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The Clash of Globalisations in the Middle East¹

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OVERVIEW

Globalisation connotes the removal of barriers between states to the movement of capital, goods and labour. 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 paper, 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* to overcome the region's 'freedom deficit' as well as the darker, by now all too familiar scenarios associating this dimension of globalisation—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 globalising tendencies of states.

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 globalisations² is most acutely perceived in this vulnerable, strategic region. The Middle East is caught between the imperialistic impulses of the neo-conservative Bush Administration and other, apparently more benign, multilateral proponents of globalisation such as the World Bank, the International Monetary Fund and the United Nations family of organisations. Pitted against these forces are the states of the region and some of their more radical internal oppositions.

Globalisation connotes the removal of barriers between states to the movement of capital, goods and labour. New information technologies may encourage states to remove barriers, but globalisation is not a sociological abstraction like modernisation. Some of the older technologies, such as printed media, telephones and transistor radios, used to be principal indicators of the abstract but conceptually inevitable modernisation of traditional societies (Lerner 1958). Globalisation, however, 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 globalised 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 organised regionally, not globally (Rugman 2000: 1). Few industries, indeed, are truly global, but globalisation in the sense of the removal of barriers to various sorts of transnational exchanges has increased dramatically since World War II. The victorious allies founded a new world order in 1945 that encouraged these trends.

Certainly transnational corporations (TNCs) have pioneered productive trade and networking across borders even if few industries are truly global. The top five hundred TNCs account for 90 per cent of foreign direct investment and over half of world trade (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, 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 that might favour 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 globalisation 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. Globalisation is not inevitable like the 'Passing of Traditional Society'. One dilemma of the United States since 11 September 2001, was to tighten controls on international money laundering while continuing to support the free flow of capital.

Globalisation, 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 World War II. The end of the Cold War, symbolised by the tearing down of the Berlin Wall in 1989, opened up new possibilities for globalisation but it also introduced new threats. The breakup 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 have created an alternative recipe for globalisation 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 'globalisation' to include the regimes themselves. Images of an Anglo-American occupation of Iraq also confirm perceptions of globalisation that were already widely shared in the region—the idea that globalisation 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 globalisation are most acute in this part of the world. Then we examine the challenges to governments in the region associated with liberalising trade and attracting foreign direct investment. Major political as well as policy changes are clearly needed. We focus upon the analyses and prescriptions of leading Arab social scientists expressed in the *Arab Human Development Report 2002* because they represent the most candid positive regional response to the economic and political challenges of globalisation. 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. They in a sense also favour regime change, just like the neo-conservatives in the Bush Administration. But to the extent that the United States pre-empt the gentle

persuasion of multilateral institutions with direct military intervention, the potential targets are likely to harden their opposition to globalisation. The United States currently seems to be reinforcing the perception in the region that globalisation 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 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. (Brown 1984: 3)

Political geographers tell us why. Evidently the Middle East is closer to the traditional Great Powers of the eighteenth and nineteenth centuries, including Russia, than is Sub-Saharan Africa, South or Southeastern 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 below.

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 wrote, 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 69 per cent of the world’s proven oil reserves at the end of 2001 (BP 2002). 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, it was American jobs that were at stake. More seriously for understanding the current clash of globalisations, the younger

