5 The clash of Globalizations in the Middle East

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OVERVIEW

Globalization connotes the removal of barriers to the movement of capital, goods and labour between states. While the lowering of barriers to the movement of factors of production has resulted in transnational networks of production and elements of an international civil society, it has also facilitated international terrorist networks, drug cartels, and the like. In the Middle East, for strategic reasons discussed in this chapter, the spectrum of barriers to be removed includes not just protectionist trade or monetary policies but the regimes as well. 'Regime change' can be brutal or gradual, imposed or developed from within. This chapter examines the sorts of political change envisioned by the authors of the *Arab Human Development Report 2002* and subsequent reports to overcome the region's 'freedom deficit' as well as the darker, by now all too familiar scenarios associating this dimension of globalization—regime change—with American (multilateral or unilateral) military operations. The Middle East is home to most of the oil that fueled the world's first truly global industry, but the region may also become the epicentre of forces that reverse the globalizing tendencies of states.[1]

Introduction

It is not so much Seattle or New York as the Middle East that is becoming the principal battleground for contending visions of the new global order. The clash of globalizations[2] is most acutely perceived in this vulnerable, strategic region. The Middle East is caught between transnational terrorist networks, the imperialistic legacies of the neo-conservative Bush administration, and other, apparently more benign, neo-liberal proponents of globalization such as the World Bank, the International Monetary Fund, and the United Nations family of organizations. Pitted against these forces are the states of the region and some of their more radical internal oppositions, some of them energized by transnational linkages and perceptions of a shared imperial enemy.

Globalization connotes the removal of barriers to the movement of capital, goods, and labour between states. States decide to remove barriers to investment, trade, and immigration, although new information technologies may also encourage states to remove these barriers. Globalization is not an abstract sociological process like modernization. Some of the older technologies, such as printed media, telephones, and transistor radios, used to serve as indicators of an abstract but conceptually inevitable modernization of traditional societies (Lerner 1958). Globalization, by contrast, is far from inevitable, for it depends largely on the political acts of states, notably those of the Great Powers. As John Gray (1998) and other have noted, the world economy is less globalized on some dimensions, such as capital flows, than in 1913. One recent commentator goes so far as to write that 'globalization is a myth: it never really occurred . . .', because most manufacturing is organized regionally, not globally (Rugman 2000: 1). Indeed, a future edition of this present volume may well be analyzing a post-global world order of protectionist cores sealed in secure compartments: imagine, too, quarantining much of the Middle East from the rest of the world, if alternative sources of energy could replace oil.

Few industries apart from petroleum are truly global, but globalization in the sense of the removal of barriers to various sorts of transnational exchanges has increased dramatically since the Second World War. The victorious allies founded a new world order in 1945 that encouraged these trends, and transnational corporations (TNCs) have pioneered productive trade and networking across borders, even if few industries are truly global. The top 500 TNCs accounted for 90 per cent of foreign direct investment and over half of world trade at the end of the twentieth century (Rugman 2000: 3). New technologies have facilitated not only corporate networking but also new non-corporate forms of transnational association. With the help of the Internet, non-governmental organizations (NGOs) are straddling across continents and articulating a new public sphere, international civil society, working sometimes in broad consultation with the United Nations. Some have opposed further global initiatives favouring transnational corporate activities. Before the riots in Seattle, for instance, a powerful transnational coalition sidelined the Multilateral Agreement on Investments (MAI), a treaty that was to have improved the environment for foreign direct investment (Kobrin 1998).

Technology facilitates new forms of association, but globalization also has a darker side. Other transnational associations overlooked by liberal theorists include international drug cartels and terrorist networks, often serviced by cross-border money transfers (Hoffmann 1995). The decisions of states to open up to international traffic and capital flows

are reversible, as the First World War and the Great Depression illustrated. Globalization is not inevitable, like the 'Passing of Traditional Society'. One dilemma of the United States since 9/11 has been to wage a 'financial war on terror' by tightening controls on international money laundering while continuing to support the free flow of capital (Warde 2007).

Globalization, understood as the removal of various barriers that states erected over the past two or three centuries, is now rooted in a liberal world order that the United States and its allies constructed in the final days of the Second World War. The end of the cold war, symbolized by the tearing-down of the Berlin Wall in 1989, opened up new possibilities for globalization but it also introduced new threats. The break-up of the Soviet Union hollowed out the core of power relationships that had deterred the US superpower from acting unilaterally. Multilateral commitments to collective security underlay the liberal order, and the first Bush administration (1988–92) respected them by staying within the rules of the UN Security Council (and even sacrificed domestic political capital by omitting to veto a Security Council resolution critical of Israel, in order to maintain the coalition to liberate Kuwait). But the new Bush administration habitually circumvented treaties and multilateral undertakings, whether the ABM Treaty with Russia, the Kyoto Protocol, the International Court of Criminal Justice, or WMD inspections in Iraq. By going to war against a member of the United Nations without a second resolution of the Security Council, the United States and the United Kingdom created an alternative recipe for globalization in the Middle East, whether or not, as many observers claim, they actually violated the United Nations Charter. 'Regime change' extends the spectrum of possible barriers to be removed by 'globalization' to include the regimes themselves. Images of an Anglo-American occupation of Iraq also confirm perceptions of globalization that were already widely shared in the region—the idea that globalization is a new form of imperialism.

The purpose of this chapter is to examine these perceptions and to analyse the various responses of Arab regimes and their oppositions to the new challenges that they face. First we discuss the special characteristics of the region and why the tensions associated with globalization are most acute in this part of the world. Then we examine the challenges to governments in the region associated with liberalizing trade and attracting foreign direct investment. Major policy changes are being implemented, at least in part, in most MENA countries. We focus upon the analyses and prescriptions of leading Arab social scientists expressed in the *Arab Human Development Report 2002* and in subsequent AHD reports, because they represent the most candid positive regional responses to the economic and political challenges of globalization. As the authors are clearly aware, however, the upgrading of governance needed to implement effective economic reforms is likely to endanger incumbent regimes and further exacerbate their respective oppositions. The authors in a sense also favour regime change, as did the neo-conservatives in the Bush administration. But the potential targets have hardened their opposition to any significant political reform, on the pretexts of waging a common 'war on terror' and defending themselves against external meddling. The United States pre-empted the gentle persuasion of multilateral institutions with direct military intervention and currently, as long as it occupies Iraq, seems to be reinforcing the perception in the region that globalization is just a cover for a new version of nineteenth-century imperialism.

The Middle East as 'Shatterbelt'

The Middle East is predominantly Muslim and, with the big exceptions of Iran and Turkey and the more recent one of Israel, predominantly Arab, but its most distinctive characteristic is neither religion, language, nor culture but rather its peculiar colonial legacy. Leon Carl Brown (1984: 3) has succinctly captured this legacy:

> 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.

Political geographers tell us why. Evidently the Middle East is closer to the traditional Great Powers of the eighteenth and nineteen centuries, including Russia, than is sub-Saharan Africa, South or South-Eastern Asia, or Latin America. Sir Halford J. Mackinder offered an overarching geopolitical interpretation of the Middle East's strategic significance in 1904, when the imperial powers (including the United States after 1899) took geopolitics seriously. It lies at the centre of the 'Rimland' surrounding Russia, the inherently expansionist 'pivot state' of the Eurasian continent. And 'if the pivot state should ever gain control of the marginal lands, thus gaining access to the sea, "the empire of the world would then be in sight"' (Drysdale and Blake 1985: 23, citing Mackinder 1904). These ideas would resurface during the cold war, when the region was viewed as a 'Shatterbelt', as depicted in the map in Fig. 5.1.

This region also roughly coincides with the 'Arc of Crisis' depicted by Zbigniew Brzezinski, President Jimmy Carter's National Security Advisor; it acquired added strategic significance with the Soviet Union's invasion of Afghanistan in 1979 (Brzezinski 1998: 7, 53).[3] Mackinder's geopolitics may be outdated but the region's strategic significance had already dramatically increased shortly after he was writing, when oil was first discovered in Iran and subsequently in Iraq, Kuwait, Saudi Arabia, and the United Arab Emirates. Adding Algeria, Libya, and other minor Arab producers, the region contained 66 per cent of the world's proven oil reserves at the end of 2006 (BP 2007). Indeed oil, the world's first truly global industry, seems to have reinvigorated Mackinder's geopolitical legacy. Not only was the international hydrocarbon economy the driving force behind Bush Senior's drive to liberate Kuwait—remember, as Secretary of State, James Baker admitted that it was American jobs that were at stake. More seriously for understanding the current clash of globalizations, the younger Bush's principal strategic planner, Paul Wolfowitz, was apparently already thinking along Mackinder's lines while serving Bush Senior's administration in 1992. Here are the relevant excerpts of his draft memo, 'Defense Planning Guidance for 1994–99,' first leaked to the *New York Times* on 8 March 1992.

