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**THE POLITICAL-
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CONUNDRUM:
The Affinity
of Economic
and Political
Reform in the
Middle East
and North Africa**

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**Democracy and
Rule of Law Project**



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FOR NEARLY TWO DECADES THE MIDDLE EAST AND NORTH AFRICA (MENA) has languished in economic stagnation and lassitude. At a time when the logic of market-driven reform and export-oriented growth has become nearly canonical worldwide, the MENA region has proven steadfastly unenthusiastic about reform, shutting itself out of the benefits of economic globalization and falling behind most other regions in economic development. At the same time, the MENA region has distinguished itself by spurning another worldwide trend: democratization. As democracy has spread in Latin America, Central and Eastern Europe, Asia, and sub-Saharan Africa, the Middle East has remained largely authoritarian, experiencing at most only mild liberalizing political reforms. This dual resistance to world trends is intriguing and resurrects the question of the relationship between political and economic reform. Is this dual resistance to reform coincidental? And what does this resistance say about whether and how Western policy makers and aid practitioners should try to link or sequence their efforts to promote political and economic reform in the region?

Conventional wisdom in the development community has long held that economic and political reforms are directly linked. With regard to sequencing, the debate has been dominated by two schools: one prioritizing economic reform, the other political reform. Yet neither approach is useful as policy guidance. Although linkage between economic and political reform indeed exists (and in the Middle East resistance to both kinds of reform is intrinsically interwoven in the logic of many regimes), the relationship between the two is not deterministic, nor is any fixed sequencing warranted. The permissive linkage between economic and political reform suggests that neither is a precondition of the other. Further, if either democratization or economic reform is the stated policy goal, each must be pursued not as a means to the other but rather for its own sake and on its own terms.

ECONOMIC DECLINE

Economic decline has plagued the Middle East since the mid-1980s.¹ Once a global leader, outpacing all other regions save East Asia for most rapid output growth, the Middle East has turned into a global loser, falling behind nearly every other region in development over the past two decades. Overall growth rates have stagnated. In most countries of the region, gross national product (GNP) has barely kept pace with population growth, and in some, such as Saudi Arabia and Iran, per capita GNP has registered an absolute decline. Unemployment continues to climb. The jobless rate is officially estimated at 25 percent regionwide, and the failure of job creation to keep pace with demographic trends projects even higher levels of unemployment in the years ahead. Investment levels have declined. Fiscally strapped states have dramatically cut back on public investment, and the private sector has not stepped in sufficiently to pick up the slack. Capital flight is endemic. Middle East residents hold an estimated \$100–500 billion in savings abroad, and the region has

been unsuccessful in attracting foreign direct investment (FDI) in sectors other than tourism and petroleum. Productivity levels are down. Middle East products and labor have become progressively less competitive in the global market and this has spelled worsening trade imbalances, rising international indebtedness, and increased debt overhang. Finally, poverty remains a challenge. More than 30 percent of the population is estimated to live below the human poverty line despite the MENA's reputation for admirably extensive family-sponsored and state-sponsored safety nets.² Overall, the Middle East and North Africa is a region of deteriorating living standards and persistent economic anemia—a pale shadow of the promise it held in the 1960s and 1970s.

To some degree the economic contraction suffered by the Middle East over the past twenty years was triggered by the decline in public investment that followed the fall in oil prices in the mid-1980s. But equally detrimental have been both the failure of the private sector (both local and foreign) to invest in MENA countries and the declining *productivity* of investment in the region. Economists have arrived at a consensus to explain this double failure. They trace it primarily to the dual phenomenon of too much state and too inadequate a state in much of the region.

By “too much state” economists refer to the outsized role played by the state in managing the economy. In most Middle Eastern countries, the state continues to play an economic role in society comparable in scope to that found in communist regimes of bygone days.³ The flagship of this state-dominated economy is an immense public sector, envisioned, first and foremost, as the engine of national growth but also assigned countless political tasks such as sopping up unemployment, evening out regional development, providing cheap manufactured goods to the masses, and delivering political patronage to important state cronies.⁴ The contamination of the public sector's mission with political goals introduces substantial economic irrationality into the sector's operation and contributes to its chronic inefficiency and persistence as a loss-maker. Worse still, irrationality in the public sector introduces inefficiency and distortion throughout the economy, given its central role as national producer, employer, and allocator of resources. Labor is not priced at its scarcity value; locally produced inputs are of poor quality and overpriced; credit is distributed on political grounds; protection of the local market is prioritized at the expense of export-readiness; and building intra-industry linkages with foreign multinationals is often cast as imperialist heresy.