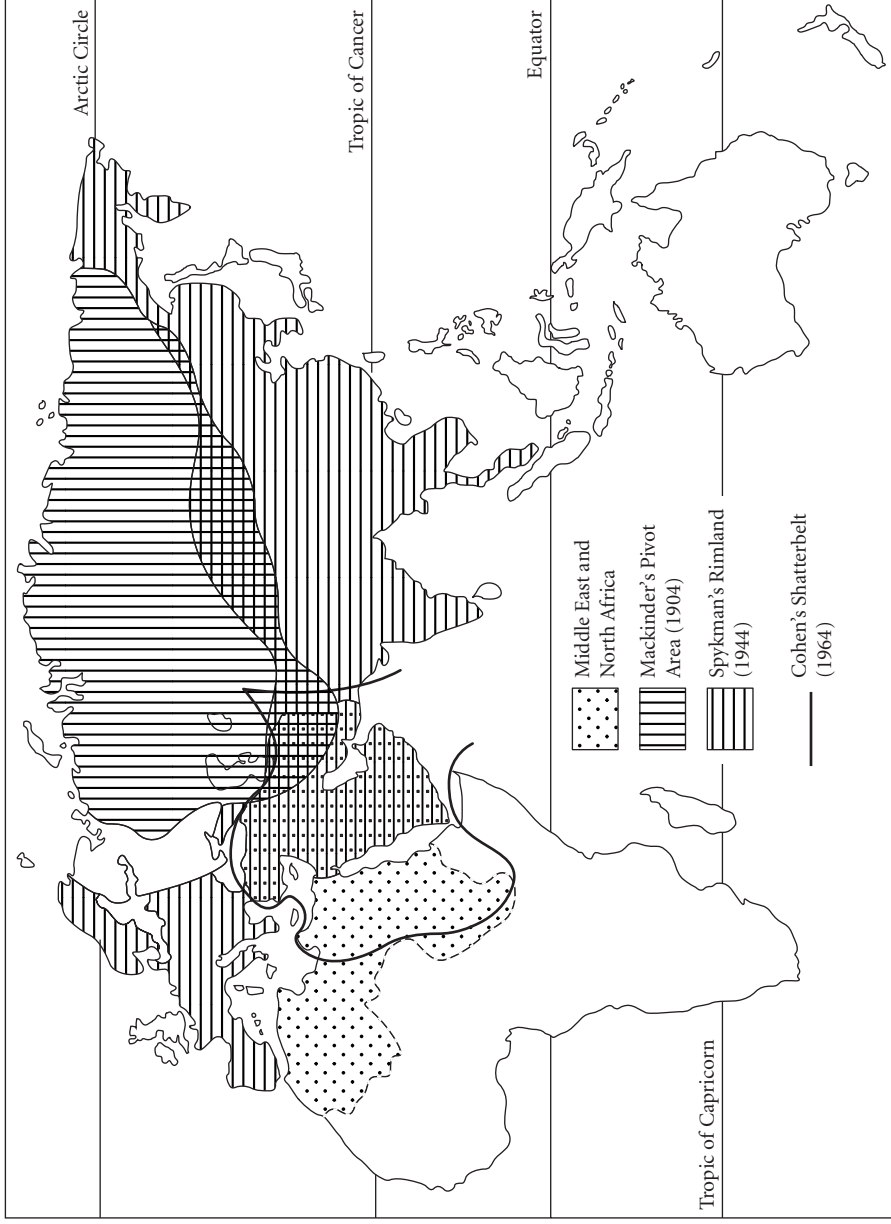


Fig. 5.1 Geopolitical views of the world: Mackinder, Spykman, and Cohen
 Source: Drysdale and Blake (1985), p. 26.

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 the 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 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 U.S. 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 U.S. thinking.' The United States still targets Iran, one of the two surviving states in President Bush's 'Axis of Evil'.

The 'Shatterbelt' depicted in Figure 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 globalisation 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 Leon 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 Globalisation

Globalisation has been internalised 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. (UN—ESCWA 2001: 52)

The IMF discipline exercised over various indebted 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 reenacted, despite the nominal sovereignty of most of the principal actors on the receiving end of globalisation. The stimulus, like the colonial penetrations of nineteenth and early twentieth centuries, elicits a range of responses from the positive acceptance of putative globalisers 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 colonial European occupations of Arab lands. Wistful of an imagined golden age, many reject the western influences, symbolised today by MacDonald'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, synthesised 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. Over the past decade, with the end of the Cold War and the opportunities now lost of playing one side against the other, the MENA is again 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 globalisers and the recalcitrant moralisers, 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 effect of relaxing their efforts. The result, to date, is that the 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.

Trade Policies

The record of the MENA countries is mixed with respect to their trade policies. Admission to the World Trade Organization usually requires a variety of internal reforms to insure a level playing field between trading partners. Joining the Mediterranean Partnership proposed in 1995 by the European Union requires a progressive lowering of tariffs on nonagricultural products until the year 2010, when virtually all protection would be eliminated. Meanwhile, the dismantling by the Uruguay Round of the Multifiber Agreement's quotas threatens a number of local textile industries, and the EU has been helping to finance its southern partners' programmes to bring these and other local industries up to standard ('mise à niveau').

