more durable and transparent, but its control of Lebanon and Syria lasted a bare quarter of a century (1920–1946). Italy stayed longer in Libya (1911–1943) but was then displaced by the British until 1951. The United States perhaps never quite crossed the line between technical asssistance and real control over Saudi Arabia, but Aramco, a company registered in Delaware, ran its oil fields until 1990, and the US government helped to establish much of its accompanying state infrastructure.

In short, most of the MENA states were penetrated by a variety of outside parties vying for commercial, cultural, or strategic influence and establishing beach-heads through the various local communities. One widespread effect of these rivalries was to put indigenous business elites at risk. Selective foreign "protection" of local minorities, including grants of foreign citizenship, strengthened them against their local governments and business competitors but ultimately left them vulnerable to retaliation by popular majorities. Another impact was increased sectarianism. Lebanon illustrated how confessional differences, recognized for limited purposes by the Ottoman millet system, were exacerbated by alliances with external powers – the Maronites with the French, the Greek Orthodox with the Russians, the Druze with the British. With the formal freeing of much of the region after World War II, regional powers, including Iran, Israel, and Turkey as well as Arab states, supplemented traditional interventions of the Great Powers vying for influence over their smaller neighbors. The United States, eager to check advances by the Soviet Union, joined the fray and learned to outbid its British and French allies. More external and regional influence peddling and subversion further compounded the divisions of weak states such as Lebanon, the Sudan, and Yemen and provoked others, such as Iraq and Syria, into becoming police states. The rise of transnational Arab and Islamic movements in turn amplified regional and local conflicts.

Whereas colonial rule in the non-Western world usually had a beginning, a long period of insulation from the outside world, and a conclusion, many MENA elites are products of a different legacy. Only the Turks, Algerians, Tunisians, Moroccans, and Israelis can claim to have really won their independence, achieving a degree of national closure, at the expense of either settler or other minorities or, in the case of Israel, the national majority of Palestinians. Others still fear the subversion of foreign powers and interference from their neighbors. Any closure was gained at the expense of local business elites rather than the colonizer. Military coups toppled nominally independent regimes, and then the officers proceeded to restructure their respective political economies. The MENA's special legacy of external intervention has impeded the internal development of public accountability.

The creation of Israel in 1948 also contributed to the militarization of the surrounding states of Syria, Jordan, and Egypt, just as the advent of the Cold War reinforced the Northern Tier of Turkey, Iraq, and Iran. Part of the reason why the economies of the region appear to be so underdeveloped, despite their tremendous mineral resources and proximity to European markets, is their excessive military expenditures over the past half-century (El-Ghonemy 1998: 223–229). The MENA has consistently overspent the rest of the developing world on arms imports. Its strategic location attracted external powers into a variety of formal and informal military alliances, and the easy availability of weapons may have in turn encouraged arms races exacerbating a variety of local and regional conflicts. The MENA's oil resources not only made the region more strategically central to external powers but also largely financed their arms sales.

Consistent with the international model prevailing in the 1960s, most of the MENA states embarked upon policies of import substitution industrialization (ISI). Their statist experiments generally resulted in heavier, more bloated bureaucracies than those of other third world countries and more wasteful projects because the financing was so easy. Oil rents or foreign aid – strategic rents of the Cold War – also supported big military complexes and served to inflate their officer corps. When, shocked by the 1982 international debt crisis, the prevailing international consensus changed in the Thatcher–Reagan years to favor market economies and export-oriented development, the MENA states were slower than others to readjust their economic strategies and structures. Shielded directly or indirectly by the region's oil revenues and strategic rents, they took longer than their East Asian or Latin American counterparts to engage in the various forms of structural adjustment advocated by international financial institutions. The reasons were partly economic: adjustment would be more difficult, the greater the distortions left over from those halcyon ISI times. But the will to change on rational economic grounds also had to be reconciled with political rationality and its imperatives for retaining power.