The economy's domination by a politically driven public sector has multiple negative repercussions for investment and growth. First, the price distortions and inefficiencies introduced by the public sector mean that most Middle East economies hold little allure for FDI. In fact, the region has largely missed out on the growth in international capital flows of the past decade, attracting only 3 percent of FDI worldwide and less than 1 percent of total portfolio flows to developing countries.⁵ Second, the disinterest of foreign investors in the region has compounded the inefficiency of local production and shut Middle East firms out of technical innovations because they are not integrated into intra-industry trade.⁶ Third, the public sector's large size combined with its preferential access to state contracts and state credit has crowded out the local private sector and retarded the latter's development. In short, too much state has undermined important sources of investment, both foreign and local, as well as the productivity of investment in the region.

Of course the region's economic problems do not derive *only* from too much state. Also important are the policy *choices* that highly interventionist states make. For example, other highly interventionist states (notably the developmental states of East Asia) chose to prioritize export-readiness and trade-led growth over protection of the local market and were able to achieve

spectacular economic results. By contrast, the interventionist states in the MENA region have chosen to prioritize protection of the local market over export-led growth, given their political concern to protect local jobs and cronies as well as by their economic concern to protect revenues. This decision to spurn a strategy of export-led growth has spelled exceptionally low levels of integration into international trade flows for the MENA region, shutting it out of a major source of cost discipline and technological innovation.⁷ Again, as the East Asian cases demonstrate, none of this is necessarily the consequence of having a large, interventionist state.

Other factors that have also undermined foreign investment and the productivity of investment in the MENA region include the region's exceptional level of interstate conflict as well as the persistent problem of Dutch disease.⁸ The MENA's high level of interstate conflict creates a climate of insecurity that discourages foreigners from investing. The problem of Dutch disease spells the overpricing of labor as well as other nontradables, undercutting productivity and similarly creating a disincentive for foreigners to invest. Neither problem is a consequence of too much state, and correcting them requires other political remedies.

In addition to the problem of too much state, most countries in the region are also plagued by the problem of *too inadequate* a state. This refers to the institutional deficit that characterizes so many Middle East countries: the lack of an adequate regulatory and legal framework to guarantee property rights, enforce contracts, and reduce the transaction costs faced by the private sector investors. As it stands, most Middle East economies constitute difficult environments for investors to work in, characterized by extensive red tape, opacity, arbitrariness, and corruption, all with minimal legal redress. Little wonder that foreign capital has scant interest in investing in the region (outside of the petroleum and tourist enclaves) or that capital flight is endemic. Nor is it surprising that most migrant workers prefer to invest their hard-won remittances in nontradables such as real estate rather than in entrepreneurial ventures such as industry at rates much higher than that found in other regions.⁹ Together, these trends deprive the region of important sources of productive investment and growth.

For many years the region's state-dominated economies, with all their attendant inefficiencies, were sustained by access to rent. Petroleum rents, gas rents, strategic rents (that is, foreign aid born of a country's strategic value to wealthy donors), and transit rents together constituted the great enablers of the region's exceptional etatism. The best evidence for this lay in the fact that access to rent, not official state ideology, proved to be the best predictor of the public sector's size in any given country. Even avowedly "liberal" regimes embraced etatist policies when they enjoyed a rent windfall. These rents, by prolonging inefficiency and postponing sustainable growth, constituted a quintessential "resource curse." They undermined national development to the point of paradox where many of the best-endowed countries possess the poorest developmental prospects and their less-advantaged neighbors command more promising futures thanks to their quicker embrace of reform. By the late 1990s, it had become evident to even the rent-rich countries that rents were unlikely to keep pace with population growth and that resource wealth alone could not deliver sufficient economic development and employment creation to sustain national well-being and social peace. The call for economic reform became widespread.

ECONOMIC REFORM AND ITS OBSTACLES

The economic medicine prescribed for the region by the International Monetary Fund (IMF), World Bank, and other adherents of the Washington consensus mirrored the conventional economic wisdom offered elsewhere. From the early 1980s onward, Middle East states were advised to move on three tracks of economic reform: (1) stabilization (short-term measures designed to restrain government spending, contain inflation, reduce the government deficit, and close the balance-of-payments gap); (2) structural adjustment (longer term measures aimed at liberalizing the economy through the elimination of price controls, withdrawal of subsidies, introduction of currency convertibility, general deregulation, and encouragement of free trade and FDI); and (3) privatization.¹⁰ At the same time, the states of the region were advised to carry out institutional reform (or, in some cases, institution *building*) for the sake of achieving “good governance.” The objective was to build judicial and regulatory capacity as well as encourage transparency, predictability, and ultimately accountability in government conduct.

The region’s response to this prescription was mixed. Most countries embraced some measures of stabilization: reducing government expenditures, lowering inflation, and imposing fiscal reform. Many undertook this reform at their own initiative so that even countries that prided themselves on excluding multilateral institutions such as the World Bank and the IMF from their policy deliberations (for example, Algeria, Iraq, Syria) had embarked on some stabilization by the early 1990s. And by the mid-1990s, even relatively wealthy countries such as Saudi Arabia were persuaded by the logic of stabilization, embracing macroeconomic austerity and subsidy cuts.