Most of the countries bordering on the southern Mediterranean tried to join the WTO and to benefit from the EU's Partnership Programme. 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 Tunisia and Morocco were also first to sign up for full partnerships with the European Union. Jordan, Oman, Qatar and the United Arab Emirates subsequently acceded to the WTO, and 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 of negotiating membership with

the World Trade Organization. All of these countries were trying with various reservations to liberalise their trade policies to take advantage of the new division of labour connoted by 'globalisation'.

Almost as many countries of the important countries in the region, however, were delaying the internal changes that new agreements might impose. Saudi Arabia's negotiations with the WTO, for instance, stalled when rising petroleum prices in 2000–03 relaxed any internal pressures for reform. Iraq and Syria were two Arab nationalist holdouts against the WTO, and Syria's negotiations with the EU were long and inconclusive. Libya had observer status at some meetings of the EU and Mediterranean Partners.

Most of Arab countries were pushing for a General Arab Free Trade Area (GAFTA) as a halfway house, to be implemented by 2008. Arguably countries could benefit from complementarities in certain industrial sectors and enhance their ability to trade outside the region, although intra-Arab trade constituted only 7.5 per cent of these countries' total trade in 2001. Meanwhile the Gulf Cooperation Council, 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. A well administered country like Tunisia could gradually adapt to the new state of affairs by introducing a value-added tax and applying it effectively. Lebanon, however, was less fortunate. Although Prime Minister Hariri reduced tariffs (slightly) in January 2001 to stimulate the economy, his hands were tied by the country's crushing debt, and the tariffs were a major source of revenue for servicing it. Virtually all of the major countries in the region except Turkey were depending on tariffs for over 10 per cent of their current 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 industrialise 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, Maggie Thatcher and 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, which 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).

Figure 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. Official development assistance, by contrast, reached a plateau of \$59 billion in 1991 and has steadily diminished, even in current dollars without controlling for inflation. The 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.

Figure 5.3 displays MENA's share of these three principal sources of international finance, bank and trade financing, foreign direct investment and official development assistance, over the years 1970–2001. The percentages refer to MENA's share of the totals received by the developing countries of East Asia Europe and Central Asia, Latin America, the MENA, South Asia and Sub-Saharan Africa. These populations totaled just over 5 billion in 1999, so that MENA, including the Arab world and Iran, constituted about 5.7 per cent of it. Since 1970 this region has accumulated on average about 10.8 per cent of the banking and trade financing resources and 18.2 per cent of the official development assistance—substantially more than its aggregate population would predict. Figure 5.3 shows, however, that MENA's share of the declining pie of official development assistance has been diminishing. Its average share of FDI turns out to be negative because of large disinvestments, understated in Figure 5.2, in 1974 and 1980.

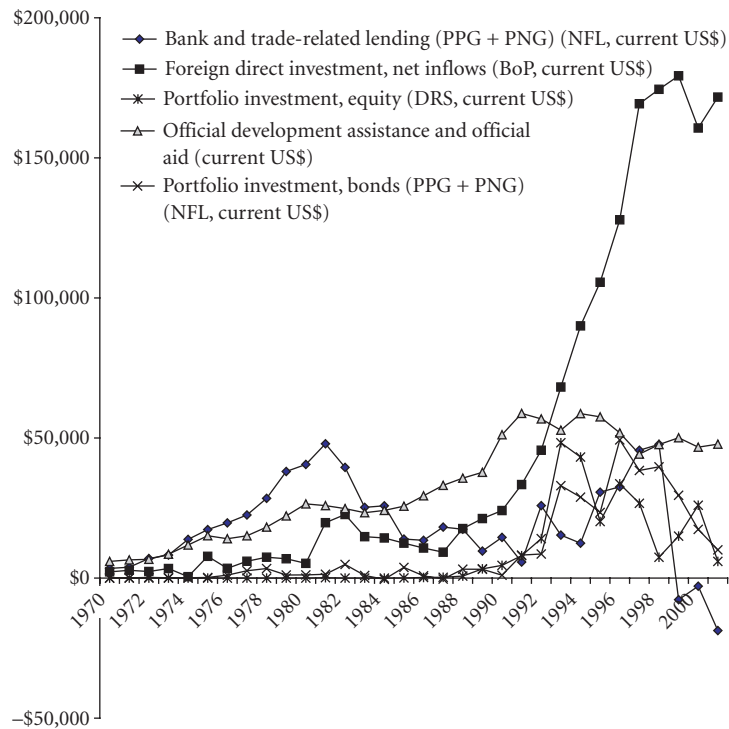


Fig. 5.2 Types of capital flows to LDCs 1970–2001 (\$000)

Source: World Bank, World Development Indicators 2003.