> We continue to recognize that collectively the conventional forces of the states formerly comprising the Soviet Union retain the most military potential in all of Eurasia; and we do not dismiss the risks to stability in Europe from a nationalist backlash in Russia or efforts to reincorporate into Russia the newly independent republics of Ukraine, Belarus, and possibly others . . . We must, however, be mindful that democratic change in Russia is not irreversible, and that despite its current

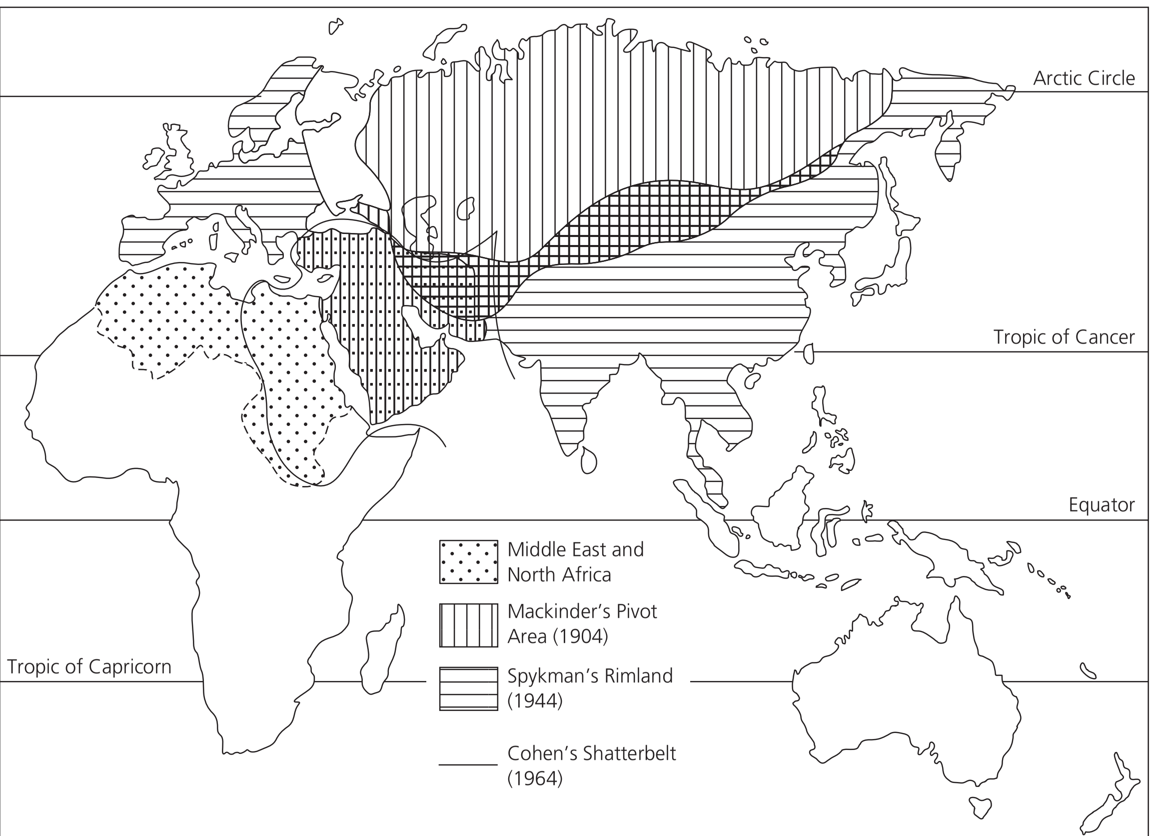

Fig. 5.1 Geopolitical views of the world: Mackinder, Spykman, and Cohen

Source: Alasdair Drysdale and Gerald H. Blake, *The Middle East and North Africa* (1985), fig. 2.5a. Copyright 1985 by Oxford University Press, Inc. Used by permission of Oxford University Press, Inc.

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travails, Russia will remain the strongest military power in Eurasia and the only power in the world with the capability of destroying the United States.

In the Middle East and Southwest Asia, our overall objective is to remain the predominant outside power in the region and preserve US and Western access to the region's oil. (Tyler 1992: 14)

The available excerpts did not mention any other region except the nearby Balkans. Turning Mackinder on his head, preserving world domination apparently entails preventing any rival outside power from challenging US hegemony along the Arc of Crisis.[4] No other external power may be permitted to challenge the US role in the region, and regional powers, too, must be prevented from exercising any wider regional influence (Lustick 1997). As Telhami and Hill (2002: 170–1) explain: 'From 1949 to the present, American planners have worried that a hostile state may gain too much wealth and power by controlling the dominant share of the world's oil supply . . . Today, Iraq and, to some extent, Iran have replaced the Soviet Union as the hostile powers in US thinking.' The United States still targets Iran, one of the two surviving states in President Bush's 'Axis of Evil'.

The 'Shatterbelt' depicted in Fig. 5.1 can be perceived as the world's geopolitical cockpit, commanding oil as well as maritime communications. Virtually all American administrations from Truman to Bush Junior have viewed it as central to US global security. The Truman Doctrine, the Eisenhower Doctrine, the Nixon Doctrine, the Carter Doctrine, the Reagan Doctrine, and now the Bush Doctrine focus almost exclusively upon this critical region. It is thus understandable that the globalization that is primarily being propagated by the United States and by predominantly American transnational corporations is viewed with some suspicion in the region, with its memories of the experiences of various European imperialisms to which Carl Brown has alluded. Although the United States may be exercising 'hegemony of a new type' (Brzezinski 1998), it seems to many like old-fashioned imperialism.[5]

Middle Eastern Perceptions of Globalization

Globalization has been internalized in Arabic as *awlaama*, a newly coined word, but it is still more widely perceived as an external threat than as an opportunity to join the world economy. Addressing the United Nations in 1998, Abdul-Qader Ba-Jammal, who was Yemen's deputy prime minister and foreign minister, expressed these sentiments:

Many of us understand that globalization is the theoretical economic option of free trade and liberalism following the collapse of the socialist economies and the end of the cold war in the twilight of this century. Some of us understand that globalization is a new tool to control the division of labor in the world and to maintain the status quo of the poor and consumers without ideological or political slogans . . . We, the group of least developed countries, view globalization with terror, because isolation and marginalization will threaten our countries if we do not help one another . . . Globalization does not present any tangible picture of equality. What is even more dangerous is that we are talking about globalization as if it were a future, providential destiny and a single option. Such logic . . . makes it appear as if we were engaging in contracts of submission. (UNESCWA 2001: 52)

The IMF discipline exercised over various indebted Middle East and North African (MENA) economies in the 1980s did not seem too different from other 'contracts of submission' enforced by the Great Powers with gunboats a century earlier (Henry 1996: 32, 135–40, 161–6, 212–16). Although this multilateral sort of intervention has not led to military occupation and protectorates or international mandates, it chastens and chastises regimes and induces responses that echo those of early generations to colonial rule. The Anglo-American occupation of Iraq may indeed make its neighbours 'view globalization with terror'.

A colonial dialectic of sorts is being re-enacted, despite the nominal sovereignty of most of the principal actors on the receiving end of globalization. The stimulus, like the colonial penetrations of nineteenth and early twentieth centuries, elicits a range of responses from the positive acceptance of putative neo-liberal globalizers to utter rejection on the part of some Islamists as well as Arab and local nationalists nostalgic for the 1960s and 1970s. These 'negations' recall those of the traditionalists reacting against nineteenth- and early twentieth-century colonial European occupations of Arab lands. Wistful of an imagined golden age, many reject the Western influences, symbolized today by McDonald's and high-rise hotel chains, which are supposedly corrupting their societies. In some colonial situations the traditionalists, too, were swept away as new generations, more impregnated with Western as well as 'traditional' world views, synthesized them in ways that could liberate their societies by playing on the contradictions of colonial occupation with Western liberal values. It became possible to be both nationalist and pro-Western, for adopting modern political styles and values rendered nationalism more effective, in turn offering better protection of the authentic aspects of tradition that were worth preserving. From Atatürk's Turkey to Bourguiba's Tunisia, nationalism went hand in hand with a cosmopolitan acceptance of the modern (European) world.

