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Global Transformations and the MENA: A Comparative Political Economy Analysis

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ABSTRACT

The regional geographical entity known as the Middle East and North Africa (MENA) has been at the epicenter of global power struggles over the course of the last centuries with an ever-increasing intensity. While the region has been a popular subject in the literature of political science and international relations due to the sheer volume of conflicts raging within the parameters of its borders, writings on international/comparative political economy focused on alternate regions such as East Asia characterized by a sustainable economic growth potential. This study aims to make a critical contribution to the political economy literature by conducting a theoretically and historically informed analysis on the transformation dynamics in the MENA region. To this end, the multi-faceted legacy of colonialism; the role of oil as a strategic resource; structural changes in the world economy; and divergent politico-economic reform trajectories in the wake of economic globalization will be evaluated.

Although the geographic entity described, in a rather Eurocentric manner, as the "Middle East" as well as the adjacent North Africa have been historically located at the epicenter of tectonic shifts and hegemonic struggles in world politics, the exceptional importance attached to these critical regions has generally resulted from distributional conflicts over strategic natural resources and geo-strategic considerations. In the same vein, it seems hardly possible to claim that the Middle East and North Africa, or MENA area to use the conventional shorthand, has traditionally been a fertile ground in terms of the emergence of exceptional success stories with respect to accomplishments such as rapid and sustained industrialization, structural transformation, as well as extensive integration with global trade, investment and finance networks. This negative state of affairs has been triggered by the destructive and destabilizing remnants of the colonial legacy, aggravated by the prevalence of authoritarian and autocratic gover-

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nance practices as well as the resilience of particularistic distributional networks, jointly constituting the groundwork for an antidemocratic and unproductive regional political economy. Consequently, despite various national developmental performances and sporadic successes, not a single case could be identified in the region whereby a world-class industrial/technological transformation and socio-economic development project was completed by mobilizing endogenous dynamics and respecting democratic consolidation.[1]

Both during and in the aftermath of the Cold War, the MENA was singled out as an international "intensive conflict zone" wherein occasional political and military interventions by major global powers were conceived as both normal and inevitable. To be forthright, during the early years of the post-Cold War era, there emerged serious concerns among the autocratic leaders and regimes in the region that the gradual erosion of their geo-strategic importance in the unipolar global order would trigger a process of marginalization in the eyes of major global powers. However, it soon became crystal clear that these concerns were premature and unwarranted, and the MENA region continued to be the focal point of Great Power meddling under constantly changing international regimes. Both the new design of the international security architecture in the aftermath of the September 11 attacks and the ideologically-motivated initiatives of the neo-conservatives in the US administration, such as the "global war against terrorism" and the "greater Middle East project," practically rendered the US a MENA country through the invasion of Iraq in 2003. This course of events also galvanized the strategic importance of this critical region in terms of global balance of power calculations and energy projections.

Analytically, on the other hand, it was swiftly understood that a series of pragmatic and superficial frameworks designed to unravel the nature of post-Cold War systemic change possessed marginal explanatory power regarding the broader regional transformation trajectory of the MENA.[2] In effect, the abrupt end of the Cold War, the formation of a novel and multipolar politico-economic order, the intensification of global power interventions due to concerns of energy and geo-strategy, and the increasing attention of European countries on the region as their "Mexico" in view of relatively low production costs triggered fundamentally different transformation dynamics. In stark contrast to exceedingly reductionist, generalizing and often patronizing accounts of mainstream theorists, multifaceted and non-synchronized trends of transformation continued to advance in political, economic and socio-cultural spheres in the wake of globalizing pressures. In the new era, the conventional separation between international and domestic spheres of activity became blurred in the MENA, as elsewhere, leading some analysts to coin terms such as “intermestics” whereby state-centered geopolitics was accompanied by the complex geo-economics of global integration.[3]

In this study, the main factors that contributed to the making of the modern political economy of the Middle East will be evaluated through a historically and theoretically informed perspective. Moreover, diverse national responses given in the region to the implementation of neoliberal transformation packages via standard “Washington” and nuanced “post-Washington Consensus” principles will be highlighted. Instead of presenting detailed empirical data on peculiar structural transformation experiments, underlying factors of continuity and change in the regional political economy will be explored in comparison to other developing regions. In this context, domestic parameters of profound change including the use of oil as a strategic resource will be critically explained in the context of the renowned *rentier state* thesis and multifaceted effects of global economic integration. Finally, the impact of perceptive dissonance towards global power interventions in the region on region-wide resistance to various forms of political and economic globalization is highlighted, along with broad conclusions towards the future prospects of global integration with respect to the progress of economic liberalization and democratic consolidation in the MENA.