But the attitude toward structural adjustment and privatization was far less enthusiastic. Here the region showed significant variation. Only a few middle income countries (Egypt, Jordan, Morocco, and Tunisia) proved truly receptive to such reform, whereas the poorest (for example, Yemen, Sudan, Mauritania), the richest (for example, the Gulf Cooperation Council countries), and the remainder of middle income countries (for example, Algeria, Iran, Syria) largely spurned it. Even the relatively receptive reformers were late to embrace reform (compared with similarly positioned countries in other regions), and their pace of reform has remained slow. By the year 2000, the four reformers were still in the bottom two-thirds of countries in terms of cumulative liberalization since 1985.¹¹ Consequently, the region’s performance has been poor, especially in the areas of trade liberalization, privatization, and institutional reform. Tariff barriers have remained high in much of the Middle East, strangling the possibility of trade-driven growth. Privatization has proceeded at a snail’s pace, burdening the region with a huge and inefficient public sector that towers over that found in low and middle income countries elsewhere. Complex regulatory frameworks remain in place in most Middle East countries with little enhancement of the institutional means for redress, barring the development of transparency or accountability.

To some extent there are good economic reasons to “go slow” on many aspects of economic reform. For example, the path from economic reform to growth is by no means guaranteed. Factors such as slow regional growth, world economic recession, and trade barriers that protect the developed world’s textiles and agriculture from competition with less-developed countries together weaken the linkage between trade liberalization and the delivery of growth for developing countries.

But the truth is that the lion’s share of opposition to structural adjustment and privatization in the region has been driven not so much by economic rationality as by political logic.¹² Middle East regimes are loath to privatize public enterprises because these enterprises serve as key sources

of state patronage (jobs for the masses, lucrative posts for political cronies) and so are crucial to the regime's strategy of building support at the mass and elite levels. Many groups who form the core constituencies of these regimes (for example, public sector workers, bureaucrats, army officers, crony capitalists) staunchly oppose economic reform, and embracing it would put the regimes' political foundation at risk. Beyond this, Middle East regimes are reluctant to liberalize trade because exposing national firms to the crush of foreign competition would likely spell massive firm failure and extensive job loss (a prospect not only economically harmful but also politically ruinous in a context where unemployment is already high). Middle East regimes also have little interest in relaxing regulatory frameworks because regulations constitute an important source of discretionary favor and political control. Similarly, the goals of building institutional accountability or transparency hold little appeal to political elites who know that institutional opaqueness and arbitrariness constitute important levers of power. In short, policies that seem economically irrational are crucial to the political logic of these regimes (providing patronage, sustaining coalitions, endowing discretionary power). As a result, few regimes are willing to undertake reform unless pressed by crisis; even then they are likely to hedge their bets and embrace, at best, only partial reform.

POLITICAL REFORM A PRECONDITION OF ECONOMIC REFORM?

The political foundation of the widespread resistance to economic reform in the Middle East suggests that to achieve economic reform in this region political reform must precede it. Only by altering the political logic that sustains these regimes, moving from a base built on the discretionary distribution of patronage to one grounded in the legitimacy that comes with procedural legality and political accountability, will political elites ever be persuaded to undertake economic reform. It is on the basis of this analysis that many argue that democracy must come prior to economic liberalization in the region.

This prescription taps into a rich debate on the proper sequencing of political and economic reform. Conventional wisdom has long oscillated between two very different views on this matter. From the 1970s through the early 1990s, the predominant position in the development community was that economic reform ought to precede political liberalization on the grounds that authoritarian regimes were better equipped to shepherd economic development and carry out economic reform. Democracies, they argued, are hostage to electoral pressures and so find it difficult to impose painful economic policies on their societies, especially when the costs of reform are concentrated and the benefits are diffuse. Under these conditions, potential beneficiaries face much more serious collective action problems in getting their preferences served than do potential losers.¹³ In addition, the election cycle in democracies tends to introduce an element of myopia in the time horizons of policy makers, preventing the sustained pursuit of reform. If the benefits of reform are not to be realized until after the election cycle and the costs are experienced up front, elected officials have diminished incentive to reform.

By contrast, this school argues, authoritarian regimes are not dependent on elections. Being more insulated from popular opinion, they can afford to take the long view on policy decisions and are able to prescribe harsh economic medicine when economic rationality warrants it. This was the reasoning often cited by authoritarian leaders such as Singapore's Lee Kuan Yew, South Korea's Park Chung Hee, and Chile's Augusto Pinochet, who routinely rationalized the delay of

democratization in their countries on developmental grounds. The outstanding economic success of a few authoritarian regimes such as Singapore, South Korea, and Chile provided empirical ballast for this argument, persuading many in the development community that authoritarian regimes are indeed better equipped to steer economic development and that democratization should follow, not precede, economic reform.