In much of the Arab world, however, independence came before the nationalists had time to reach any broad social consensus, and power fell into the hands of traditional notables, only to be seized after independence by military rulers who incorporated newly participant strata. And even where, as in Tunisia and Turkey, a colonial dialectic ran its course, subsequent generations questioned the synthesis. Since the 1990s, with the end of the cold war and the opportunities now lost of playing one side against the other, MENA has again been confronting the old problem of a potentially invasive Western presence. Yet the targeted countries lack the domestic political space in which to negotiate compromises between the putative globalizers and the recalcitrant moralizers, whether Islamist or nationalist, within their respective communities. The minority of Islamists who would favour positive responses to the challenges of international markets tend to be excluded from politics because they threaten incumbent regimes. The principal resistance to reform comes from vested interests within these regimes. Diminishing oil revenues or strategic rents (Egypt, Israel, Morocco, Turkey) tend to concentrate teams of economic reformers on the need for change, but rising oil revenues or other rents then have the opposite effect of relaxing their efforts. The result, to date, is that MENA's economic performance, especially that of the Arab world and Iran, has been weaker, compared to most other regions of the world, on a wide range of indicators. The countries of the region still tend, with the exception of some of the wealthy petrostates, to hide behind high (but diminishing) tariff barriers and capital controls, and the foreign direct investment that they attract outside the petroleum sector is virtually nil compared to other regions.

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Trade Policies

A World Bank study group observed that at the turn of the millennium the MENA countries seemed even less integrated, with respect to trade, in the world economy than in the early 1980s. Ratios of trade outside the petroleum sector to GDP tended to have diminished rather than increased, from an average of 53 per cent in the early 1980s to 43 per cent in 2000 (World Bank 2007: 73, citing World Bank 2003). Whereas export-oriented Turkey, which is not included in the Bank's definition of MENA, increased its trade to GDP ratio from 21 to 56 per cent between 1981 and 2000, Egypt cut back its trade by more than half, from 82 to 39 per cent of GDP during the same period. Outside the Gulf Cooperation Council (GCC) countries and Turkey, tariffs averaged over 24 per cent, much higher than in any other region of the developing world.[6]

Gradually, however, the tariffs and other trade barriers are being dismantled. In 2004, for instance, Egypt undertook a major, broad-based reform in trade policy whereby the average tariff rates were reduced by more than half to just over 9 per cent; and trade inched up to 63 per cent of GDP in 2005 (World Bank 2007a: 75; 2007b). Much of MENA joined the Mediterranean Partnership proposed in 1995 by the European Union, requiring a progressive lowering of tariffs on non-agricultural products until the year 2010, when virtually all protection is to be eliminated. Meanwhile, the dismantling by the Uruguay Round of the Multifibre Agreement's quotas in 2005 threatened a number of local textile industries, and the EU has helped to finance its southern partners' programmes to bring these and other local industries up to standard ('mise à niveau'). Tunisia and Morocco were the first to sign up for full partnerships with the European Union, and some Moroccan and Tunisian exporters were surviving competition with Asian exports to Europe by moving upscale, using their geographic advantage to keep up with the latest European fashions. They also hurried, together with Jordan and the Palestinian Authority, to establish action plans implementing the EU's European Neighbourhood Policy launched in 2004.

The record of the MENA countries continues to be mixed, however, with respect to their trade policies. Admission to the World Trade Organization usually requires a variety of internal reforms to ensure a level playing field between trading partners. Egypt, Israel, Morocco, Tunisia, and the city states of Bahrain and Kuwait were among the first to become full members of the World Trade Organization, in 1995, and Jordan, Oman, Qatar, and the United Arab Emirates subsequently acceded to the WTO, with Saudi Arabia finally qualifying as a full member in December 2005. Jordan also entered into an association agreement with the European Union, as did Israel. Egypt, Lebanon, and Algeria eventually signed agreements with the EU in 2001 and 2002, while the latter two were also in the final stages in 2008 of negotiating membership with the World Trade Organization. All these countries were trying with various reservations to liberalize their trade policies to take advantage of the new division of labour connoted by 'globalization'.

Some of the important countries in the region, however, delayed the internal changes that new agreements were imposing. Saudi Arabia's negotiations with the WTO, for instance, stalled when rising petroleum prices in 2000–3 relieved internal pressures for reform. Iraq and Syria were two Arab nationalist hold-outs against the WTO, and Syria's negotiations with the EU were long and inconclusive, although it was receiving some EU assistance in 2008—for instance, to support Syrian medical facilities caring for Iraqi

refugees. Libya had observer status at some meetings of the EU and Mediterranean Partners. Further plans to develop a Mediterranean Union comprising forty-three region states (including Syria) were underway in 2008.

Most of the Arab countries were meanwhile implementing a General Arab Free Trade Area (GAFTA) proposed in 1997 by the Arab League. Intra-Arab exports in fact increased by 15.1 per cent annually between 1997 and 2005, when the world's average annual increase was only only 7.9 per cent.[7] Arguably countries could benefit from complementarities in certain industrial sectors and enhance their ability to trade outside the region, although intra-Arab trade still constituted only 7.5 per cent of these countries' total trade in 2001. Meanwhile the GCC, established in 1981, took major strides to coordinate trade policies among its six members, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates, and they were committed to a common currency by 2010.

Eliminating protective tariffs not only carried serious consequences for local industries. For some countries it had major fiscal repercussions, because tariffs constituted an important proportion of the total tax revenues. The region was more dependent on tariff revenues than East Asia or Latin America or, for that matter, any comparable middle- and lower-middle-income countries. Virtually all the major countries in the region except Israel, Turkey, and Saudi Arabia depended in 2000 on tariffs for over 10 per cent of their current revenues. A well-administered country like Tunisia could then gradually adapt to the new state of affairs by applying other taxes effectively, including a value-added tax. Lebanon, however, was less fortunate. The late Prime Minister Rafic Hariri reduced tariffs in January 2001 to stimulate the economy, thereby reducing their share of government revenue from 26 per cent in 2000 to 8 per cent in 2003 and 2004. Despite a small primary budget surplus, however, the country was sinking under the weight of debt servicing that constituted over 10 per cent of GDP or 30 per cent of tax revenues.

The Problem of Attracting Private Capital

In the 1960s and 1970s the international climate had been relatively favourable to developing countries. They were encouraged to industrialize and to expand their administrative infrastructures, even to emulate the welfare states of the advanced industrial countries. Official development assistance was relatively generous, even if the industrial countries outside Scandinavia never quite reached the 1 or 2 per cent of GDP advocated by the international development community. But then the international climate changed with the emergence of OPEC, the tightening of international oil markets, and the explosion of oil prices triggered by the October (Ramadan/Yom Kippur) War of 1973. While the industrial countries continued to provide some development assistance, developing countries had to rely more on loans from international banks. These banks, flush with oil revenues that most major oil-exporters could not invest at home, encouraged the other developing countries (and some major oil-producers such as Algeria and Mexico) to borrow as much as they could possibly absorb. The banks profited enormously until 1982, when Mexico's problems initiated an international debt crisis, structural adjustment programmes, and much suffering in the Third World. Meanwhile, UK Prime Minister Margaret Thatcher and

US President Ronald Reagan led an international offensive against wasteful public-sector spending. In the 1980s and 1990s foreign direct investment replaced official development assistance as the principal source of capital for financing Third World development. The end of the cold war in 1989 further encouraged the reliance on private capital.

The Middle East and North Africa, however, is one of the regions, along with South Asia and sub-Saharan Africa, that has experienced the greatest difficulties in adapting to these new tendencies. A recent study of the United Nations' Economic and Social Commission for Western Asia (ESCWA) analysed the share of the Arab world in the world economy. While it includes 4.7 per cent of the world's population, it accounted for only 2 per cent of the world's GDP in 2001 and attracted a bare 0.8 per cent of the world's foreign direct investment (UNESCWA 2002: 1).