Making of the Modern Middle Eastern Political Economy

According to conventional wisdom, international political economy analyses are expected to form causal links between political factors such as states, conflict zones, and political ideologies and economic factors such as production, trade, investment, finance, and technological change. Historically, the MENA region represents a distinct geographical entity in which complex political and economic trends have been intermingled like no other region in the world; therefore, it has been described as the “kingdom of international political economy.” [4] The strategy of imperialist expansion initiated by the European powers of the 17th century with the aim of restructuring the non-Western world on the basis of geo-strategic concerns and economic interests predominantly concentrated on natural resources, raw materials, and trade routes controlled by the Ottoman Empire. In this critical process conditioned by expansionist military and economic strategies, two milestone events increased the attraction of the MENA region for imperialist projects: namely, the opening of the Suez Canal in 1869 and the switch by major fleets to oil-powered warships on the eve of the First World War. Since then, the discovery of substantial oil reserves in many MENA countries tremendously increased the geo-economic importance of the region in the eyes of major global powers, and

> Starting from successive waves of "defensive modernization," politico-bureaucratic circles systematically constituted dynamics of controlled integration with the world economy that continued with varying paces in compartmentalized sectors

intensified hegemonic struggles aimed at the uninterrupted control of these reserves.[5]

Retrospectively, it seems possible to contend that the root causes of the so-called "Middle Eastern question" conceived as a chronic problem in Western circles largely derived from the problem-ridden formative phases of entrenched politico-economic relations in the MENA, rather than purely political disagreements on protracted conflicts. Most of the nation states formed in the region have been in close contact/confrontation with European modernity/imperialism for two centuries since the invasion of Egypt in 1798. Moreover, constant politico-economic manipulations exerted on these states were manifested into peripheral and "differential models of integration" with the global political economy.[6] Gradual fragmentation of the MENA region into small and medium-sized nation states not only facilitated intensified competition among the newly emerging political elites for scarce resources such as oil and water, but also facilitated great power meddling on relatively smaller political units. Therefore, it was not surprising to observe that only a limited number of MENA countries, i.e. Turkey and Iran, were able to initiate comprehensive projects of political and economic modernization aimed at state formation and industrialization since the 1930s. Furthermore, besides partially successful structural transformation experiments in Egypt and Algeria, there were very few instances in which concrete steps were taken to restructure predominantly agrarian social and economic structures alongside the institutionalization of democratic values.

Unlike Latin America, India or Indochina, most of the MENA countries were not historically equipped with agricultural production links that directly fed into European markets, thus commercialization of agricultural sectors through global integration and rural modernization via external demand have not been possible.[7] In this context, the impact of colonial powers such as France and Great Britain in the transformation of institutional, organizational and military mechanisms towards modernization and global integration of the MENA states remained quite marginal compared to other regions that have gone through colonial periods. Still, the main factors that prevented the formation of comprehensive development projects in the MENA based on a wide social basis were mainly politico-economic in nature and derived from the dialectical colonial legacy, rather than simply the insufficiency of economic factors. Political elites during the colonial and post-colonial periods successfully fragmented national political economies in line with their prevailing political agendas and distributional coalitions. Starting from successive waves of "defensive modernization," politico-bureaucratic circles systematically constituted dynamics of controlled integration with the world economy that continued with varying paces in compartmentalized sectors.[8] In the post-colonial period it has been quite a widespread practice for local political elites to adopt the organizational models and socioeconomic development paradigms of major global powers, while developing discourses of national autonomy and independence to preserve domestic social balances and distributional coalitions.

