

1 The Globalization Dialectic

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

But over the decades of the Cold War (1946–1989) various conflicts within the region dashed any hopes of catching up with Europe. Egypt, Morocco, Syria, and Turkey closed their economies to foreign trade and investment, whereas Greece opened up in 1959 (Sachs and Warner 1995: 79). Consistent with the international model prevailing in the 1960s, most of the MENA states embarked upon policies of import substitution industrialization (ISI). Their statist experiments generally resulted in heavier, more

bloated bureaucracies than those of other third world countries and more wasteful projects because the financing was so easy. Oil rents or foreign aid – strategic rents of the Cold War – also supported big military complexes and served to inflate their officer corps. When, shocked by the 1982 international debt crisis, the prevailing international consensus changed in the Thatcher–Reagan years to favor market economies and export-oriented development, the MENA states were slower than others to readjust their economic strategies and structures. Shielded directly or indirectly by the region’s oil revenues and strategic rents, they took longer than their East Asian or Latin American counterparts to engage in the various forms of structural adjustment advocated by international financial institutions. By the end of the twentieth century the only countries in the MENA reaching Greek levels of individual prosperity and welfare were little states that did not even exist in the immediate postwar period, Israel and the Greek part of Cyprus. Much of the Arab world was suffering poverty on levels not far removed from those of Sub-Saharan Africa and South Asia.

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

The dialectics of globalization

The working hypotheses of this book are that politics drives economic development and that the principal obstacles to development in the region have been political rather than economic or cultural in nature. Political rather than economic factors have been the primary cause of the rate and method by which countries of the region have been incorporated into the globalized economy within the framework of the Washington Consensus. Those political factors result from strategies of incumbent elites seeking to retain power – strategies which bear remarkable similarity to those of the “defensive

modernizers” of the nineteenth and early twentieth centuries, faced with similar challenges and opportunities of financial globalization prior to 1914. These strategies of “controlled openings” tend to segment the political economy, so that the degree to which various sectors of the economy are globally integrated varies widely. Further differentiation sustains the globalization dialectic, deepening the objective grounds for dividing populations and their elites into globalists and moralists while opening up new opportunities for potential synthesizers.

The drama of globalization is a continuation of the colonial dialectic played out by earlier generations of indigenous elites. Indeed, the most distinctive feature of the MENA region – defined here as the non-European parts of the old Ottoman Empire, plus its respective western, southern, and eastern peripheries in Morocco, Arabia, and Iran -- may be not so much Islam– or Arab culture its heartland – as the tradition of external intervention in the region. As Leon Carl Brown observed,

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

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

in 1943, driving Rommel's forces out, before liberating Sicily, Italy, and eventually France.

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

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

further compounded the divisions of weak states such as Lebanon, the Sudan, and Yemen and provoked others, such as Iraq and Syria, into becoming police states. The rise of transnational Arab and Islamic movements in turn amplified regional and local conflicts.

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

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

Schematically the colonial dialectic describes three basic stances (or Hegelian “moments”) of a native elite toward the colonizer's political culture. The first stance is that of acceptance associated with efforts to be assimilated into the new elite. But emulating alien values may in turn engender a backlash by those excluded from it. This negative moment of a counterelite asserts its claim to hegemony in the name of indigenous values. Under continued colonial pressure, however, new divisions within this elite may lead to the emergence of an alternative elite that is no longer content to articulate the traditional values of an imagined past. The third moment may more effectively combat the imposition of alien rule by assimilating its positive elements,

such as skills and values derived from a Western education, and using them to overcome foreign domination. This deeper assimilation of the colonizer's values plays upon the contradictions of colonialism so as to undermine its authority and achieve independence.

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

Tunisia was the exception. When, as in much of the Middle East, the "colonial" domination was veiled in technical and military relationships with outside powers, the colonial dialectic could not be completed for lack of a unifying target of opposition or incentive for emancipation. Even in Tunisia, the synthesis led to new tensions and contradictions after independence. Habib Bourguiba's successful movement eventually engendered resistance from social sectors and actors who felt excluded. Once in power, the third generation of nationalists became vulnerable to attack by new generations of rejectionists who could point to the internal contradictions between the incumbent elite's ostensible Western liberal values and the regime's authoritarian practices. But Tunisia's Islamist opposition, progressive by Arab standards, is a legacy of Tunisian modernization: Rashid Ghannouchi can be seen as Bourguiba's "illegitimate offspring" (Zghal 1991: 205). Tunisia's special advantages deserve further scrutiny.