Fig. 5.2 highlights the significance of foreign direct investment (FDI) as a source of capital for developing countries by comparing it with the various other types of capital flows since 1970. Despite the Asian financial crisis, FDI to developing countries has consistently exceeded $150 billion since the mid-1990s and was approaching $300 billion in 2005. Official development assistance, by contrast, reached a plateau of $67.5 billion in

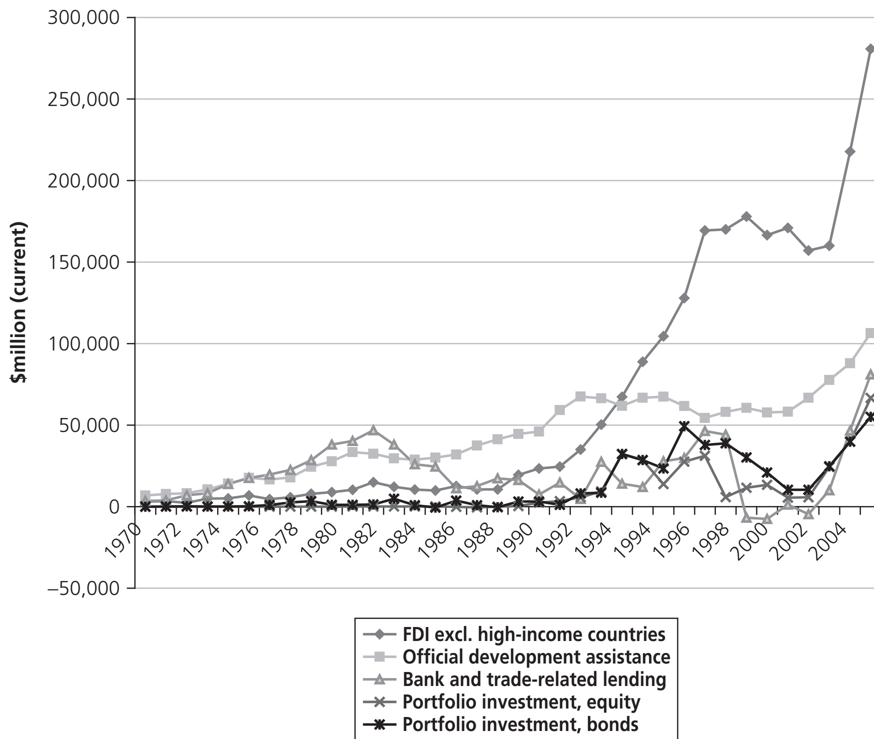

Fig. 5.2: Sources of foreign capital for developing countries, 1970–2005
Source: World Bank (2007b).

1991 and steadily diminished, even in current dollars without controlling for inflation, until the George W. Bush administration promoted economic aid as part of its global war on terror. MENA has not adapted effectively to global financial markets. While the region has received more than its per capita share of official development assistance and bank loans, it has not attracted private investment in quantities that are commensurate with its population. Nor has it fared well at the receiving end of portfolio investments in equity or bonds, the other sources of private capital displayed in Fig. 5.2.

Fig. 5.3 displays MENA's varying shares of these principal sources of international capital, bank and trade financing, foreign direct investment, portfolio bond and equity investments, and official development assistance, over the years 1970–2005. The percentages refer to MENA's share of the totals received by the developing countries of East Asia, Eastern Europe and Central Asia, Latin America, MENA, South Asia, and sub-Saharan Africa. These populations totalled about 5.4 billion in 2005, so that MENA, defined in this World Bank data set to comprise most of the Arab world and Iran, constituted about 6.5 per cent of it. But in 2005 the region was attracting only 4.9 per cent of the foreign direct investment, mostly in the petroleum sector, and 4.7 per cent of international investments in bonds, much of them floated through Lebanese banks financing the country's burgeoning debt. International equity investments were a pitiful 3.5 per cent of the total, and net banking and trade financing, historically much more plentiful in the 1980s, had sunk to new lows as Algeria repaid big chunks of its international debt with its surging oil and gas revenues. Since 1970 the MENA region on average accumulated well over 10 per cent of the banking and trade financing resources until 1989, when debt repayments began to outweigh any new lending, and also consistently attracted 10–30 per cent of the official development assistance (ODA)—substantially more than its aggregate population would predict, reflecting the region's strategic rents. Fig. 5.3 also shows its ever larger servings

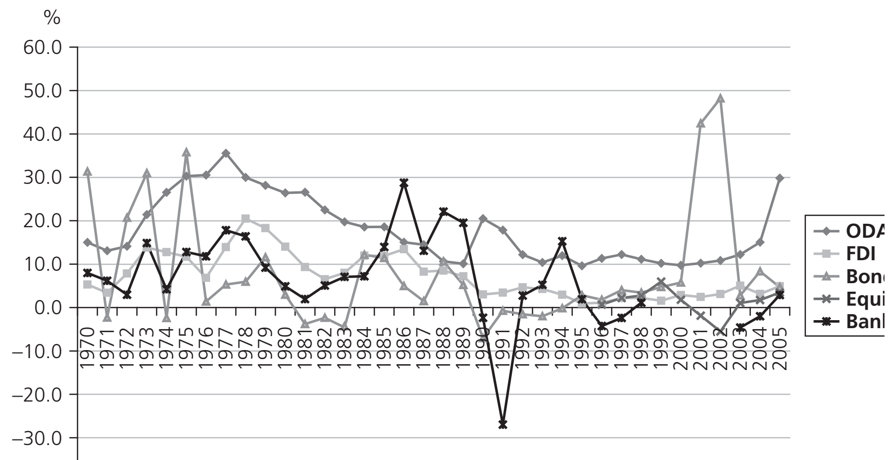

Fig. 5.3: MENA shares of capital flows to LDCs, 1970–2005

Source: World Bank (2007b).

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of the swelling ODA pie cooked up by the Bush administration since 9/11. In short, there were perhaps fewer incentives for the MENA countries allied to the United States to engage in more reform for the sake of foreign direct investment. MENA's share of this biggest pie to LDCs was increasing but was still not commensurate with its population and was targeted to capital intensive sectors rather than to areas of the economy that might employ greater numbers of people.

The one apparently 'bright spot'—the 42–48 per cent of the international bond market cornered in 2001 and 2002—amounted to relatively little in absolute terms (note the declining bond market charted in Fig. 5.2) but did have interesting implications. Some of the MENA countries were able to raise funds on the international bond market, a cheaper source of funds than commercial banks. But the principal performers in the region were Egypt, Lebanon, and Tunisia. As for Lebanon, there was little foreign direct investment: the country was converting part of its unmanageable internal public debt into external, less expensive bonds. Egypt and Tunisia were also becoming active in the international bond market.

Part of MENA's difficulties in attracting private capital may relate to purely economic considerations, such as the costs of skilled labour and the sizes of national markets. But the political regimes are also an obstacle. A major problem is flow of information that investors need. In the antiseptic language of economists, there are information 'asymmetries' between private and public actors: the latter may have better information than private-sector owners or managers, although even this distinction between the 'public' and 'private' sectors is problematic, however, since public officials may be less informed than ostensibly private actors enjoying close personal relations with rulers.[8] Most economic as well as political information is kept out of any public domain, even of government officials. Under such conditions, it may be difficult to attract private investment, whether national or foreign. With respect to foreign capital, the information needs vary, depending on the type of financial flow, whether (1) foreign direct investment, (2) bond issues, (3) portfolio investment in local stock markets, or (4) international bank and trade-related lending. FDI (outside the energy sector) and portfolio investment will be particularly demanding, as will many local private investors.

Hypotheses about Investors' Information Needs

Most investors care little about political structure—whether or not, for instance, a polity has competitive elections or a strong human rights record. Assuming, however, that laws are in place encouraging foreign investment and permitting the repatriation of profits, prospective investors—indigenous as well as foreign—will still need certain kinds of information.

Of the four sources discussed above, international bank and trade-related lending is least in need of public information. The international bankers have their own confidential sources, such as their borrowers, other banks, local government officials, in-house country risk analysts, teams of external consultants, and expensive country risk publications. Commercial banks used to be the principal source of private capital flows to developing

countries, and they carried the fewest potential ripple effects on the political structures of borrowing countries. Although they supported IMF and World Bank policies of economic adjustment crafted in the interests of the creditors in the 1980s, their direct impact upon host political structures was minimal. International bankers continue prudently to avoid any appearance of involvement in host country politics, and governments can rely on their discretion. But, unfortunately for information-shy regimes, traditional commercial bank lending has given away to more open capital markets, which require greater transparency if they are to function properly.