At the turn of the century the region was still receiving more than its 'fair' (in terms of population) share of bank and trade credits and official assistance, but it was clearly failing to attract much foreign direct investment or portfolio investment. The one apparently 'bright spot', 43 per cent of the international bond market in 2001, amounted to little in absolute terms (because of the declining bond market charted in Figure 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. In 2001 the aggregate funds raised by the MENA region reached 5.7 per cent of the total pie available to developing countries, so that performance was commensurate with population. But the principal performers in the region were Israel, Morocco and Lebanon. Israel attracted tremendous amounts of foreign direct investment—and official development assistance as well, mainly in the form of US economic aid—and Morocco did almost as well in absolute but hardly in per capita terms. 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, thereby explaining the MENA's one apparent 'bright spot' in 2001.

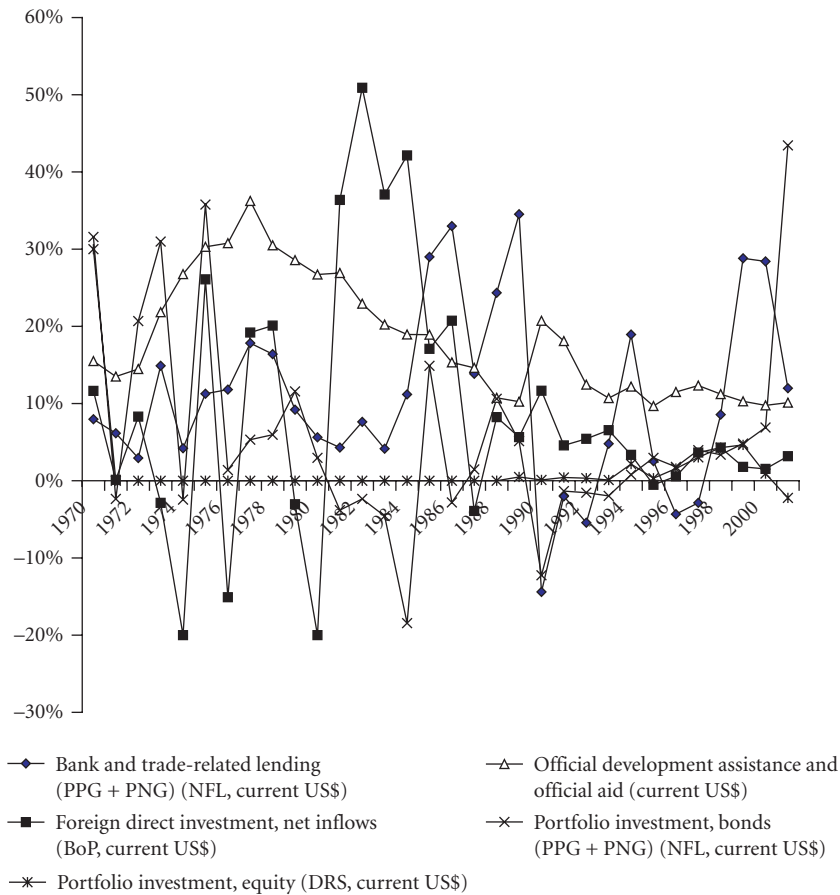


Fig. 5.3 MENA's share of capital flows to LDCs 1970–2001

Source: World Development Indicators 2003.