The critical factors for Tunisia's success were the duration of the colonial situation (1881–1956) and the capacity of political elites to forge durable linkages with mass constituencies before independence. Colonial conflict was sufficiently protracted and its education benefits sufficiently extensive to enable a modern educated provincial elite (sons of peasant freeholders) to displace the traditional urban elite of absentee landlords, merchants, and religious figures. The new nationalist elite succeeded in

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

Pervasive Western influence, first exercised through the Ottoman Empire and then more directly by means of mandates from the League of Nations, usually strengthened the hold of urban absentee landowner-merchants over the countryside. Turkey was the prime exception. Ottoman bureaucracy contained them, and an Anatolian third-moment elite then displaced traditional authorities and achieved independence in 1923 through a successful war of national liberation. In most countries, however, the emergent elites benefiting from Western education did not have time to displace the old urban ones before independence: in Syria, Lebanon, and Iraq, the prime “nationalists” and beneficiaries of independence were the urban landowners; in Iraq they included urbanized tribal leaders. Despite a lengthier history of Western intrusion, Egyptian nationalism was also dominated by its landowners until divisions in the Wafd presaged the end of the monarchy in 1952.

Except in the Levant, the colonial powers tended to establish monarchies if they were not already in place. In the Persian Gulf the British protected ruling families and even imported the Hashemites from Mecca to Jordan and Iraq. The British also disposed of Italy’s former colony by uniting Libya under a new monarchy in 1951. Except in Saudi Arabia, which did not experience traditional colonialism, monarchy was the sign of a colonial dialectic that had not run its full course. Had the French stayed a generation longer in Morocco, they would doubtless have discredited the venerable Sharifian monarchy by overuse against rising social forces. Instead, they accidentally raised its prestige by exiling the sultan to Madagascar in 1953. Conversely, had the French left

Tunis for good during World War II, Moncef bey might have kept his throne and prevented Bourguiba from founding a republic. The British and subsequently the Americans also strengthened Pahlavi Iran without ever turning it into a formal protectorate. There as elsewhere, the monarchies had trouble coping with the new middle classes nurtured in Western education. Despite his White Revolution the shah was unable to mobilize support from the countryside to offset them. In Morocco, by contrast, the monarchy came to dominate both the old urban merchants and the new middle classes after independence by manipulating provincial notables to its advantage (Hammoudi 1997; Leveau 1985).

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

The new dialectics of globalization feeds upon an unachieved colonial dialectic. Its thesis is the Washington Consensus, shared by "serious" economists irrespective of nationality and vigorously, if selectively, imitated by certain of the local business and political elites as well. It seems hardly coincidental that the countries governed by third-moment elites at independence – Israel, Tunisia, and Turkey – were the quickest to adopt the Washington Consensus. Reform teams of technocrats, supported at least initially by their political leaderships, also made some progress implementing various structural reforms in Algeria, Egypt, Jordan, and Morocco. The Washington Consensus, however, engendered significant backlash in these and other countries. The

“globalizers” almost inevitably provoke “moralizers,” who seek solutions in cultural authenticity by affirming a religious or ethnic identity, or at least by reaffirming traditional nationalism. Since Libya’s Muammar Qaddafi began speaking of a “Third Way” in the 1970s, the siren call of a distinctive, unique, culturally authentic model has gained considerable appeal, and writings on Islamic economics have proliferated.

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

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

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

The colonial dialectic, in sum, gave rise to independent states of three different types: praetorian republics (Algeria, Egypt, Iraq, Libya, Palestine, Syria, Sudan, Tunisia, Yemen and, after President Ahmadinejad's consolidation of power, Iran), monarchies (Bahrain, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, and the United Arab Emirates), and democracies (, Israel, Lebanon, and Turkey). The monarchies preserved their traditional elites and international capitalist legacies. The praetorian republics tended to reject theirs in favor of new political economies, although there were significant differences between Algeria and Iraq at one extreme and Egypt at the other. The "bunker" states, such as Algeria and Iraq, rule primarily by coercion – from their metaphorical or, in some cases, actual bunkers – because the state lacks autonomy from social formations. The "bully states," such as Egypt, are largely autonomous from social forces, whether traditional or modern, and have relatively strong administrations though they, too, depend principally on military/security forces. The democracies were more selective in their treatment of local capitalists and landowners. In general the regimes which left their capitalist legacies intact were technically better able to cope with the new challenges of globalization that have steadily gathered pace since the 1980s; the monarchies of Jordan and Morocco adapted more quickly to the new world order than the more radical praetorian republics. They were generally better able than these republics to harness the power of private capital to their political needs. The praetorian republics and democracies varied considerably in their treatment of earlier generations of agrarian, commercial, and industrial capitalists, but they are all under some local as well as international pressure to come to terms with the Washington Consensus.