As Fig. 5.2 indicates, commercial bank lending peaked in 1981, although petrodollars may again be driving renewed bank lending since 2005. After the eruption of the Mexican crisis in 1982, the banks were more concerned until recently about being repaid than about injecting new cash into overly indebted economies. MENA drastically reduced its overall indebtedness; in fact in 2005 only Lebanon, followed at some distance by Tunisia and Jordan, displayed debt-to-GDP ratios comparable to those of the heavily indebted Latin Americans. [9] And few of the important MENA countries rely on commercial bank credits any longer. Algeria leads the way in repaying its international debt. The debt servicing wiped out any new lending, so that from 1996 to 2004 the cash flows to the region as a whole were minimal. Like official development assistance, commercial bank lending became a diminishing source of funds for most LDCs until 2003, whereas foreign direct investment continued to be the principal source of capital.

Portfolio investments in stocks and bonds peaked respectively in 1993 and 1996 at about $30 and $50 million for the entire group of less-developed countries; in 1996, in fact, these portfolio investments accounted for almost one-third of the private-sector capital that was replacing official development assistance and bank and trade financing. It is perhaps no accident that countries in the MENA region developed their national stock markets at this time—even the Palestinians developed their bourse with online trading capabilities in the occupied territories. The investment behaviours of private investors residing in industrialized countries were perhaps changing. In the United States individuals have moved their funds from banks to mutual funds, and managers of mutual and pension funds have sought to diversify their investments into emerging markets. All three of these expanding streams of private capital—foreign direct investment and the two types of portfolio investment—require more publicly available information than the commercial banks or foreign aid donors. Portfolio investors and managers have become particularly demanding in the wake of the collapse of 'emerging markets' in South-East Asia in 1997 and the broader collapse since 2000. Demands for public information and signals are potentially more troubling and politically destabilizing for information-shy regimes than are the discrete private queries of international bankers or public donors.

While bondholders will be less demanding than shareholders or certain kinds of direct investors, their requirements may still significantly constrain a country's economic policies. Investors in bonds are principally concerned with the macroeconomic stability of the country issuing or guaranteeing the bond. One sign of future long-term stability may be the independence of the country's central bank. Sylvia Maxfield (Maxfield and Schneider 1997: 35–7) argues, in fact, that one reason for the recent increase in the number of independent central banks is that politicians desire to signal investors that orthodox

macroeconomic policies will be sustained. Just how much central bank independence can be tolerated, however, is a question that deserves to be addressed in MENA. Any real independence—and greater transparency of the country's commercial banking system—may expose sensitive political patronage networks, yet international managers of bond portfolios may insist on greater openness, especially in the light of recent experiences with the Thai, Indonesian, and other Asian banking systems. Information-shy regimes will presumably face even greater challenges in attracting portfolio investment in local stock markets and certain kinds of foreign direct investment. In addition to macroeconomic stability, required as a protection against foreign exchange risk, portfolio investors in equities seek active, relatively liquid local stock markets, displaying a wide variety of traded companies. During the decade 1992–2001, stock markets were indeed being introduced—or reopened in countries such as Egypt—and were representing substantial amounts of capital as a percentage of GDP, catching up, at least, with Latin America and South Asia. Only the South African and East Asian markets seemed better endowed. In MENA, however, the local stock markets seemed anaemic, with turnover rates (the value of shares traded, as a percentage of the average market capitalization) lower than those of any other region in the developing world. Apart from Israel and Turkey, only Saudi Arabia showed some signs of activity, with a turnover rate up to 32 per cent in 2001. The surge of oil price then led to a dramatic increase in stock market capitalization and turnover rates by 2005, but with even fewer companies that were traded than in 1999. Oil wealth led to rising prices and increased speculation, but the Egyptian Capital Markets Authority, which had accounted for well over half of the Arab world's listed companies, removed over 400 of them after 2002 for failing to meet their requirements for financial disclosure. Of the 2,853 companies listed in 2005 on MENA exchanges, 744 were Egyptian, 572 were Israeli, 420 were Iranian, 302 were Turkish, and 201 were Jordanian. Saudi Arabia and Morocco followed with 77 and 56 companies, respectively.

Only with difficulty can family firms in MENA be persuaded to go public, much less to submit to the fuller disclosures required by international investors. Listings of public-sector companies and banks pose other problems as well. Token privatization may not be palatable to international investors, yet real privatization transferring a public-sector company to a private core management group may conflict with political patronage imperatives. Without foreign investors, moreover, local investors may also be wary. Under the new conditions of globalization local investors have been observed to follow the lead of foreign portfolio managers (Maxfield and Schneider 1997: 45).

The very distinction, indeed, between local and foreign investors may be more problematic in MENA than in other regions of the developing world. In most of the region, foreign direct investment outside the energy sector is inseparable from local private investment. Many of the 'foreign' investors are other Arabs who are in close touch culturally and politically with the recipient country. Other 'foreign' direct investment seems to come from local investors redeploying their foreign assets. Local rulers and their close associates, operating through dummy foreign companies, may also account for some of the private foreign direct investment. They, of course, take advantage of inside information about publicly financed projects, but other Arab investors have preferred to place their funds abroad in the absence of adequate information. Their information needs

easily spill over from economic to political matters and hence may be more threatening to incumbent regimes than those of the foreign multinationals focused on the energy sector. The local investors, in turn, tend to be wary of their respective regimes. A survey of local entrepreneurs sponsored by the World Bank in sixty-nine countries in 1997 included entrepreneurs from Morocco, Jordan, and the West Bank and Gaza. A full half of them registered dissatisfaction with unpredictable changes in government policies, and 70 per cent were dissatisfied with the judiciary (World Bank 1997). Their major concerns were with possible effects to their businesses of political instability and an unreliable judiciary. Surprisingly, they were less concerned than entrepreneurs from other regions with unpredictable changes in laws and policies, insecurity of property, and corruption, and they even rated their respective governments slightly more favorably on a 'credibility index' than the samples from Central and Eastern Europe, Latin America and the Caribbean, sub-Saharan Africa, and the Commonwealth of Independent States. Nevertheless, the survey's findings were universal: there is a major credibility gap between the entrepreneurs and regimes of developing countries. This finding may carry more negative implications for direct foreign investment in MENA, however, than in parts of the world where foreign investors are less identified with indigenous entrepreneurs. Outside their relatively insulated energy sectors, the MENA countries may have greater difficulty attracting foreign direct investment because their investors are more discriminating and demanding of information than the foreigners who invest in other regions. As discussed elsewhere, even Egyptian investors close to the Sadat regime (and therefore privy to much inside information) invested relatively little of their fortunes in *infitah* companies and projects (Henry 1996: 232 ff.). The climate was so restrictive that outsiders had little incentive to invest, whereas insiders had little need to, since political connections enabled them to use public capital instead of risking their personal fortunes on new projects. Much of the 'foreign' direct investment that flowed into the country was Egyptian capital seeking the protection accorded to foreign investors.

By 2006 various structural reforms, notably in Egypt, had somewhat improved the business climate. The overall business climate, as analysed by the World Bank, had improved. The quality of public administration, indicated by a variety of measures, placed MENA, except for resource-rich countries like Algeria, Iran, and Syria that were 'labour abundant', slightly ahead of most other regions of the developing world, including East Asia. Public-sector accountability, however, remained dismally low, with the MENA countries mired on average in the twentieth percentile, compared to much better showings even in South Asia and sub-Saharan Africa.[10]

Apart from the energy sector, TNCs have tended to minimize their involvement in the region, yet they bring the bulk of FDI to the developing areas and promote much of its international trade. Foreign or local, investors need reliable information, and they also require institutional credibility that has been spelled out into a battery of indicators by the World Bank. Readily available online, these data summarize impressions derived from polling local and international businesspeople. They may render foreign direct investment more problematic by drawing comparisons between potential investment opportunities inside and outside the region. The potential investor may readily compare countries with respect to government effectiveness, regulatory quality, rule of law, corruption, political stability, and, possibly of less concern to the businessperson, voice and accountability.