Virtually all of these regimes suffer deficits of legitimacy (Ayubi 1995; Hudson 1977) and buy support through extensive networks of political patronage that permeate their respective economies through the administration, the banking system, and many "private" enterprises. In these patrimonial regimes private property is not secure from the whims of arbitrary rulers. Many regimes have yet to abandon allocation for alternative strategies of political legitimation, and hence must continue to generate rents that accrue to the state. State–society interaction continues to consist of heavy police control coupled with various forms of patronage to keep the police and other administrations loyal. Some of the MENA's regimes carefully mask their repression with information blackouts that further limit their possibilities for economic adjustment. Indeed their information shyness is becoming a major impediment to attracting capital in global markets. One measure of a regime's political capacity in the twenty-first century is its transparency and openness to new flows of information. On this as on other measures such as the ability to tax its citizens, most MENA regimes display significant limitations. Raising more taxes can stretch a regime's coercive capabilities, and more publicity may embarrass and undermine its patronage networks.

Yet the external rents have diminished sharply. With the end of the Cold War, the MENA lost some of its historic significance as a strategic lightning rod for the rest of the world. Great Powers still do vie for influence and play out their rivalries in the MENA, but some of the geopolitical attention and oil industry interest has already shifted north to Central Asia since the breakup of the Soviet Union. The MENA's strategic rents began to diminish just as oil rents, which peaked in 1981, reached an all-time low in 1986 and, although recovering somewhat in 1999–2000, have in real terms never regained levels achieved in the early 1980s.

Major changes in international financial markets are particularly challenging to the MENA. Most forms of public assistance and foreign aid remained flat or diminished in the 1990s, reflecting the region's declining competitive advantage of strategic situation. While new private flows of foreign direct investment have swamped the developing world, they bypassed much of the MENA. Much of this capital comes from multinational companies accelerating their cross-country investments as they compete in global industries. Since "an estimated one-third of all merchandise trade is actually composed of shipments among the affiliates of a single company, as opposed to arms-length transactions among separate exporters and importers" (Sachs 1998: 98), the MENA is losing its market shares of trade as well as investment to other regions. Indeed, "per capita exports have declined by 5 percent for the MENA region between 1990 and 1995, while they grew by 20 percent for the developing countries as a group" (Alonso-Gamo et al. 1997: 7).

Another surging source of global private capital is portfolio investment, reflecting major changes in the behavior of small savers and institutional investors in Western countries, notably the United States. Instead of placing their funds in commercial banks, savers have preferred mutual funds or shares of publicly traded companies. As portfolio managers packaged "emerging markets" into tradable mutual funds of foreign stocks, countries with established stock exchanges raked in sizable flows of portfolio investment. These flows have also bypassed most of the MENA and its underdeveloped stock exchanges but have encouraged a number of regimes in the region to begin to reform their capital markets to attract this new source of foreign investment.

Regional developments are also prodding regimes to engage in economic reform. Partnership agreements with the European Union call for a full liberalization of non-agricultural trade by 2010, more or less reinforcing the Ten Commandments of the Washington Consensus (see figure 1.3). An Arab–Israeli peace process threatens some of the vested interests of the Israeli, Jordanian, and Syrian political economies while

States are advised:

1 to reduce the budget deficit to no more than 2 percent of GDP
2 to accord budgetary priority to primary health, education, and infrastructure investments
3 to broaden the tax base, including interest income on assets held abroad, and cut the marginal rates of taxation
4 to liberalize the financial system, at least abolishing preferential interest rates and maintaining a moderately positive real interest rate
5 to adjust the exchange rate to encourage non-traditional exports
6 to liberalize trade, rapidly replacing qualitative restrictions with tariffs and progressively reducing the tariffs to 10 percent (or at most around 20 percent)
7 to remove all barriers to foreign direct investment and enable foreign and domestic firms to compete on equal terms
8 to privatize state enterprises
9 to abolish regulations impeding the entry of new firms or restricting competition and insure that all regulations of a given industry are justified
10 to secure private property rights without excessive costs, for the informal as well as formal sectors.