Part of the 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.⁶ 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 Figure 5.2 indicated, commercial bank lending peaked in 1982, and since the eruption of the Mexican crisis the banks have been more concerned about being repaid than about injecting new cash into overly indebted economies. The MENA drastically reduced its overall indebtedness; in fact today only Lebanon, followed by Syria and Jordan, displays debt-to-GDP ratios comparable to those of the heavily indebted Latin Americans. 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 wipes out any new lending, so that since 1995, the cash flows to the region as a whole were negative every year except 1997, reflecting the general tendency of countries in the region. Like official development assistance, commercial bank lending has become a diminishing source of funds for most LDCs, whereas foreign direct investment, bond issues and cross-border portfolio equity became major sources in the 1990s.

Portfolio investments in stocks and bonds peaked respectively in 1993 and 1996 at about \$50 million each 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 industrialised 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 Southeast Asia in 1997 and the broader collapse since 2000. Demands for public information and signals are potentially more troubling and politically destabilising 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 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 macro-economic policies will be sustained (1997: 35–7). Just how much central bank independence can be tolerated, however, is a question that deserves to be addressed in the 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 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. Only East Asian markets seemed better endowed. In the MENA, however, the local stock markets seemed less active than those of any other region. As regards the turnover, or value of shares traded, as a percentage of the average market capitalisation, this was thin in the MENA except in Israel and, surprisingly, Saudi Arabia. And of the 2,020 companies listed on MENA exchanges in 2001, 1,109 were Egyptian, 647 were Israeli, 316 were Iranian, and 161 were Jordanian. Saudi Arabia and Morocco followed with 76 and 55 companies, respectively.

Only with difficulty can family firms in the 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 privatisation may not be palatable to international investors, yet real privatisation 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 globalisation local investors have been observed to follow the lead of foreign portfolio managers (Maxfield 1997: 45).

The very distinction, indeed, between local and foreign investors may be more problematic in the 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 spillover 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 the 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 its 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: 232–4). The climate was so restrictive that outsiders had little

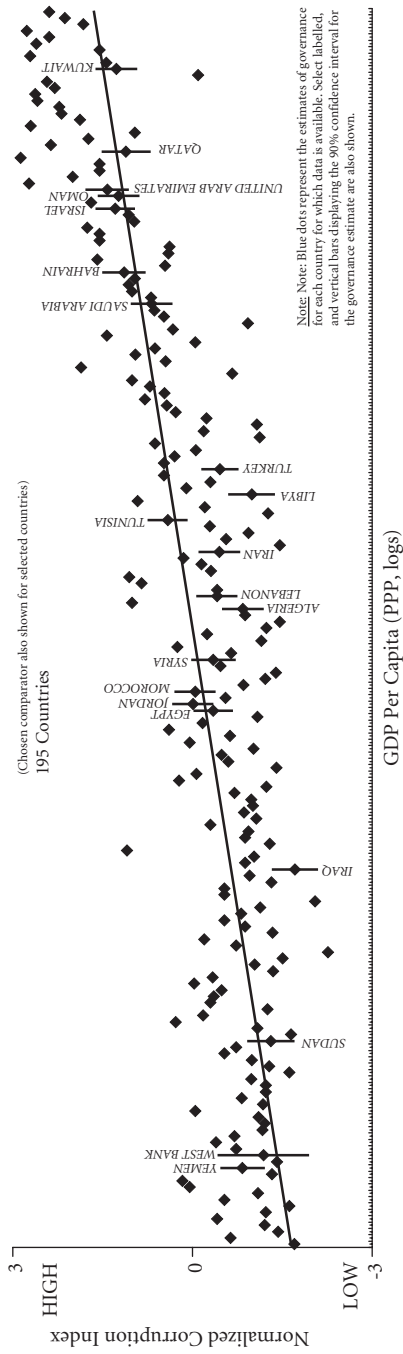


Fig. 5.4 Control of corruption—2002

Source: "Governance Matters III: Governance Indicators for 1996–2002" by Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, 2003.

Disclaimer: The governance indicators presented here reflect the statistical compilation of responses on the quality of governance give by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries, as reported by a number of enterprise, citizen and expert survey responder way reflect the official position of the World Bank, its Executive Directors, or the countries they represent. As discussed in detail in the accompanying papers, countries' relative positions on these indicators are subject to margins of error that are cles they represent. As discussed in detail in the accompanying papers, countr

http://www.worldbank.org/wbi/governance/pdf/2002kkzcharts_ppp.xls

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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.