The Washington Consensus Revised

The "Washington Consensus" promoted by the international institutions and Western donor agencies, albeit in steadily more diluted form as the decade of the 1990s progressed, used to be a set of ten flexible guidelines for opening up political economies and integrating them into global markets (Nairn 2000). John Williamson, who coined the term, explains it to be "the common core of wisdom embraced by all serious economists." He leaves open many controversial questions, including even the size of government and the model of the market economy to be sought, whether "Anglo-Saxon laissez-faire, the European social market economy, or Japanese-style responsibility of the corporation to multiple shareholders" (1994: 18). Yet prescriptions which may be standard economics to academics also carry immediate political implications for power-holders. In the 1990s, indeed, the proponents of reform paid increasing attention to its political prerequisites of efficient, responsive, and transparent institutions (World Bank 1997). The Spence Report, commissioned by the World Bank in 2008, redefined the Washington Consensus as a diagnostic rather than a prescriptive approach to

development. Broadly speaking, however, neo-liberal economists still agreed on four basic principles, adding “reasonably good” governance to Williamson’s earlier recommendations of maintaining macro-economic stability, stimulating saving and investment, and providing market-oriented incentives (Rodrik 2008). All the more reason, then, that the “rechristened” Washington Consensus, calling for political liberalization as well as opening up of the domestic economy, spelled imperialism and political as well as economic hardship for many local policy-makers.

In view of the MENA’s legacies of foreign intervention, it is hardly surprising that international financial institutions and foreign donors evoke defensive reactions. IMF observation teams and World Bank missions are all too reminiscent of the European financiers who helped informally to colonize much of the region in the nineteenth century. The USAID mission in Cairo also elicits comparisons with the more successful British advisors a century ago in the ministries of finance and public works. Symptomatically an Egyptian journalist’s book about his country’s negotiations with the IMF pictures Superman on the cover with a big “IMF” in red letters on his blue uniform (Hilal 1987). While some of the MENA governments have officially welcomed “globalization,” their practices reflect ingrained suspicions of foreign advisors and their prescriptions for reform – “iron and arsenic to all, whatever the illness,” as an Egyptian minister once complained (Hilal 1987: 171). The added imperative of “reasonably” good governance only confirmed suspicions that the Washington Consensus was an imperialist plot, especially after the Bush Administration toppled Saddam Hussein to bring freedom to Iraq.

The foreign advisors from international financial institutions and the United Nations, however, are hardly supermen (or superwomen for that matter). Indeed, they must appear to be apolitical lest they offend their hosts or their international board members. They express their “advice” in technical economic policy terms and, even when knowledgeable about the host country’s politics, are not usually able to translate the advice into viable political strategies. Any will to change on rational economic grounds also had to be reconciled with political rationality and its imperatives for retaining power.

Virtually all of these regimes suffer deficits of legitimacy (Ayubi 1995; Hudson 1977) and buy support through extensive networks of political patronage that permeate their respective economies through the administration, the banking system, and many “private” enterprises. In these patrimonial regimes private property is not secure from the whims of arbitrary rulers. Many regimes have yet to abandon allocation for alternative strategies of political legitimation, and hence must continue to generate rents

that accrue to the state. State–society interaction continues to consist of heavy police control coupled with various forms of patronage to keep the police and other administrations loyal. Some of the MENA’s regimes carefully mask their repression with information blackouts that further limit their possibilities for economic adjustment. Indeed their information shyness is becoming a major impediment to attracting capital in global markets. One measure of a regime’s political capacity in the twenty-first century is its transparency and openness to new flows of information. On this as on other measures such as the ability to tax its citizens, most MENA regimes display significant limitations. Raising more taxes can stretch a regime’s coercive capabilities, and more publicity may embarrass and undermine its patronage networks.