By the mid-1990s, however, conventional wisdom began to swing in another direction, driven in large part by the simple fact that some new democracies *had* in fact proven capable of carrying out economic reform. One of the most fascinating findings of the 1990s was the postcommunist paradox: Among postcommunist countries, it was precisely the most democratic regimes that carried out the most comprehensive economic reform, whereas the more authoritarian regimes proved sluggish about reform. Frequent elections, shorter executive tenure, and greater chances of electoral revenge did not prevent postcommunist countries such as Poland from implementing radical reform programs, whereas countries such as the Ukraine and Belarus, led by executives with more secure tenure and more insulation from electoral pressures, proved much more resistant to reform.¹⁴ Similarly, the experience of Latin America revealed that democracies in that region performed no worse than authoritarian regimes in terms of introducing stabilization programs or imposing austerity measures; if anything, democracies performed slightly better with respect to reform implementation.¹⁵ Overall, democracies had proven fully capable of carrying out harsh economic reform, especially when impelled by economic crisis.¹⁶

The developmental advantage of authoritarian regimes was further discredited by the fact that the vast majority of authoritarian regimes had not proven to be developmentally virtuous like Park Chung Hee's South Korea but rather had turned out to be predatory and economically irrational. Authoritarian regimes were not necessarily insulated from special interests. To the contrary, many proved hostage to the particular interests of core constituencies (for example, crony capitalists, the military) that undermined economically rational policy making as much as, if not more than, popular election. For every Chile and South Korea, there was a Brazil or a Philippines whose authoritarian regime was incapable of carrying out effective economic reform because of penetration by special interests.¹⁷ Beyond this, authoritarian regimes lacked the discipline of popular accountability that contained predation and irrationality in democracies. Without this discipline, predation could soar to outrageous levels as was evident in authoritarian regimes such as Mobutu's Zaire and Trujillo's Dominican Republic.

Given the economic success of democracies like Poland and the economic failure of authoritarian regimes like Zaire, the pendulum in the development community swung in the direction of championing democracy as the most propitious environment for economic reform and development. The tendency to see all good things going together, with democracy and economic reform proceeding hand in hand, was further driven by the development community's persuasion that good governance was essential to successful economic development and that accountable governments (that is, democracies rather than authoritarian regimes) had the more powerful incentive to deliver good governance in a consistent fashion.

But perhaps the wiser lesson to draw from the developmental experience of the past thirty years is that regime type is too blunt a variable to predict reform or developmental outcome and that no preconception about a correlation between the two is warranted. Both authoritarian and

democratic regimes have their potential strengths and weaknesses with regard to their capacity to undertake reform and shepherd development. Authoritarian regimes may enjoy insulation from popular pressure, but democracies may enjoy deeper stores of legitimacy to carry out difficult policy programs. Democracies may be myopic, but authoritarian regimes may be predatory. Some authoritarian regimes may be extremely capable of delivering good governance (Singapore), whereas some democracies (Argentina) may not. Regime type, in the final analysis, is not determining. Empirical evidence suggests that differential success at economic reform is much better explained by other factors, such as institutional endowment (Is there an effective bureaucracy? Is the party system fragmented or polarized?), leadership, level of crisis, power of organized interests, international context, and a given country's international clout.¹⁸

For the Middle East, this suggests an important lesson about the sequencing of economic and political reform. Democratic transition is not a precondition of economic reform. Democratization (as far distant as that might seem for most Middle East countries) need not necessarily undermine the economic reform effort, especially if the newly elected leadership were committed to reform and if the general population had suffered sufficient economic crisis to be willing to try something new, even if painful. But transition to democracy is not obligatory. Many authoritarian regimes have embraced economic reform, especially those such as China, Singapore, and South Korea that came to identify their own political success and longevity with their country's economic growth and development. In the Middle East, one country, Tunisia, seems to have embraced this developmental logic without shedding its essentially authoritarian character. And while one might wish to encourage this regime to democratize for democracy's own sake, Tunisia's economic success does not seem to have required political liberalization nor to be leading to it.

But even if democratization is not a precondition for economic reform, some measure of political reform in most MENA countries *is* imperative if economic success is the goal. Authoritarian regimes in the MENA region must be persuaded to shift from a strategy of political survival based on discretionary patronage to a strategy based on successful developmentalism. Most must invest in the creation of effective, rationally organized state bureaucracies—a prerequisite for the successful execution of a developmental program. In addition, they must replace arbitrary and corrupt governance with predictable rule of law. Neither this shift in survival strategy nor the creation of an effective bureaucracy nor the establishment of rule of law requires the embrace of democracy (authoritarian regimes in South Korea and Chile achieved both), but they do require significant change from the current status quo. Such change depends on the rise of committed leaders with a vision for change. Historically, such leaders have emerged in contexts of combined crisis and hope (more on this below). The bottom line is that political change might indeed have to precede economic reform in the Middle East and North Africa, but this political change need not necessarily mean democratization.