Apart from the energy sector, TNCs have tended to minimise 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 summarise 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.⁷ Figure 5.4 offers one illustration, the Control of Corruption, comparing the different MENA countries and controlling for their level of economic development (per capita income). The reader (or potential investor) may easily generate others.

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 maximising its efficiency may be incompatible with sustaining vital political patronage networks. Banks may have to be kept in politically safe hands to insure that lending follows political as well as economic criteria.

To summarise, the 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 globalisation, it is also a latecomer to the global information revolution. Part of the problem is hypothesised 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 globalisation is the United Nations Development Programme's *Arab Human Development Report 2002*, drafted by Arab intellectuals. Trained in economics and other social science disciplines, they are part of the international establishment of Western educated consultants and technocrats that wants 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 globalisation.

The Report recognises that the Arab world is falling behind the rest of the world. Per capita GDP grew annually on average by only 0.5 per cent between 1975 and 1998—'in effect a situation of quasi-stagnation' (2002: 88). Until 1981 the region's per capita income appeared to be catching up with the world average, but it declined by 1998 to the equivalent, in real purchasing power parity, of only one-seventh that of the average inhabitant of OECD countries. 'Among Arab countries, only Egypt and to a lesser degree Jordan and Tunisia had a tendency toward convergence with OECD. All other countries, without exception, moved in the opposite direction' (2002: 89). The small indigenous populations of Kuwait, Qatar and the United Arab Emirates already enjoyed OECD per capita income levels but had not reached the OECD along other critical dimensions of human development. Average Arab growth rates look only a little better by slightly modifying the time span so as to limit the distorting effects of high or low oil prices.⁸

The Report singles out three 'deficits' in the Arab world that conventional economic growth indices overlook and that the UNDP's classic Human Development Index (HDI) also ignores. These are 1) the freedom deficit, 2) the women's empowerment deficit and 3) the deficit, at least relative to wealth, of human knowledge capabilities. Three of the Report's eight chapters focus on this third deficit and try to tackle the problem of harnessing the region's human potential to the tasks of economic growth and development. The Arab (mostly male) intellectuals writing this report pay less attention to gender problems, but they are not shy about discussing the 'freedom deficit' because they view civic and political freedom as intrinsic to human development.⁹ 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. (2002: 106)

'Governance' or *al-hokm* is modeled 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' (2002: 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 viewed not only as an intrinsic good by the putative globalisers 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.

The observed deficit of 'human knowledge capabilities' further highlights the importance of good governance. The Arab world has consistently trailed the rest of the developing world in gross primary education enrollment 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 the region remained illiterate in 1995 (2002: 52–3). As the Report discusses elsewhere concerning alleviating poverty, the best way to correct such major bias is to deepen democratic participation.

An urban class policy bias also helps to explain the 'mismatch' deplored in the Report between educational curricula and labour markets (p. 60). 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 (p. 87). Workers tend to produce less for equivalent wages than in most other regions of the developing world.

The Report's proposals to revitalise 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 insure the rule of law, an efficient judiciary, etc., just as the World Bank (1997) has been insisting since 1997. Whether for encouraging more private sector activity or generating and using knowledge effectively, strong institutions are needed (2002: 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 (p. 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 but the Report also highlights the need for more foreign direct investment, virtually absent outside the petroleum sector, as a 'critical force for transfer and development of new technologies' (p. 95). To this end the Report stresses the importance of good governance alongside the basic basket of economic reforms advocated by the World Bank's structural adjustment programmes.

Thus, for the sake of 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' (p. 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 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 destabilising effects. In Morocco, for instance, King Hassan once exclaimed that the poor couldn't eat pencils; his strategy was to preserve the clientele of notables in the countryside designed to keep them under control (Hammoudi 1997: 25–43).

Using Freedom House data collected over the years by a conservative American foundation, the Report documents the region's freedom 'deficit': the fact that on their indicators most Arab countries are not free (although some of the monarchies attain 'partly free' status) and that the region's mean score is far lower than those of other regions, including Sub-Saharan Africa. Indeed, the freedom deficit has apparently widened rather than narrowed in recent years as the cases of Algeria, Egypt, Morocco and Tunisia show; only Kuwait registered significant progress.