States are advised:

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

Figure 1.3 The Ten Commandments of the Washington Consensus

Source: Williamson 1994: 26-28

Private sectors are also wary of reform. With few exceptions they remain heavily dependent on government favors, tariff protection, and other subsidies. The political relationships with local capital were largely conditioned by struggles against foreign domination, but they were also qualified by the particular variety of capitalism that the foreigners had introduced. These varieties of capitalism deserve some discussion because they condition the structural power (Winters 1994: 431–432) of local capital – an opportunity as well as threat to these regimes in the new era of globalization. Just as the advanced capitalist countries practice their distinct national varieties of capitalism (Berger and Dore 1996), so their colonial offshoots are developing their own trajectories conditioned by the financial systems they inherited. Most of the MENA’s business communities are weak, heavily dependent upon the state, and hardly about to be agents of political or economic change (Bellin 2000: 175–205) at present, but their various legacies point to future possibilities.

The structural power of capital

The principal challenge of globalization is to tame the powerful force of mobile global capital and to allocate it in constructive ways. Our book focuses on financial systems because they are the critical intermediaries between global capital and states – the brains that allocate scarce capital. The local financial systems filter the structural power of global capital in various ways, depending on their capitalist legacies. The Europeans introduced relatively advanced forms of capitalism into most of the region by the end of the nineteenth century. These consisted of a British model predicated on *laissez-faire* and an efficient, competitive stock exchange, a German model based on universal banks, and a French model stressing greater state intervention in capital markets. Featuring a weaker private sector more dependent on administrative allocations of credit, the French model did not long survive the departure of its French colonial administrators in Algeria, Syria, or Tunisia and bore little relation to its successor model of state “socialism.” Contending British and German models survive, however, where indigenous business classes enjoyed continuity and protection from nationalist revolutions and the confiscation of private property. And the post-socialist bully states of Egypt and Tunisia emulate a French model of sorts to encourage their new captains of industry.

Anglo-American capitalism is characterized by *laissez-faire*, as Williamson observes (1994: 18), and most basically by open competitive capital markets centered on stock exchanges and bond markets. Commercial banking carries a less significant functional load than in alternative capitalist systems (Zysman 1983). Banks still lend to small and medium enterprises, but they remain subservient to market forces. Retail banks, even in Britain’s highly concentrated system, wield little market power because their scope of

intervention is limited. Under the impact of financial globalization the compartmentalization between retail banks and merchant banks is broke down, and new conglomerates are challenging the traditional fragmentation and differentiation of financial markets, in the United States as well as Britain. Financial markets remain highly competitive, however, driven by a multiplicity of actors and regulated so as to insure transparency and to prevent insider trading on stock exchanges so far as possible. Walter Bagehot's *Lombard Street* (1873) captured its underlying logic of competition and exploration. Britain was constantly seeking new outlets for its massive capital accumulation and hence required a decentralized system which rewarded entrepreneurship. Capital-rich America followed suit. In this model the structural power of capital is exercised through financial markets. This model is subject to periodic booms and busts, of which the Great Recession is the latest manifestation, highlighting the need for ever more complex forms of regulation to tame global finance. (Clem: Isn't this the place to introduce some speculation on the future of the model and possibly challenges to it from both inside the present system, such as that from Angela Merkel, and outside, such as that from Asia and its "state capitalism." Or you could leave the German challenge to the following para. In any case, I think we need to take account of the possibility that the history of finance in our times may be on the verge of entering a new chapter. I also wonder a bit about another para at the beginning of this chapter defining the structural power of capital more carefully, putting forward the argument about financial systems being the brains of the capitalist system, hence our focus upon them.

A second model, best articulated by Rudolph Hilferding (1910), also stresses relatively autonomous private sector capitalist activity, but of universal banks, not individual investors. This German model is adapted to situations of capital scarcity. In late nineteenth-century Germany the largest and most capital hungry firms, typically in capital intensive industries such as iron and steel, fell under the control of their creditor banks. The borrowing industries and creditors alike became more concentrated as smaller entities went bankrupt or were acquired by the larger ones, and the banks concentrated and merged to defend themselves against industrial mergers. Finally an oligopoly of about six large commercial banks based in Berlin at the turn of the century commanded much of German industry. These universal banks, investing heavily in industry, constituted a model adopted by new generations of foreign capitalists, notably Talaat Harb of Egypt (where British and French capitalism coexisted at the time, see Saul 1997) and Celal Bayar of Turkey (Henry 1996). In the German model a small number of bankers scale the commanding heights of the economy and allocate its finance capital. They consult with their government but retain full autonomy and bargaining power. Here structural power works through people rather than markets: a

small group of commercial banker/ financiers can threaten to withhold loans and investments if the government does not provide an attractive business climate.