Figure 1.3 The Ten Commandments of the Washington Consensus
Source: Williamson 1994: 26–28

promoting new interests. The 1993 Declaration of Principles agreed between the PLO and Israel, coupled with the 1994 peace treaty between Israel and Jordan, has resulted in rapidly shifting bilateral and multilateral relations. For the first time since the creation of Israel, tactical regional alliances cross the divide between Arab and non-Arab. The projection of Israeli economic power into the region is becoming a reality to which Arab states are seeking to respond in various ways. Were the peace process to culminate in a normalization of relations between Israel and both Syria and Iraq, the region might lose much of its distinctiveness as a Hobbesian killing field and offer fewer excuses for inflated military expenditures and protected markets. The forced integration of Palestine into the Israeli economy might, however, trigger new resistance among the Palestinians and their neighbors as well.

Forced integration could be seen as a microcosm of precisely the globalization that most regimes fear.

In view of the MENA's legacies of foreign intervention, it is hardly surprising that international financial institutions and foreign donors evoke defensive reactions. IMF observation teams and World Bank missions are all too reminiscent of the European financiers who helped informally to colonize much of the region in the nineteenth century. The USAID mission in Cairo, for example, elicits comparisons with the more successful British advisors a century ago in the ministries of finance and public works. Symptomatically an Egyptian journalist's book about his country's negotiations with the IMF pictures Superman on the cover with a big "IMF" in red letters on his blue uniform (Hilal 1987). While some of the MENA governments have officially welcomed "globalization," their practices reflect ingrained suspicions of foreign advisors and their prescriptions for reform – "iron and arsenic to all, whatever the illness," as an Egyptian minister once complained (Hilal 1987: 171).

The foreign advisors are hardly supermen (or superwomen for that matter). Indeed, they must appear to be apolitical lest they offend their hosts or the board members of their international institutions. They express their "advice" in technical economic policy terms and, even when knowledgeable about the host country's politics, are not usually able to translate the advice into viable political strategies. The "Washington Consensus" promoted by the international institutions and Western donor agencies, albeit in steadily more diluted form as the decade of the 1990s progressed, is a set of ten flexible guidelines for opening up political economies and integrating them into global markets (Naim 2000). John Williamson, who coined the term, explains it to be "the common core of wisdom embraced by all serious economists." He leaves open many controversial questions, including even the size of government and the model of the market economy to be sought, whether "Anglo-Saxon laissez-faire, the European social market economy, or Japanese-style responsibility of the corporation to multiple shareholders" (1994: 18). Yet prescriptions which may be standard economics to academics also carry immediate political implications for power-holders. In the 1990s, indeed, the proponents of reform paid increasing attention to its political prerequisites of efficient, responsive, and transparent institutions (World Bank 1997). All the more reason, then, that the Ten Commandments calling for a liberalization and opening up of the domestic economy spelled imperialism and political as well as economic hardship for many local policy-makers.

Further constraints and opportunities result from MENA countries' global relationships. With increasing differentiation and specialization within the world capitalist system, policies presupposing an insulated national economy must give way to strategic calculations of relationships to global markets. Global political factors are similarly imposing themselves with ever greater urgency on the region's decision-makers. The new trilateral competition between the major blocs of North America, Europe, and East Asia is not as fierce as was US–Soviet competition, but it imposes constraints and provides opportunities to which Middle Eastern elites have not fully responded. They have given considerable thought to Washington or Strasburg, but the Tokyo/Beijing alternative barely enters the discussion at present. It can be expected in future.

The dialectics of globalization

The working hypotheses of this book are that politics drives economic development and that the principal obstacles to development in the region have been political rather than economic or cultural in nature. Political rather than economic factors have been the primary cause of the rate and method by which countries of the region have been incorporated into the globalized economy within the framework of the Washington Consensus. Those political factors result from strategies of incumbent elites seeking to retain power – strategies which bear remarkable similarity to those of the "defensive modernizers" of the nineteenth and early twentieth centuries, faced with similar challenges and opportunities of financial globalization prior to 1914. These strategies of "controlled openings" tend to segment the political economy, so that the degree to which various sectors of the economy are globally integrated varies widely. Further differentiation sustains the globalization dialectic, deepening the objective grounds for dividing populations and their elites into globalists and moralists while opening up new opportunities for potential synthesizers.