On the 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 147 countries.¹⁰

The Issue of Regime Change

If, as the Report argues, 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 Report, as 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' (p. 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 Report is not country specific but does urge some reforms that are widely applicable, such as the need to scrap systems that authorise associations in favour of just permitting them to declare themselves.¹¹

Evidently the Report is articulating a new requirement for the Arab world. Not only, 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 stabilise its macro-economic indicators and structurally to reform various sectors of the economy and privatise public enterprises. Now it is being called 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'ites) the Report calls in essence for the transformation of Arab regimes into constitutional democracies like those of most OECD countries.

The UNDP is continuing its benevolent political intervention through its Programme on Governance in the Arab Region (POGAR). Its web site (www.undp-pogar.org) fleshes out the detail of country practices that the *Arab Report on Human Development* could not cover. Mirroring the Report, 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, decentralisation, 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:

Democratic participation hinges on the free exchange of ideas and information. In this arena, the UNDP promotes freer expression through the creation of new laws and regulations, by strengthening media, and by developing knowledge through national Human Development Reports. In line with these priorities, POGAR aims to increase access to information about governance in the Arab world by encouraging public institutions to make information more widely available to the general public. POGAR contributes to this process through information on its website; by commissioning original research from think tanks, research centres and individuals; and by organizing conferences and workshops in which information is widely shared. (<http://www.undp-pogar.org/activities/index.html>)

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 Arab Human Development Report.

The governance practices of twenty Arab countries 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 globalisers 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 globalisation, 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 Bahrain's or Qatar's new constitutions, are visible to all to be criticised or emulated by the neighbouring monarchies.

POGAR is one of a growing number of regional and international intermediaries conveying experiences and lessons in economic and political liberalisation from international institutions and from a variety of bilateral development programmes in the OECD countries as well as multilateral agencies. The distinctive contributions of POGAR are to synthesise 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.

Conclusion

The Anglo-American invasion and occupation of Iraq have further compromised the chances for gradual, incremental change in the region. The backsliding over the previous decade of the larger Arab countries already reflected a growing polarisation between the regimes and their political oppositions following the original American-led war against Iraq to liberate Kuwait. That war polarised regimes and Islamist oppositions not only in Saudi Arabia but also in Algeria, Egypt and Tunisia, the countries whose freedom scores diminished the most in ensuing years. The American 'War Against Terrorism' following the attacks of 11 September 2001, will inevitably lead to further polarisation. Incumbent regimes use the US example to legitimate their crackdowns on 'terrorists,' and the occupation of Iraq invites recruitment of more terrorists.

A clash of globalisations may intensify in ways that further diminish democratic prospects. Multilateral international and regional efforts to promote good governance gradually through exchanges of information have already in Iraq given way to more rapid regime change by Anglo-American military intervention and may result

in increases in domestic violence against regimes viewed as their 'collaborators'. Globalisation is now associated with regime change in the region, whether gradually through multilateral efforts or by more extreme methods. Underlying the clash between these alternatives is the conflict between the unilateralist tendencies of the Bush Administration and the proponents, in the United States as well as in the international community, of the gentler liberal conception of globalisation. One may expect more or less transparency and accountability in the region, depending upon how this conflict over the nature of world order plays out.

Either way, the experience of globalisation in the Middle East has introduced a new dimension of regime change. Globalisation now entails democratisation as well as economic liberalisation. When the democracy does not happen with apparent spontaneity, pushed by internal forces and regional 'snowball effects' as in Latin America and Eastern Europe, it gets imposed in other ways, by the bayonet if necessary. Sovereignty is eliminated. The logic of eliminating national barriers to commerce threatens to eliminate the nations themselves. Globalisation in this sense, however, pushes against very stubborn forces of nationalism, and notably the Arab and local nationalisms of the MENA, including an Iraqi one, awakened over the past century. New colonial incursions cannot but build up new national resistances, notably in this strategically located region.

The Middle East, home to most of the oil that fueled the world's first truly global industry, may yet prove to be the battlefield that reverses the tendencies of most states to open themselves up to the benefits of commerce and investment associated with globalisation. The Anglo-American occupation of Iraq has weakened virtually all of the regimes in the region, except Israel's. Those resisting the coalition are isolated and economically weakened, saved only for the moment by higher oil prices. Potential allies are also ever more fragile, embarrassed by their ties with the United States and fearful of being perceived as imperialist lackeys. Minorities of liberal globalisers 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 defenses that impair the global coordination and diminish the transnational flows of factors of production. Globalisation, 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 never-ending 'War on Terror'.