AQ: •h3 Figure 5.4• offers one illustration, the Control of Corruption, comparing the different MENA countries. The reader (or potential investor) may easily generate others.[11]

Most prospective investors, foreign or domestic, of course also need to borrow funds if they are not wealthy TNCs and cannot raise local equity. Consequently, domestic credit allocation will have to be efficient if investment and economic growth are to be sustained. Since the local stock markets remain weak, the primary source of finance capital will be the commercial banking system, yet maximizing its efficiency may be incompatible with sustaining vital political patronage networks. Banks may have to be kept in politically safe hands to ensure that lending follows political as well as economic criteria.

Table 5.1 Control of corruption, comparison across selected countries, 2006

Country	Percentile rank	Governance score	Standard error
Algeria	42.7	–0.39	0.16
Bahrain	71.4	+0.58	0.18
Djibouti	28.6	–0.67	0.27
Egypt	42.2	–0.41	0.16
Iran	33.5	–0.59	0.18
Iraq	3.4	–1.40	0.20
Israel	79.6	+0.83	0.15
Jordan	67.5	+0.38	0.15
Kuwait	73.8	+0.67	0.18
Lebanon	35.9	–0.57	0.18
Libya	19.4	–0.89	0.20
Morocco	56.8	–0.06	0.16
Oman	74.8	+0.71	0.20
Qatar	78.6	+0.83	0.20
Saudi Arabia	61.7	+0.18	0.20
Syria	29.6	–0.66	0.18
Tunisia	62.1	+0.20	0.16
UAE	83.5	+1.16	0.18
West Bank/Gaza	10.7	–1.09	0.32
Yemen	33.0	–0.60	0.18

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen, and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think-tanks, non-governmental organizations, and international organizations. The aggregate indicators do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. Countries' relative positions on these indicators are subject to indicated margins of error that should be taken into consideration when making comparisons across countries and over time.

Source: Kaufmann et al. (2007).

To summarize, MENA risks falling behind other regions of the developing world in the race to attract foreign private capital. While part of the problem may be that its earlier advantages of greater oil rents, workers' remittances, and foreign aid protected it too long from adjusting to the new era of globalization, it is also a latecomer to the global information revolution. Another part of the problem is hypothesized to be political: its information-shy regimes seem to find it more difficult than the Asians or Latin Americans to disclose the information or attain the credibility needed to attract private foreign investment or to promote local stock markets. Their likeliest 'foreign' investors are their own citizens with foreign assets or citizens of neighbouring countries whose information needs may be more demanding than those of corporate outsiders. Increasing the capital flows needed for sustained economic development may require painful political reform to break down barriers to the flow of information. Financial reform, in particular, touches on sensitive nerves, because the state-owned banks prevailing in much of the region (Algeria, Egypt, Iran, Libya, Syria, and Tunisia) protect patronage networks that prop up their respective regimes, and private-sector oligopolies in most of the monarchies perform similar functions.

Increasing Transparency and Accountability

The most candid exposition of the Arab world's problems in adapting to the new world order of globalization are the United Nations Development Programme's (UNDP) *Arab Human Development Report 2002*, drafted by Arab intellectuals, and its *AHDR* sequels (UNDP 2003–) (see Box 5.1). Trained in economics and other social-science disciplines, these intellectuals belong to the international establishment of Western-educated consultants and technocrats who want the region to jump on the bandwagon of reform. Yet, of course, they are only technocrats, without the political authority needed to cope with those who reject the reforms associated with globalization. The expanded teams of Arab technocrats went on to issue further annual *Arab Human Development Reports*, although the UNDP, while publishing them, distanced its organization from their contents after the third Report, issued under the stress of the US occupation of Iraq.[12] Arab governments paid lip service to the *AHDR* series because of the support they generated in the international community, but they tended to ignore conclusions that might undermine their regimes.

Of the three 'deficits' that the *AHDRs* highlight in the Arab world, the need to overcome the knowledge deficit is the one that commands the greatest consensus among government policy-makers as well as intellectuals and the general public. Building the knowledge economy attracted major public investment in universities, think tanks, and even knowledge cities in some of the GCC states flush with oil revenues. These states were still in need of diversifying their economies so as to employ their burgeoning youth populations, even as their poorer neighbors faced more serious challenges of unemployment. Per capita GDP grew annually on average by only 0.5 per cent between 1975 and 1998—'in effect a situation of quasi-stagnation' (UNDP 2003: 88). Average Arab growth rates looked only a little better by slightly modifying the time span so as to limit the distorting effects of high or low oil prices.[13]

BOX 5.1. ARAB HUMAN DEVOLPEMENT REPORTS

The pioneering *Arab Human Development Report 2002: Creating Opportunities for Future Generations* (UNDP 2003) singled out three 'deficits' in the Arab world: human freedom, women's empowerment, and human knowledge capabilities relative to the wealth of the respective societies. Subsequent reports dealt systematically with the three deficits, the second one (2003), dealing with knowledge, the third (2005) with governance, and the fourth (2006) with gender issues. The Arab intellectuals tended to ascribe much of the responsibility for these deficits to the "black-hole state," defined in the third report as 'the executive apparatus [that] converts its surrounding social environment into a setting in which nothing moves and from which nothing escapes' (UNDP 2005: 15, 125 ff). The prime problem of the region was governance, the focus of *Arab Human Development Report 2004: Toward Freedom in the Arab World*. And the distinctive aim of the *AHDR* series, 'in contrast to efforts to restructure the region from the outside . . . [is] to crystallize a strategic vision by Arab elites . . . of reform from within, based on rigorous self-criticism, [which] is a far more proper and sustainable alternative" (UNDP 2003: 2).

Indeed, the authors rejected any outside interference, even by the international civil servants directing the United Nations Development Programme. As the UNDP Administrator indicated in his preface to *Arab Human Development Report 2005: Toward the Rise of Women in the Arab World*, reiterating his predecessor's reservations, 'some of the views expressed by the authors are not shared by UNDP or the UN' and are expressed 'in unnecessarily divisive language' (UNDP 2006: I). Yet he also affirms the historic importance of these *AHDRs*, committed to good governance and greater respect for human rights, and recognizes that "the sense of anger palpable in certain sections of this report is widely shared in the region and has been deepened by recent events and the extensive loss of innocent life" (UNDP 2006: II).

The authors were not shy about discussing the 'freedom deficit', because they view civic and political freedom as intrinsic to human development.* There is no attempt to hide the essentially political obstructions to human development in the region. Instead of camouflaging 'governance' in Arabic translation as some antiseptic sort of management problem, the authors come out up front:

> Efforts to avoid the political aspects of governance when discussing the question sometimes reflect fear of expected or imagined consequences of dealing directly with the subject. However, restricting discussion of governance in this way does not serve the long-term interests of developing countries, many of which still face tremendous challenges in building good governance or in achieving the levels of human development that only good governance, including its political aspects, can ensure. (UNDP 2003: 106)

'Governance' or *al-hokm* is modelled on universal democratic principles. The Report calls for participation, the rule of law, transparency, responsiveness to the various interests of civil society, equity, accountability and wise leadership or 'strategic vision' (UNDP 2003: 106). Most authoritarian rulers, as well as their Islamist oppositions, pay lip services to these principles, but the Report advocates policies that would, if actually implemented, amount to gradual regime change in many Arab countries. Many of the policies suggested to stimulate economic and educational development are explicitly conditioned on better governance. Constitutional democracy is not only viewed as an intrinsic good by the putative globalizers who drafted this Report; it is also an instrumental necessity if the region is to stop stagnating and begin to catch up with the rest of the world.

*Team leader Nader Fergany devised a special Alternative Index of Human Development (AIHD) that includes the HDI dimensions of life expectancy and educational attainment but replaces per capita wealth with (1) Freedom House averages of civic and political freedom, (2) a gender empowerment measure devised by the UNDP, (3) Internet hosts per capita, and (4), negatively scored, carbon dioxide emissions per capita. Ranked along the AIHD, the Arab countries all fall into medium and low categories.