ECONOMIC REFORM A PRECONDITION OF POLITICAL REFORM?

But if democracy is not a precondition of economic reform, is economic reform a precondition of democracy? Or, to put it more modestly, is economic liberalization likely to abet democratic transition in the MENA region?

In recent years political scientists have tended to discount economic variables when explaining countries' differential success at initiating democratic transition. Instead, they have emphasized "the autonomy of the political," concentrating on factors such as leadership, institutional endowment, and strategic choice to account for transition success and failure.¹⁹ My own work on the persistence of authoritarianism in the MENA region concurs with this approach, arguing that political institutional variables (and especially the exceptional will and capacity of the coercive apparatus in many MENA states) constitute the primary reason for the region's failure to catch the third wave of democratic transition.²⁰ That said, economic conditions are not irrelevant. They are especially important in terms of shaping the coalitions and social forces mobilized for or against political reform.

Perhaps the best argument for the importance of economic reform as a stimulus to democratic transition lies in the advocacy thesis. Democracy does not spring, spontaneously and fully formed, from the brow of authoritarian rulers. Rather, it is the product of struggle that hangs on the efforts of committed advocates, determined to wrest power from elites who are equally determined not to share it. In the case of the early industrializing countries of Western Europe, the cause of democracy was most forcefully championed by the protagonists of capitalist industrialization (that is, private sector capital and the organized working class).²¹ Capital and labor saw democratization as a means to force accountability and responsiveness on a state largely perceived as hostile to their interests. In later developing countries, however, these social forces have been discouraged from playing their "historic role" as the agents of democratization because they are often the beneficiaries of state sponsorship and discretionary patronage and consequently are anxious not to compromise their privileged status by undertaking troublesome political campaigns. In this context, economic reform might abet the cause of democracy by introducing more market mechanisms and curbing state discretionary powers. Such reform would wean key social forces from dependence on the state and free them to play their role as the agents of democratization.

But while this argument is logically plausible, it is not immediately persuasive for most countries in the Middle East. Nowhere in the region is the organized working class or private sector capital either large or exceptionally robust. Worse still, economic reform is likely to reduce their numbers (at least in the short term) thanks to the breakup of public enterprises and the closure of uncompetitive firms. Although labor and capital may be persuaded of the utility of democratization, their limited clout is likely to curb their capacity to deliver a democratic political outcome for some time.

Cultivating class advocates of democratization is not the most compelling link between economic reform and democratization in the MENA region. More important may be the role economic reform plays in cultivating economic growth. Economic growth is strongly correlated with the viability of democracy, once democracy has been instated. One of the most robust findings of twenty-five years of political research on democratization is that democracy, or more precisely, the *survival* of democracy, correlates strongly with per capita GNP. Once a country reaches the threshold of per capita GNP of \$4,200, democracy has a better than even chance of surviving.²² By \$6,000, democracy is nearly invulnerable. In fact, throughout history not a single democracy has ever collapsed that has achieved a per capita GNP of \$6,055.

This research does not mean to suggest simple economic determinism. Prosperity alone does not deliver democracy. In the MENA region, for example, it is the richest countries, namely, the oil kingdoms of the Gulf, which are the most notorious underachievers in terms of democracy. In fact, it is the phenomenal wealth of these countries, or at least the nature of their wealth, that has

undermined the development of accountable government. But even beyond the oil-rich states, per capita GNP of \$6,055 does not automatically spell democracy. A number of countries, including East Germany, Singapore, the Soviet Union, Spain, and Taiwan, have enjoyed relative prosperity for extensive periods without transitioning to democracy.²³ Statistical research does not suggest that prosperity will deliver democracy. Rather, it suggests that once democracy has been *initiated* (for any number of reasons), it is likely to survive and flourish so long as per capita GNP remains above the threshold mentioned. In addition, statistical research also finds a direct correlation between a country's per capita GNP and the quality of democracy it enjoys, at least in many regions of the world.

What explains the strong relationship between per capita GNP and democratic viability? The causal mechanisms suggested by the long outmoded “modernization” school still hold water.²⁴ Some attribute this linkage to the higher level of education found in wealthier countries, arguing that the vigor of democracy rises with per capita GNP because highly educated people are more likely to uphold democratic values. Others point to the role that wealth plays in “greasing the wheel” of conflict, a crucial asset for a political system whose hallmark is the nonviolent resolution of conflict. Still others emphasize the larger size of the middle class in wealthier countries, a class whose presumed political moderation is an asset for democracies. All these mechanisms are plausible, though statistical analysis has not substantiated any single one as universally determining.