The third model is the traditional Napoleonic one of administrative intervention in the French *étatiste* tradition. While much of the economy, including the banks, may be privately owned, capital is allocated strategically more by technocrats who know best than by private financiers. The rationing of capital by state officials also, as in the German model, offers protection to capital-scarce economies. The banks, however, are less autonomous and exercise less control, for that matter, over stock markets. These capital markets are less developed than in the Anglo-American model. The structural power of capital is not as easily ascertained as in either the German model, with its small number of financial conglomerates, or the Anglo-American model, with its efficient market responses to new information. Market forces operate but they are subject to greater regulation by the technocrats. The best indicators of structural power are the degree of private ownership of the commercial banks and their financial health. Failing banks and ballooning bad loan portfolios (and precursor signs such as chronically low profitability) suggest either that the technocrats have excessively influenced credit allocation or that the banks have not conducted responsible credit analysis. Japan in the 1990s would be an illustration. The structural power of capital is diminished by subsidized credit, but so also is the effectiveness of government to respond to business demands.

The model adopted in a MENA country did not necessarily match that of the politically dominant foreign power. Political domination was usually brief and rarely excluded other foreign capital. French and Belgian enterprises prospered in Egypt under Lord Cromer (1882–1906) more than did British enterprises, and the country remained open to other models as well. The German model proved attractive to Egyptian nationalists and other late developers even after Germany was excluded from the region following World War I. Nor did the French, more exclusively rooted in the Maghrib than the British in Egypt, convert all of the local entrepreneurs to their preferred form of capitalism. Morocco turned out to be “German” despite its French and Spanish colonial past. Its French capitalists had themselves adopted the more advanced German universal banking model by 1912, when most of Morocco became a French protectorate. In Tunisia, by contrast, an earlier generation of speculators had projected a traditional form of capitalism similar to that of French Algeria. The French capitalists in Morocco operated through modern German-style universal banks such as Paribas and developed stronger negotiating stances with their colonial government than did their less dynamic counterparts in Algeria or Tunisia, who depended more on the public authorities.

The German model also traveled to Turkey, despite the fact that the Germans were only one of several principal managers of the Ottoman public finances before World War I. The Germans invested more in productive enterprises than did their rivals and offered a more attractive model for postwar Turkish entrepreneurs than did their British or French competitors. Determined to build a Turkish private sector, Mustafa Kemal Atatürk and his top political economist, Celal Bayar, opted for the German model. Subsequently, during the Depression years after 1931, they espoused *étatisme* but also continued to develop a private sector along German lines.

Indigenous business communities assimilated the metropolitan models in varying degrees. Many of them consisted of minorities whose ties to foreign powers were distrusted by the nationalist forces that ultimately gained power. Business communities in praetorian regimes experienced sharp turnovers caused by an unstable history of coups and revolutions. In Iraq, for example, families such as the Shalabis promoted under the Ottoman and subsequently British rulers took refuge abroad. Iraq today has virtually no business class, but rather a collection of new people who are personally connected to the ruling factions. Without the security to accumulate capital, there can be no capitalism. Between 1915 and 1922 the Ottomans and then the Turks virtually obliterated Turkey's business minorities. Subsequently, however, a new Turkish business class grew up under Mustafa Kemal to absorb and sustain the German model into the 1980s.

Few of the MENA's business communities display as much continuity as republican Turkey's. Nationalist revolutions in the Arab world did not usually result in as much disruption as in Turkey prior to 1923, but they have had less time than the Turks since independence to recover. And Algeria represented even greater disruption in July 1962 than did Turkey in 1922. An entire French colonial economic, political, technical, and administrative elite departed on vacation rather than face independence, and few ever returned. The transition to independence was more gradual in neighboring Tunisia, but most of the Tunisians who replaced the Europeans owed their new economic fortunes more to their political activity and connections than to any tradition of entrepreneurship. Syria had a strong tradition of entrepreneurship, but by the mid-1960s the old Aleppan and Damascene business families had succumbed to Ba'athist domination, which despite President Hafiz al Asad's cautious "opening" of the economy in the early 1970s was an inheritance he passed to his son Bashar on his death in 2000. Nasser's Free Officers also rid Egypt not only of its European and khedivial business communities, but most native Egyptian capitalists as well, although ten years of state "socialism" (1961–1971) did not totally erase the country's capitalist traditions, which re-emerged, albeit in substantially modified forms, under Nasser's successors.