The drama of globalization is a continuation of the colonial dialectic played out by earlier generations of indigenous elites. Just as colonialism gave rise to movements of national liberation assimilating Western forms of political organization to struggle against Western domination, so the dialectics of globalization may integrate countries in the region into the world economy while also emancipating them. To do so in the new context is to assimilate, negate, and through the hard work of negation to supersede the Washington Consensus rooted in Anglo-American capitalism – perhaps by "Islamizing" it. Dialectic here is understood to comprise sets of ideas and attitudes defining elite–mass relationships rather than material forces, though economic interests obviously play a part. In a dialectic of emancipation (modeled after Hegel's master–slave relationship) ideas may – but do not necessarily – gain ever wider social audiences, achieving what Antonio Gramsci called hegemony (Lustick 1999). In colonial situations a nationalist elite may mobilize the entire nation, transforming a population defined by colonial borders into a people experiencing civil society.

Schematically the colonial dialectic describes three basic stances (or Hegelian "moments") of a native elite toward the colonizer's political culture. The first stance is that of acceptance associated with efforts to be assimilated into the new elite. But emulating alien values may in turn engender a backlash by those excluded from it. This negative moment of a counterelite asserts its claim to hegemony in the name of indigenous values. Under continued colonial pressure, however, new divisions within this elite may lead to the emergence of an alternative elite that is no longer content to articulate the traditional values of an imagined past. The third moment may more effectively combat the imposition of alien rule by assimilating its positive elements, such as skills and values derived from a Western education, and using them to overcome foreign domination. This deeper assimilation of the colonizer's values plays upon the contradictions of colonialism so as to undermine its authority and achieve independence.

Much of the MENA fell under the influence of Western powers without experiencing the full effects of colonial rule. It was in French North Africa that the colonial dialectic was most fully articulated because the colonial presence was more intrusive and protracted than elsewhere. The schema is best illustrated in Tunisia, where French rule lasted long enough to provoke not only emulation and negation but also a nationalist synthesis, yet was not so overpowering that it altogether undermined the authority of any indigenous elite, as in Algeria. Successive generations of educated Tunisians chronologically expressed the logic of the three dialectical moments. Before 1914 aristocratic Young Tunisians emulated French modernity and sought liberal reforms within the system. After World War I a predominantly urban Destour (Constitution) Party rejected the French Protectorate on traditional and legalistic grounds. Then the Neo-Destour, its successor party, with roots in peasant villages, employed modern political methods to organize the entire country against the French occupation. At independence, in 1956, Tunisia had the most deeply rooted nationalist party and trade union federation of any Arab country.

Tunisia was the exception. When, as in much of the Middle East, the "colonial" domination was veiled in technical and military relationships with outside powers, the colonial dialectic could not be completed for lack of a unifying target of opposition or incentive for emancipation.

Even in Tunisia, the synthesis led to new tensions and contradictions after independence. Habib Bourguiba's successful movement eventually engendered resistance from social sectors and actors who felt excluded. Once in power, the third generation of nationalists became vulnerable to attack by new generations of rejectionists who could point to the internal contradictions between the incumbent elite's ostensible Western liberal values and the regime's authoritarian practices. But Tunisia's Islamist opposition, progressive by Arab standards, is a legacy of Tunisian modernization: Rashid Ghannoushi can be seen as Bourguiba's "illegitimate offspring" (Zghal 1991: 205). Tunisia's special advantages deserve further scrutiny.