In the Middle East, however, there is a simple, commonsense reason to link economic growth with democratization and even with the initiation of democracy. One of the staunchest impediments to democratization in the region has been the spread of radicalism, and most notably Islamist radicalism, that has been linked to the embrace of violence and terror. This radicalism has obstructed democratization in at least two ways. First, it has discouraged the natural constituency for democratization—intellectuals, professionals, feminists, and the secular elite in general—from making common cause with populist forces to campaign for political opening because they fear the radicalism of the Islamists. Second, influential international powers such as the United States have refrained from pressuring authoritarian allies in the region to democratize for fear of unleashing the Islamist threat. Were this threat of radicalism reduced, the split between secular and Islamist forces might be closed, and great powers might feel more secure about persuading their Middle East allies to embrace democratic reform.

How would economic growth contribute to declining radicalism? Although the cause of Islamic radicalism cannot be reduced to simple economics, it seems plausible to argue that the pervasive unemployment, stagnating living standards, and general hopelessness found in much of the MENA region help to fuel its spread. Attacking these problems through economic growth would likely diminish the mass appeal of radical Islamists, unplug key motivations for violence and terror, and foster the political moderation that is essential to viable democracy.

This raises the question of whether economic reform would in fact deliver economic growth to the region. Economists are by no means unanimous on this matter. In the short run at least, economic reform almost inevitably leads to economic contraction and decline.²⁵ But even in the longer run, the results of implementing the Washington consensus are mixed and ambiguous, and there is no guaranteed “magic of the market.”²⁶ This strategy is especially hobbled in the Middle East by the region's poor endowment of skilled labor and infrastructure and its lack of clear comparative advantage in sectors outside of petroleum, gas, and tourism. These weaknesses combined with

the problems of poor regional growth and persistent protectionism in the developed world make integration into world trade less promising a growth strategy for the Middle East today than was for the signal success cases of trade-led growth from Asia of the 1970s and 1980s.

Still, as economist Alan Richards has argued, private sector–led, export-oriented growth is the only arrow that economists have in their quiver today to promote economic development.²⁷ And clearly stasis is not an option for the Middle East given the region’s rising levels of unemployment and declining living standards. The modest success enjoyed by Jordan, Morocco, Tunisia, and Turkey in reaping growth benefits from this strategy is somewhat encouraging, especially for the middle income countries in the region. Its relevance for desperately poor countries such as Yemen or Sudan that are bereft of basic infrastructure is more questionable, just as it is for relatively rich countries such as Saudi Arabia or Kuwait with their vastly overpriced and underskilled labor supply. But for all Middle East countries, some measure of economic reform seems necessary, even though it does not point a clear-cut path to rapid success. Growth is likely to be slow to moderate in the near term, and although this may diminish some of the unemployment and hopelessness that has fueled radicalism in the region, it is unlikely to erase these problems any time soon. This analysis suggests only a modest linkage between economic reform and democratization.

TOWARD A CONTEXT OF CRISIS AND HOPE

A number of conclusions may be drawn from this analysis. The dual resistance to economic and political reform that distinguishes the Middle East is by no means coincidental but rather is the product of the interwoven political and economic logic of the governing regimes. The political logic of authoritarian regimes in the region—and specifically their reliance on selective patronage to survive—creates strong political incentives to resist economic reform that would diminish the regimes’ discretionary power. The economic logic of Middle East regimes, and their embrace of strategies that unfortunately deliver unemployment and despair, fuels radicalism in the region, which in turn dissuades local and foreign forces from championing political liberalization and thus sustains authoritarianism.

To break this deadlock, should political reform precede economic reform or vice versa? The experience of other regions suggests that democracy need not be an obstacle to economic reform. But neither is it a necessary precondition. Authoritarian regimes have successfully carried out economic reform in Asia and in Latin America so long as they have come to identify their own success and longevity with developmentalism—a not inconsiderable political conversion. Political change is thus a precondition of economic reform, but the needed change is not necessarily democratization.

Conversely, economic reform should not be viewed as a precondition of democracy in the MENA region. Or at least it should not be viewed as necessarily delivering democracy. Given the belated stage of industrialization in the region, economic reform is unlikely to unleash class advocates of democratization powerful enough to carry off a liberalizing agenda. And given the Middle East’s human resource deficits (among other factors), economic reform is unlikely to deliver rapid growth to the region. Without rapid growth, Islamic radicalism in the region is unlikely to be tamed, and both domestic and international forces are unlikely to unite around a drive for democratic transition. Under these conditions, the linkage between economic reform and democratic transition is, at least for the short term, tenuous at best.

Given the economic stagnation and despair that has seized the region, and given the lack of alternative economic wisdom, it nevertheless seems wise to encourage regimes in the region to embrace some measure of economic liberalization. But how to persuade authoritarian incumbents to give up the economic and political logic that has sustained them thus far?