Further Reading

BROWN, L. C., *International Politics and the Middle East: Old Rules, Dangerous Game* (Princeton: Princeton University Press, 1984). An excellent analysis of the complex

colonial situations undergone by various Arab societies and the dilemmas of external powers intervening into the internal affairs of these countries.

- CARNEGIE Endowment for International Peace, *Arab Reform Bulletin* (June, 2003–) <http://www.ceip.org/files/Publications/arb-archive.asp> (4 Feb. 2004). 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.
- LEENDERS, R. and SFAKIANAKIS, J., *Middle East and North Africa, Global Corruption Report 2003*, (Transparency International, London: Profile Books, 2003) , 203–14. An excellent snapshot of issues of transparency and corruption in the Arab region.
- RICHARDS, A. and WATERBURY, J., *Political Economy of the Middle East*, 2nd edn. (Boulder, CO: Westview, 1996). Required background reading for any student of Middle Eastern economies, economic policies and political structures.
- United Nations Development Programme and Arab Fund for Economic and Social Development, *Arab Human Development Report 2002: Creating Opportunities for Future Generations*, (New York: United Nations Publications, 2002): <http://www.undp.org/rbas/ahdr/english.html> (5 Oct. 2002). 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, 2003). Following up on the earlier report, with a focus on the constraints, including political ones, on developing and disseminating applied knowledge and research.
- World Economic Forum, *Arab Competitiveness Report 2002–2003* (New York: Oxford University Press, 2002). 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. <http://www.weforum.org/site/homepublic.nsf/Content/Global+Competitiveness+Programme%5CRegional+Competitiveness+Reports%5CArab+World+Competitiveness+Report+2002-2003> (4 Feb. 2004)

Notes

1. This chapter develops an earlier draft published in *Review of Middle East Economics and Finance* (Routledge Taylor and Francis Group), 1:1 (2003), 3–15.

2. I take the title from Hoffman (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 November 2002).

3. In his recent book 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 deals at length with the new 'Eurasian Balkans' but has little to say about the Middle East, perhaps because Brzezinski considered it already to be under US hegemony.

4. In the end, once his first draft was 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 the current Bush Administration, however, he and Vice President Cheney (who was Secretary of Defense in 1992) enjoy greater influence.

5. For a recent discussion of America's efforts to transcend geography, see Neil Smith, *American Empire: Roosevelt's Geographer and the Prelude to Globalization* (Berkeley: The University of California Press, 2003).

6. 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.'

7. The data are available at the World Bank online: ↑ http://info.worldbank.org/governance/kkz2002/mc_indicator.asp For other political indicators see the Polity IV database online: <http://www.cidcm.umd.edu/inscr/polity/report.htm>. Concerning corruption, Transparency International also presents a somewhat different scale based on similarly derived polling data, the Perceptions of Corruption Index: http://www.transparency.org/pressreleases_archive/2002/2002.08.28.cpi.en.html.

8. 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. Calculating 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 per cent if the base year is 1972 rather than 1975.

Egypt's is slightly reduced, to 4.9 per cent from 5.3 per cent. Morocco's and Tunisia's remain the same, respectively 2.0 and 2.9 per cent. Syria's is substantially increased, from 1.4 to 2.3 per cent, while Saudi Arabia's losses are reduced from an annual average negative growth rate of 1.3 per cent to 0.9 per cent. These data include all the major Arab countries with populations of 9 million or more; data was unavailable for Iraq.

9. 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.

10. The average of seventeen Arab countries was lower by about three-quarters of a standard deviation on voice and accountability, and only with respect to the rule of law was their average (barely) above the mean. AHDR, pp. 111–13, cites Kaufmann et al. 1999a and 1999b. Renamed and updated data produced by the World Bank is on at: <http://www.worldbank.org/wbi/governance/govdata2002/>.

11. Morocco and Bahrain receive special attention for exemplary political reforms (p. 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, defense, 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.