The Arab world has consistently trailed the rest of the developing world in gross primary education enrolment ratios, despite outspending it until 1985. Arab spending went more to secondary and university education, where it outperformed the average of developing countries (although not Asia or Latin America). Obviously, urban middle-class rulers and administrators were looking after their own interests, not those of poor country folk, especially not their daughters. Illiteracy rates very slightly improved between 1980 and 1995 but remained wretched compared to the average of developing countries. Over half the women living in three Arab countries, Mauritania, Morocco, and Yemen, remained illiterate in 2005 (UNDP 2006: 80). [14]

An urban class policy bias also helps to explain the 'mismatch' deplored in *AHDR 2002* (UNDP 2003: 60) between educational curricula and labour markets. Parental and teacher pressures usually propel vocational schools into a dysfunctional academic status (Moore 1980: 62–83). The combination of inadequate vocational training and the declining quality of primary schools helps to explain why Arab unemployment is more severe than in other parts of the world. Too many aspiring but poorly trained youth, male and female, are graduating from secondary schools and universities to be constructively absorbed by the local economies, and labour productivity has actually declined (Moore 1980: 87). Workers tend to produce less for equivalent wages than in most other regions of the developing world.

The proposals of the *AHDR* series to revitalize economic growth sound like the familiar list of reforms proposed by the World Bank in structural adjustment programmes. In order to create 'an enabling environment for the private sector', states must ensure the rule of law, an efficient judiciary, and so on, just as the World Bank (1997) has been insisting since 1997. Whether for encouraging more private-sector activity or for generating and using knowledge effectively, strong institutions are needed (UNDP 2003: 96). Possibly more controversial is the proposal to build 'growth triangles' between countries endowed with abundant labour and those endowed with capital; from the given examples (UNDP 2003: 97) it is not clear whether the third technology leg of the triangle is to come from inside (as in Jordanian–Israeli industrial zones) or outside the region. Partnerships between local universities and research establishments and the private sector are encouraged, and hopefully more foreign direct investment, virtually absent outside the petroleum sector, may become a 'critical force for transfer and development of new technologies' (UNDP 2003: 95). It was noted, however, that countries like Egypt and Tunisia that had opened themselves to foreign direct investment still remained 'at the low end of the technology tree', so that 'the Arab world . . . is currently—and expensively— stuck at the wrong end of the technology ladder . . .' (UNDP 2004: 99). Economic growth requires sound research and development policies and institutions as well as foreign direct investment.

Women, too, have a major economic role to play. *AHDR 2005* concluded 'that the rise of women is in fact a prerequisite for an Arab renaissance, inseparably and causally linked to the fate of the Arab world and its achievement of human development' (UNDP 2006: 24). For their sake, and even for that of general programmes for poverty reduction and job creation, 'civil society institutions need to develop into a broad-based, inclusive, efficient and sustainable grass-roots vehicle for efficient sustainable collective social action that effectively combats the powerlessness that lies at the heart of poverty' (UNDP 2003: 102). Nothing less than a social revolution may be needed: 'The crux of the process of poor-enabling development is major institutional reform that radically raises the share of the

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poor in the power structure of society . . . it is institutional reform rather than economic growth per se that constitutes the heart of poor-enabling development.' In practice, however, such reform might have profoundly destabilizing effects. In Morocco, for instance, King Hassan once exclaimed that the poor could not eat pencils; his strategy was to preserve the clienteles of notables in the countryside designed to keep them, both men and women, under control (Hammoudi 1997: 25–43).

The region's freedom 'deficit' is a principal obstacle to sustainable human development. On the Freedom House indicators collected over the years by a conservative American foundation, the region's mean score is far lower than those of other regions, including sub-Saharan Africa, and has apparently widened rather than narrowed in recent years. On the World Bank's indicators of voice and accountability, political instability, government effectiveness, regulatory burden, and extent of graft and quality of institutions, the averages of Arab countries tended to be lower than the mean for the sample of 212 countries. [15]

The Issue of Regime Change

If, as the *AHDR* series has argued, the Arab world is to catch up with the rest of the developing world, it needs above all else to tackle the issues of governance that the region's freedom deficit reveals. In the UNDP's Programme on Governance in the Arab Region, the dimensions of good governance are laid out as objectively as possible as a reform agenda calling for fair and free elections with 'a solid electoral system that permits the peaceful rotation of power' (UNDP 2003: 115), an elected, representative legislature that can exercise some real control over the executive power, a constitution that effectively defines the rules of the game separating executive, legislative, and judicial powers, the rule of law and autonomy of judicial institutions, local self-government, and reforms to invigorate civil society and guarantee a free press. The *AHDR* series is not country specific but does urge some reforms that are widely applicable, such as the need to scrap systems that authorize associations in favour of just permitting them to declare themselves.[16]

The Programme on Governance in the Arab Region (POGAR) (see Box 5.2) is one of a growing number of regional and international intermediaries conveying experiences and lessons in economic and political liberalization from international institutions and from a variety of bilateral development programmes in the OECD countries as well as multilateral agencies. POGAR's contribution is to synthesize these experiences for the Arab world and to offer channels for exchanges among Arab countries of their own reform efforts. Since it is a distinctively Arab regional agency, it also helps to legitimate international perspectives on governance and to mitigate what might otherwise be perceived as outside meddling by various donors, notably the European Union. The EU's partnership agreements with a number of southern Mediterranean Arab states call on the partners to engage in political (governance) as well as economic reform. POGAR encourages reformers within the region to compare notes and generate their own demonstration effects.

Not only, then, as during the debt crisis of the 1980s, is the region being summoned to remove its trade barriers, to plug up its fiscal and current account deficits, to stabilize its macroeconomic indicators and structurally to reform various sectors of the economy and

BOX 5.2. PROGRAMME ON GOVERNANCE IN THE ARAB REGION (POGAR)

The Programmme on Governance in the Arab Region (POGAR) (see www.pogar.org) fleshes out the detail of country practices highlighted by the *Arab Report on Human Development* series. Mirroring the series, UNDP-POGAR focuses on eight broad themes or substantive dimensions of governance that embody the normative principles of participation, the rule of law and transparency, and accountability. Although these standards all apply as yardsticks for evaluating political institutions and practices, their relevance varies with the nature of the concrete theme. Thus, extending participation is the primary concern behind the themes of civil society, decentralization, elections, and the role of women in public life. Corresponding to the rule of law are the themes of the judiciary and constitutions, while legislatures and financial institutions are primary agencies of transparency and accountability.

As explained on its web site:

> Participation is a concept in open and democratic society and a key component in human development as understood and pursued by UNDP. Literally, participation means taking part. All men and women should have a voice in decision-making that influences their lives, either directly or through legitimate intermediate institutions that represent their interests. Such broad participation is built on freedom of association and speech, as well capacities to participate constructively. (www.pogar.org/governance)
>
> UNDP-POGAR works in partnership with key governance institutions, including legislatures, judiciaries, civil society organizations, and it works with ministries of finance and of administrative reform, throughout the region, to strengthen governance institutions in the Arab states. UNDP-POGAR delivers a wide range of services and activities to further the triple pillars of good governance: participation, rule of law, and transparency and accountability. (www.pogar.org/activities)

POGAR's primary audiences are the government officials directly involved in the various UNDP programmes, but they may also include new generations of citizens with access to the Internet —these are growing despite the substantial digital divide between the Arab world and other regions documented by the AHDR series.

The governance practices of the twenty-two members of the Arab League are documented online. Description is neutral, intended to be credible without raising unnecessary controversy because POGAR's partners include the governments in question. Behind the reform agenda lies the hope of liberal globalizers that publicity will gradually induce changes in the regimes by changing mentalities and concrete behaviours and practices. The strength of this approach is that it enjoys legitimacy in the eyes of the concerned parties. POGAR is quietly expanding the scope of globalization, defined, it will be recalled, as the elimination of various state barriers, to include barriers of domestic government practices. In the spirit of the Enlightenment good ideas and practices are expected to drive out bad ones, and significant changes, such as Qatar's new constitution or Egypt's direct presidential elections and other constitutional amendments, are visible to all to be criticized or emulated by their neighbours.

privatize public enterprises. Now it is also being called on to move from economic policies that few people understand (apart from job losses in the public sector) to straightforward efforts of political reform. Backed by citations from the Prophet's son-in-law (appealing to both Sunnis and Shi'is), the *AHDR* series calls in essence for the transformation of Arab regimes into constitutional democracies like those of most OECD countries.

with the United States and fearful of being perceived as imperialist lackeys. Minorities of liberal globalizers are necessarily weakened. A prolonged occupation of Iraq also risks further weakening of the United Nations family of multilateral institutions, including the UNDP, while increasing the likelihood of more transnational terrorist attacks. The logical responses of victim states may be to build defences that impair the global coordination and diminish the transnational flows of factors of production. Globalization, which is the effect of numerous sets of reforms expressing the political wills of states, might then again be called into question, as in 1914, but this time by a seemingly neverending 'war on terror'.[17]

FURTHER READING

Carnegie Endowment for International Peace, *Arab Reform Bulletin* (www.carnegieendowment.org). A monthly online publication with substantive timely articles about reforms in various Arab countries.