Experience elsewhere suggests that a dual context of crisis and hope constitutes the best condition for reform readiness. Deep economic crisis has persuaded even authoritarian elites to embrace reform. Plummeting living standards, mushrooming unemployment, and hyperinflation all erode the coalitions and political logic that supported them in the past and make clear that economic reform is unavoidable.²⁸ At the same time, the most thorough reform has been carried out by regimes where economic reform looked most promising. It is no surprise that the most dramatic reformers in Eastern Europe also happened to be the countries geographically closest to Western Europe. These countries could see the consumer wonders of Western Europe glimmering just across the horizon, and they were credibly hopeful that the bitter pill of reform might deliver the same prosperity to them.²⁹

What are the policy implications of this analysis? The analysis suggests that the United States should do what it can to replicate this dual context of crisis and hope in the region. Regarding the crisis element, the United States should refuse bailouts of economically troubled Middle East countries, especially the middle income countries. Such bailouts only enable prolonged stagnation. Beyond refusing bailouts, however, there is little the United States can do about heightening the sense of economic crisis, especially in the current context of rising oil prices that permit many countries, even those with limited oil revenues such as Egypt and Syria, to limp along.

Regarding the second element, there *is* more the United States can do in terms of fostering credible hope. The key is to make the path from economic reform to economic growth and prosperity less uncertain. This is not a simple task. One of the principal obstacles is the developed world's own tariff barriers in areas such as textiles and agriculture. These are politically costly barriers to remove, but their reduction is essential if economic growth in the MENA is the goal. In addition, the United States might focus on developing a variety of incentives or supports to encourage more interindustry engagement with the region, perhaps through infrastructural or organizational supports. The U.S. Trade Representative's free trade initiative in the Middle East is an excellent step in this direction, and the successful conclusions of free trade agreements with Bahrain, Jordan, and Morocco are very positive steps as well. The best route is to start small and focus resources on those countries that have already begun on this path of their own accord such as Jordan, Morocco, and Tunisia. A few signal economic successes in those countries would constitute models of hope for other MENA countries. As such, they might spread a modest reform contagion.

But none of this will produce success overnight. Political and economic reform is not for the faint-hearted or short-sighted. That the two are complexly interwoven underlines the importance of resolve in seeing them through. But simplistic pairings of the two processes will not stand. Economic reform in the Middle East and North Africa will not deliver democracy. At best, it will deliver limited growth that may moderate the margins of Islamic radicalism. Nor will democracy necessarily deliver economic reform. Only leaders committed to change and motivated by their own calculation of crisis and hope will liberalize their economies. These leaders need not be democrats, nor will democratically elected leaders necessarily fit the bill.

In short, if democracy in the region is the goal, it must be pursued for its own sake, on its own (political) terms, and not as a means to an end of economic reform. Similarly, if economic reform

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in the region is the goal, it too must be pursued for its own sake and on its own terms. Economic and political reforms are indeed linked, but in ways that are complex and nondetermining. Other analyses that suggest a simpler relationship or a fixed sequencing cannot withstand empirical or analytic scrutiny.