The Arab country displaying the most continuous business history is Morocco, where the French presence enabled an indigenous Fassi bourgeoisie to expand into Casablanca and other new centers. French industrial interests were only very gradually Moroccanized in the second decade following independence, principally to the benefit of the monarchy and its entourage of Fassi business groups. They preserved the “German” model of capitalism that had evolved under the Protectorate. In Israel the victorious Labour Party regime preserved Jewish businesses, including those founded and heavily subsidized during the colonial period by the Histadrut, the Zionist labor federation. Israel’s original variant of state capitalism is similar to the French model inherited by its neighbors, Syria and Lebanon, from Ottoman times. Independent Lebanon conserved its entrepreneurs, but they converted to an Anglo-Saxon model to satisfy the American multinationals that set up their regional headquarters in Beirut in the 1950s and 1960s.

The capital-rich, whether in Lebanon or the Gulf, tended to adopt the Anglo-Saxon model, whereas the capital-poor entrepreneurs of Morocco and Turkey gravitated toward the German model, and the Israelis toward the more administrative French model. But predatory states deprived many countries of the region of their respective capitalist traditions. By default new entrepreneurs were locked into a “French” tradition of administrative favors, although the capital-rich Gulf states are also promoting a third, Islamic way, which is quite compatible with Anglo-American capitalism. Launched in the mid-1970s, Islamic banking and finance offers possibilities for synthesizing moral demands with those of globalization that will be discussed later in this book. The so-called “Islamic banks” operate in accordance with Islamic law, as interpreted by Muslim legal scholars, and do not accept interest although they recognize the time value of money in other ways (Vogel and Hayes 1998). They have captured substantial shares of commercial banking markets in a number of Arab and Muslim countries.

To summarize, the structural power of capital was more visible in the democracies and monarchies than in the MENA’s military regimes. Lebanon’s business elite stayed more or less intact, even through a civil war in the 1970s and 1980s, though Lebanon switched after independence from the French to a less regulated Anglo-American model more in keeping with the country’s role as a trading and financial center for the Middle East. Led by third-moment elites, Israel and Turkey were well positioned to maintain their respective capitalist legacies. In Iran a second-moment elite also keeps its indigenous capitalist bazaar, albeit in tension with a strong statist tradition inherited from the shah and expanded after the revolution. The monarchies have also preserved their nascent capitalist legacies. The German model serves the poorer, capital-scarce ones. It facilitates palace control of heavy economic concentrations, whereas wealthier

monarchies have more rents to pacify their more numerous and competitive local capitalists and tribal elites. The praetorian republics adopted state capitalism and dismissed much of their private sector legacies from colonial times. Residues of the Anglo-American model survive in Egypt and the Sudan, as do echoes of French capitalism in Syria. But whatever their domestic political constraints and capacities, extra-regional factors push all of the regimes to engage with global capital.

Chapter 2 will address the extent to which global and regional changes may be leveling the differences between the MENA and other parts of the developing world caused by the MENA's special legacies of rents and foreign intervention. These global and regional changes not only constitute a new impetus for economic development, perhaps reversing recent trends, but also shape the context in which state actors make their political and economic calculations and formulate economic policies. The ebb and flow of relationships with the United States, the European Community, and the Tokyo/Beijing axis may tilt them toward one or another of their respective models of capitalism, but capitalism has also acquired indigenous roots in most MENA countries and is interacting with global capital in ways that will be further discussed in ensuing chapters.

Suggestions for further reading

Richards and Waterbury (2005) comprehensively examine the political economy of the region and are usefully supplemented by El-Ghonemy (1998), while Bill and Springborg (2000) and Owen (200x) present comparative political analyses. For political and economic history see Brown (1984) and Owen and Pamuk (1998), respectively. Berger and Dore (1996) introduce varieties of capitalism, further developed by xxx (2001).