The critical factors for Tunisia's success were the duration of the colonial situation (1881–1956) and the capacity of political elites to forge durable linkages with mass constituencies before independence. Colonial conflict was sufficiently protracted and its education benefits sufficiently extensive to enable a modern educated provincial elite (sons of peasant freeholders) to displace the traditional urban elite of absentee landlords, merchants, and religious figures. The new nationalist elite succeeded in mobilizing broad popular support because the continued French presence offered a convenient focus for mobilization and coalition building. The timing was critical. It took three generations of nationalist struggle for the educated sons of the provincial elite to acquire sufficient weight to displace and absorb the other educated children of the traditional urban elite in the new middle classes (Montety [1940] 1973). Their Moroccan equivalents would not have time to achieve such social and political prominence before independence. Other new middle classes, defined as being not only educated but of predominantly provincial origins outside the old elite strata, did not achieve political hegemony before independence. In the rest of the Middle East and North Africa only Algeria, Aden, Egypt, Palestine, and Sudan experienced comparable periods of European (or Israeli) colonization. The colonial situation was too veiled in Egypt, however, and too prone to settler violence in Algeria and Palestine for their respective new middle classes to achieve hegemony. If they were to achieve it there or elsewhere in the MENA, it would be after independence and under less auspicious circumstances. In Palestine, however, the Jewish settlers, detached from Europe yet still mostly European, telescoped their nationalism into a third-moment victory over Britain within a generation.

Pervasive Western influence, first exercised through the Ottoman Empire and then more directly by means of mandates from the League of Nations, usually strengthened the hold of urban absentee landowner-merchants over the countryside. Turkey was the prime exception.

Ottoman bureaucracy contained them, and an Anatolian third-moment elite then displaced traditional authorities and achieved independence in 1923 through a successful war of national liberation. In most countries, however, the emergent elites benefiting from Western education did not have time to displace the old urban ones before independence: in Syria, Lebanon, and Iraq, the prime "nationalists" and beneficiaries of independence were the urban landowners; in Iraq they included urbanized tribal leaders. Despite a lengthier history of Western intrusion, Egyptian nationalism was also dominated by its landowners until divisions in the Wafd presaged the end of the monarchy in 1952.

Except in the Levant, the colonial powers tended to establish monarchies if they were not already in place. In the Persian Gulf the British protected ruling families and even imported the Hashemites from Mecca to Jordan and Iraq. The British also disposed of Italy's former colony by uniting Libya under a new monarchy in 1951. Except in Saudi Arabia, which did not experience traditional colonialism, monarchy was the sign of a colonial dialectic that had not run its full course. Had the French stayed a generation longer in Morocco, they would doubtless have discredited the venerable Sharifian monarchy by overuse against rising social forces. Instead, they accidentally raised its prestige by exiling the sultan to Madagascar in 1953. Conversely, had the French left Tunis for good during World War II, Moncef bey might have kept his throne and prevented Bourguiba from founding a republic. The British and subsequently the Americans also strengthened Pahlavi Iran without ever turning it into a formal protectorate. There as elsewhere, the monarchies had trouble coping with the new middle classes nurtured in Western education. Despite his White Revolution the shah was unable to mobilize support from the countryside to offset them. In Morocco, by contrast, the monarchy came to dominate both the old urban merchants and the new middle classes after independence by manipulating provincial notables to its advantage (Hammoudi 1997; Leveau 1985).

Israel, Tunisia, and Turkey were the only countries where a third-moment elite consolidated itself with independence. Afterwards it would be more difficult for new middle classes, the normal carriers of civil society, to forge durable linkages with other social sectors, whether among peasants, workers, or students. In Iran a genuine revolution was needed to expel the monarchy, but much of the new middle classes then fell victim to the victorious coalition of merchants and religious leaders. Elsewhere they invariably achieved power by plotting within their respective military establishments. Nasser and his Free Officers led the way in Egypt in 1952; after many military coups and countercoups, Hassan Bakr (with Saddam Hussein) and Hafez al-Asad took power in Iraq and Syria in 1968 and 1970, respectively. The officers in turn suppressed civilian politicians and intellectuals who might have deepened their respective civil societies by creating new associations and political spaces. The degree of oppression or liberality of their respective regimes was a function of the potential oppositions they faced. The extent of their economic intervention and financial repression also reflected the strength of their respective merchants and landowners and the degree to which they had coalesced as a class of local capitalists. Thus intervention was heaviest in Egypt, Iraq, Libya, Syria, and Algeria. In fact it is often forgotten that Algeria's more protracted colonial situation had given rise to higher concentrations of Algerian as well as French settler landholdings than in neighboring Morocco. The economic hand of the military was lighter in the Sudan and Yemen, where capitalism was less developed.