NOTES

- ¹ Alan Richards, “Economic Reform in the Middle East: The Challenge to Governance,” in *The Future Security Environment in the Middle East*, ed. Nora Bensahel and Daniel Byman (Santa Monica, Calif.: RAND, 2004); John Page, “From Boom to Bust and Back? The Crisis of Growth in the Middle East and North Africa,” in *Prospects for Middle Eastern and North African Economies: From Boom to Bust and Back?* ed. Nemat Shafik (New York: St. Martin’s Press, 1998); Dipak Dasgupta, Jennifer Keller, and T. G. Srinivasan, “Reform and Elusive Growth in the Middle East—What Has Happened in the 1990s?” in *Trade Policy and Economic Integration in the Middle East and North Africa: Economic Boundaries in Flux*, ed. Hassan Hakimian and Jeffrey Nugent (New York: RoutledgeCurzon, 2003); Moez Doraid, “Human Development and Poverty in the Arab States” (New York: United Nations Development Program, March 2000), <http://www.worldbank.org/mdf/mdf3/papers/labor/Doraid.pdf>.
- ² The Human Poverty Index is distinct from the Income Poverty Index. The Human Poverty Index measures deprivation in terms of shortened lives, illiteracy, and lack of basic services. The Income Poverty Index measures the percentage of people living below the \$1-a-day poverty line. The two indexes do not always move together. See Doraid, “Human Development and Poverty,” 8–9.
- ³ Clement Henry and Robert Springborg, *Globalization and the Politics of Development in the Middle East* (New York: Cambridge University Press, 2001), 6.
- ⁴ John Waterbury, *Exposed to Innumerable Delusions: Public Enterprises and State Power in Egypt, India, Mexico, and Turkey* (Cambridge, U.K.: Cambridge University Press, 1993).
- ⁵ Nemat Shafik, “Prospects for Middle Eastern and North African Economies: An Overview,” in Shafik, *Prospects for Middle Eastern and North African Economies*, 3.
- ⁶ Henry and Springborg, *Globalization and the Politics of Development*, 42–6.
- ⁷ Page, “From Boom to Bust,” 153.
- ⁸ “Dutch disease” refers to the “deindustrialization of a nation’s economy that occurs when the discovery of a natural resource raises the value of the nation’s currency, making manufactured goods less competitive with other nations, increasing imports and decreasing exports. The term originated in Holland after the discovery of North Sea gas.” Source: http://investorwords.com/1604/dutch_disease.html.
- ⁹ Page, “From Boom to Bust,” 147.
- ¹⁰ Adam Przeworski, *Democracy and the Market* (New York: Cambridge University Press, 1991), 144.
- ¹¹ Dasgupta, Keller, and Srinivasan, “Reform and Elusive Growth.”
- ¹² Henry and Springborg, *Globalization and the Politics of Development*, 15; Richards, “Economic Reform,” 58–60.
- ¹³ Stephan Haggard and Robert Kaufman, *The Political Economy of Democratic Transitions* (Princeton, NJ: Princeton University Press, 1994), 157.
- ¹⁴ Joel Hellman, “Winners Take All: The Politics of Partial Reform in Post-Communist Transitions,” *World Politics*, vol. 50, no. 2 (January 1998): 205, 213.
- ¹⁵ Karen Remmer, “Democracy and Economic Crisis: The Latin American Experience,” *World Politics*, vol. 42, no. 3 (April 1990): 318.
- ¹⁶ Stephan Haggard and Robert Kaufman, “Economic Adjustment and Prospects for Democracy,” in *The Politics of Economic Adjustment*, ed. Stephan Haggard and Robert Kaufman, 31 (Princeton, NJ: Princeton University Press, 1992).
- ¹⁷ Haggard and Kaufman, “Economic Adjustment,” 334.
- ¹⁸ Remmer, “Democracy and Economic Crisis,” 316; Marcelo Cavarozzi, with Joan Nelson and Miguel Urrutia, “Economic and Political Transitions in Latin America: The Interplay Between Democratization and Market Reforms,” in *A Precarious Balance: Democracy and Economic Reforms in Latin America*, ed. Joan Nelson, 15 (San Francisco: ICS Press, 1994); Jacek Kochanowicz, Kálmán Mizsei, and Joan Nelson, “The Transition in Bulgaria, Hungary, and Poland: An Overview,” in *A Precarious Balance: Democracy and Economic Reforms in Eastern Europe*, ed. Joan Nelson, 17–23 (San Francisco: ICS Press, 1994); Henry Bienen and Jeffrey Herbst, “The Relationship Between Economic and Political Reform in Africa,” *Comparative Politics*, vol. 29, no. 1 (October 1996): 20; Haggard and Kaufman, *The Political Economy*, 33–7, 151–2, 163.
- ¹⁹ Haggard and Kaufman, “Economic Adjustment,” 320.

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- ²⁰ Eva Bellin, "The Robustness of Authoritarianism in the Middle East: Exceptionalism in Comparative Perspective," *Comparative Politics*, vol. 36, no. 2 (January 2004): 139–57.
- ²¹ Eva Bellin, "Contingent Democrats: Industrialists, Labor, and Democratization in Late-Developing Countries," *World Politics*, vol. 52, no. 2 (January 2000): 176.
- ²² Adam Przeworski, Michael Alvarez, Jose Cheibub, and Fernando Limongi, *Democracy and Development* (New York: Cambridge University Press, 2000).
- ²³ Przeworski et al., *Democracy and Development*, 94.
- ²⁴ Seymour Martin Lipset, "Some Social Requisites of Democracy," *American Political Science Review*, vol. 53, no. 1 (March 1959): 69–105; Axel Hadenius, *Democracy and Development* (New York: Cambridge University Press, 1992), 78.
- ²⁵ Valerie Bunce, "Democratization and Economic Reform," *Annual Review of Political Science*, vol. 4: 47; Przeworski et al., *Democracy and the Market*, 136.
- ²⁶ Haggard and Kaufman, *The Political Economy*, 315–7; Dasgupta, Keller, and Srinivasan, "Reform and Elusive Growth," 1.
- ²⁷ Richards, "Economic Reform," 128.
- ²⁸ Cavarozzi, "Economic and Political Transitions," 15; Kochanowicz, Miszei, and Nelson, "Transition in Bulgaria," 18; Waterbury, *Exposed to Innumerable Delusions*, 3; John Waterbury, "The State and Economic Transition in the Middle East and North Africa," in Shafik, *Prospects for Middle Eastern*, 163–4.
- ²⁹ Kochanowicz, Miszei, and Nelson, "Transition in Bulgaria," 18.

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