Henry, C. M., and Springborg, R., *Globalization and the Politics of Development in the Middle East* (Cambridge: Cambridge University Press, 2001). Offers an analysis of the progress and impediments to reform in the Middle East and North Africa.

Khalidi, R., *Resurrecting Empire* (Boston: Beacon Press, 2004). Explicitly compares the American intervention in Iraq to European practices of imperialism in the region over the previous century.

Noland, M., and Pack, H., *The Arab Economies in a Changing World* (Washington Peterson Institute for International Economics, 2007). A comparative survey of the political economies of the region and their efforts to adapt to the global economy.

Richards, A., and Waterbury, J., *Political Economy of the Middle East*, 3rd edn. (London and Boulder, CO: Westview Press, 2008). Required background reading for any student of Middle Eastern economies, economic policies, and political structures.

Stiglitz, Joseph, *Making Globalization Work: The Next Steps to Global Justice* (New York and London: Penguin, 2006). A balanced critique of globalization and proposals for international economic reform, by a Nobel Prize-winning economist and former Chief Economist of the World Bank.

United Nations Development Programme (UNDP), *Arab Human Development Report 2002: Creating Opportunities for Future Generations* (New York: United Nations Publications, 2003). Path-breaking analysis of Arab intellectuals of the 'freedom deficit' and other hindrances to sustainable development in the region.

____ *Arab Human Development Report 2003*: *Building a Knowledge Society* (New York: United Nations Publications, 2004. Follow-up report with focus on the constraints, including political ones, on developing and disseminating applied knowledge and research.

____ *Arab Human Development Report 2004: Towards Freedom in the Arab World* (New York: United Nations Publications, 2005). Focus on issues of governance and human rights.

____ *Arab Human Development Report 2005: Towards the Rise of Women in the Arab World* (New York: United Nations Publications, 2006). Focus on their rise 'as a prerequisite for an Arab renaissance, inseparably and causally linked to the fate of the Arab world and its achievement of human development'.

——*Arab Human Development Report 2008: Human Security in the Arab World* (New York: United Nations Publications, 2009).

World Economic Forum, *Arab World Competitiveness Report 2007* (www.weforum.org). Presents a careful analysis of problems faced by the various Arab countries in competing for private investment and offers an assessment of the conditions, structures and policies that are integral to the region's competitiveness in the global economy.

NOTES

1. This chapter develops Henry (2003).
2. I take the title from Hoffmann (2002), but he has informed me that he most certainly did not select it for his *Foreign Affairs* article but 'wanted to emphasize, first, the difference and the overlap between interstate politics and the politics of the kind of world society globalization fosters and, secondly, the different directions in which economic, cultural and political globalizations are going' (Letter of 20 Nov. 2002).
3. In *The Grand Chessboard*, Brzezinski (1998: 53) extends the Arc of Crisis into Central Asia and labels the entire region 'The Global Zone of Percolating Violence'. Oddly, the book dealt at length with the new 'Eurasian Balkans' but had little to say about the Middle East, perhaps because Brzezinski considered it to be already under US hegemony. In *The Choice* (2004: 59–60), however, his 'Global Balkans' is a 'hegemonic quicksand' that includes the Middle East, a principal focus of his book. See also his *Second Chance*, where the Global Balkans is defined as 'extending from Egypt's Suez Canal to China's Xinjiang region, from northern Kazakhstan to the Arabian Sea . . .' (Brzezinski 2007: 154).
4. In the end, once his first draft had been leaked, Wolfowitz was obliged to water it down, because there were widespread criticisms that it had violated the principle of collective security in favour of unilateral action to preserve American hegemony. In Bush Junior's administration, however, he and Vice-President Cheney (who was Secretary of Defense in 1992) enjoyed greater influence until 2006.
5. For a discussion of America's efforts to transcend geography, see Smith, 2003).
6. Tariffs averaged 15.8% in sub-Saharan Africa, 10.7% in East Asia and the Pacific, 13.4% in Latin America and the Caribbean, and 17.6% in South Asia (World Bank 2007: 74).
7. Javad Abedini and Nicolas Péridy, 'The Greater Arab Free Trade Area (GAFTA): An Estimation of the Trade Effects', University of Nantes working paper online: http://economics.ca/2007/papers/0300.pdf (retrieved 23 Feb. 2008). The writers conclude from their econometric gravity model that 'the GAFTA regional arrangement increased intra-regional Arab trade by about 16-24% in the static models depending on the estimator'.
8. Leenders and Sfakianakis (2003: 203) observe: 'it is . . . often difficult to separate private sector venality from that in the public domain, given the intimate links between the family networks that hold power and the principal business interests in the region.'
9. In 2005 the World Bank calculated the value of Lebanon's external debt to be 114% of Gross National Income, followed by Tunisia's 69% (down from 79% in 2004) and Jordan's 65%. See World Bank (2007b).
10. See World Bank (2007a: 136–40). The World Bank used indicators from the business-friendly Heritage Foundation and Political Risk Services as well as some of its own measures to define the quality of public administration. For public-sector accountability it relied on Freedom House, Polity scores, and Political Risk Services. The measures are obviously subjective and may be biased against some Middle Eastern countries. On Freedom House's "serious discrepancies," see (the late) Ilya Harik (2006).
11. At the World Bank data site (www.worldbank.org/governance) it is possible to generate 6 indicators of governance for 1 country or 1 indicator for 20 countries in the region.

12. Note the reservations of Malloch Brown, introducing UNDP (2007: II), and of Kemal Darvis, who succeeded Brown in 2005 as director of the UNDP, introducing UNDP (2006: I), repeating Brown: 'the AHDRs are, deliberately, not formal UN or UNDP documents and do not reflect the official views of either organization. Rather they have been intended to stimulate and inform a dynamic, new, public discourse across the Arab world and beyond . . . I feel it necessary to state that some of the views expressed by the authors are not shared by the UNDP or the UN.'
13. Consider, for instance, average growth rates from 1972, before the first major oil price hikes, and 1998, a year when oil prices were bottoming out. If we calculate the per capita growth rates from the World Bank's World Development Indicators 2001, Algeria doubles its average annual rate from 0.2% to 0.4% if the base year is 1972 rather than 1975. Egypt's is slightly reduced, to 4.9% from 5.3%. Morocco's and Tunisia's remain the same, respectively 2.0% and 2.9%. Syria's is substantially increased, from 1.4% to 2.3%, while Saudi Arabia's losses are reduced from an annual average negative growth rate of 1.3% to 0.9%. These data include all the major Arab countries with populations of nine million or more; data were unavailable for Iraq.
14. UNDP (2005) had identified six countries in this category for earlier years, but two of the largest, Egypt and the Sudan, respectively claimed 59.4% and 51.8% of their women above the age of 15 to be literate in 2005 (UNDP 2006). See Programme on Governance in the Arab World (POGAR) (www.pogar.org).
15. The average of the MENA countries was barely above the 25th percentile on voice and accountability, and only with respect to the rule of law and control of corruption was their average (barely) above the mean. See the World Bank website (http://worldbank.org/governance). The note accompanying the data indicates the subjective nature of these measures: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The aggregate indicators do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. Countries' relative positions on these indicators are subject to indicated margins of error that should be taken into consideration when making comparisons across countries and over time.
16. Morocco and Bahrain received special attention for exemplary political reforms in *AHDR 2002* (UNDP 2003: 108). Morocco brought opposition parties into a government of 'Consensual Alternation' in 1998 (albeit without releasing control over the strategic 'sovereignty' ministries of the interior, defence, foreign, or religious affairs), and Bahrain's National Action Charter reiterated various individual liberties promised under its original Constitution, suspended in 1975. A new element in the revised Constitution of 2001, however, is an appointed upper house equal in number and thus able decisively to influence the elected lower house, much as Jordan's did with only half as many appointed notables until King Abdullah II dissolved parliament in 2001.
17. Since these lines were written in 2003 for the first edition of the present volume, many others are questioning whether the present era of globalization will endure. See, e.g., Ferguson (2005).

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