The new dialectics of globalization feeds upon an unachieved colonial dialectic. Its thesis is the Washington Consensus, shared by "serious" economists irrespective of nationality and vigorously, if selectively, imitated by certain of the local business and political elites as well. It seems hardly coincidental that the countries governed by third-moment elites at independence – Israel, Tunisia, and Turkey – were the quickest to adopt the Washington Consensus. Reform teams of technocrats, supported at least initially by their political leaderships, also made some progress implementing various structural reforms in Algeria, Egypt, Jordan, and Morocco. The Washington Consensus, however, engendered significant backlash in these and other countries. The "globalizers" almost inevitably provoke "moralizers," who seek solutions in cultural authenticity by affirming a religious or ethnic identity, or at least by reaffirming traditional nationalism. Since Libya's Muammar Qaddafi began speaking of a "Third Way" in the 1970s, the siren call of a distinctive, unique, culturally authentic model has gained considerable appeal, and writings on Islamic economics have proliferated.

Much like second-moment responses to colonial situations, however, moralism remains abstract and ineffective unless it can contest the global economy on its own grounds. Most of the "moralizers" seem unable to devise effective alternative economic policies. Moralism takes the form either of Arab nationalism harking back to the command economies of the 1960s or of Islamic revivalism. On the nationalist track, Arab economists have unsuccessfully promoted a free trade zone as a counterweight to being integrated piecemeal into the international economy (Bolbol 1999). Mainstream Islamism, on the other hand, seems to be more preoccupied with culture than with economics. The moralizers, whether in government or opposed to it, can put globalizers on the defensive, but they rarely promote alternative policies.

Nor do they have much opportunity to do so. Hesitating moves toward greater political liberalization in the 1980s were sharply reversed in most MENA countries in the 1990s. Tunisia, followed in turn by Algeria, Egypt, Saudi Arabia, Turkey, and Jordan, severely restricted the Islamist oppositions. There could be little overt, public debate between globalizers and their opponents inside and outside their respective governments, and efforts to incorporate mainstream Islamist oppositions into the political process ceased, except perhaps in Jordan. Tunisia perfected the art of running a contemporary police state by claiming to be democratic while preemptively harassing, imprisoning, and routinely torturing its opponents and their families (Beau and Tuquoi 1999).

Indeed, the political conditions prevailing in most Arab states since the American-led liberation of Kuwait resemble those of a colonial situation – with the Islamists now playing the role of the erstwhile nationalists. It is an odd reversal of roles, a further unfolding of the colonial dialectic. In colonial situations Islam provided the implicit mobilizing structures of Western-inspired nationalism (articulated in Tunisia, for instance, through the modern Quranic schools), whereas today nationalism acquires an overtly Islamist form. Incumbent rulers, however, are both Muslim and indigenous nationals. They all seek legitimacy as Muslim rulers, even in once "radical" republics such as Syria or Iraq. Most of them therefore feel obliged to tolerate limited public Muslim spaces, such as Friday prayers and *shari'ah* courts, even though the message delivered in those prayers is strictly controlled, as are the judiciaries.

The colonial dialectic, in sum, gave rise to independent states of three different types: praetorian republics (Algeria, Egypt, Iraq, Libya, Palestine, Syria, Sudan, Tunisia, and Yemen), monarchies (Bahrain, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, and the United Arab Emirates), and democracies (Iran, Israel, Lebanon, and Turkey). The monarchies preserved their traditional elites and capitalist legacies. The praetorian republics tended to reject theirs in favor of new political economies, although there were significant differences between Algeria and Iraq at one extreme and Egypt at the other. The "bunker" states, such as Algeria and Iraq, rule primarily by coercion – from their metaphorical or, in some cases, actual bunkers – because the state lacks autonomy from social formations. The "bully states," such as Egypt, are largely autonomous from social forces, whether traditional or modern, and have relatively strong administrations though they, too, depend principally on military/security forces. The democracies, with the excep-