Given the fact that European colonial powers transferred particular forms of capitalism into the region, path-dependence of economic liberalization experiments in the later periods was pretty much predictable. The *Anglo-Saxon model* in which investment finance in competitive stock and financial markets is preferred to the organizing role of the banking sector[9] seemed historically prevalent in Lebanon and the Gulf countries, which also historically have had relatively stronger financial markets. On the other hand, the *Rhineland model* organized around the central coordinating role of large-scale banks[10] has been conventionally adopted by sizeable regional actors that experienced occasional difficulties to raise investment finance such as Turkey and Egypt. Finally, the third model concerns the French tradition of state-led development, or *etátisme*, which assumes the technocratic management of economic resources in the absence of adequate private capital accumulation and entrepreneurial know-how. The "*etatist*" tradition expectedly appreciates a much larger and proactive role for the state in managing economic affairs, while assigning a crucial strategic role to public banks in providing resources of industrial finance compared to the Rhineland model. Historically, *etátisme* has been extensively implemented by various political regimes in the MENA thanks to its facilitating impact on the maintenance of autocratic political control. Besides clear examples of Israel and Syria, Turkey, Egypt, and Tunisia have periodically resorted to *etátisme* under various policy regimes and development strategies.[11]

Assessed purely from the perspective of political organization, following the colonial predicament experienced most deeply by North African states, three political models seem to have been crystallized in the region: a) *Praetorian Republics*, which include states with a strong nationalist/anti-imperialist ideology

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and totalitarian security apparatuses such as Egypt, Libya, Algeria, (pre-war) Iraq, Syria, Sudan, Tunisia, and Yemen; b) *Monarchies* based on hereditary rule that seek to maintain cordial relations with Western powers such as Saudi Arabia, Morocco, Jordan, Bahrain, Qatar, UAE, Kuwait, and Oman; c) *Democratic regimes* that claim allegiance to some form of functioning democracy such as Turkey, Israel, Iran, and Lebanon (despite various shortcomings of implementation in each case, in terms of minority rights and fundamental human right and liberties).

Generally speaking, monarchical regimes have largely maintained their traditional capitalistic legacies and the positions of prevailing socioeconomic elites during the transitions from colonialism to the Cold War environment and globalization. Moreover, the democracies in the MENA region, placed at various levels of democratic deepening, adopted a more nuanced and selective approach towards the transformation of their agricultural, commercial, and industrial-entrepreneurial classes in line with prevailing conjunctural political atmospheres. However, praetorian republics based upon nationalist and military-authoritarian regimes proved more stubborn in their quest to replace ancient economic interests with new and politically-approved bourgeoisies via mechanisms of administrative and legal pressure.[12] The interventionist tendencies of these states facilitated the formation of structural dynamics that approximated to various forms of political capitalism with a virtual disregard for local entrepreneurial cultures and business groups; while at the same time decreasing their capacity to implement dynamic and rational development strategies. Therefore, waves of economic reform and liberalization aimed at the institution of export promotion regimes in the MENA frequently ended up in acute failure. Moreover, the *rentier state* structures that emerged in oil-rich MENA states let to a complex intermingling of economic and political interests, and triggered difficulties in the management of monetary, fiscal, and social policies. Thereby, eroding key sources of political legitimacy.

Oil, Development and Democracy: A Problematic Relationship

It is impossible to make sound observations regarding the transformation trajectory of the Middle Eastern political economy without paying due attention to the impact of oil as a strategically important natural resource. The existence of oil has deeply affected the patterns of interaction between the MENA and other regional entities as well as with major global powers, while also triggering intra-regional fragmentation and polarization based on the uneven distribution of oil wealth. Moreover, oil frequently became a functional tool for political regimes, manipulated to safeguard the long-term survival of fragile states that could have hardly endured strong domestic and international pressures. After a century following the discovery of oil reserves in the Gulf, the MENA region continues to occupy a central place in the global system as a focal region of hegemonic struggles in which around one third of global oil production is realized and 65 per cent of all known reserves are located.[13]

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Notwithstanding its impact on the configuration of the MENA's critical position in the international system, oil also played a crucial role in the reshaping of domestic balances of power, occasionally affecting the formative processes that led to the establishment of certain nation states. As the provision of cheap oil resources for the British Navy constituted one of the foremost priorities of British colonial strategy, the British traditionally supported the formation of micro states in the oil-rich Gulf region to control the expansionist tendencies of Saudi Arabia. In the post-war years, loopholes created by the ailing British grand strategy were filled in by the US, which supported the consolidation of various states, including Saudi Arabia, through galvanization of bureaucratic structures and favorable access to Western markets.

Particularly in the early aftermath of the Second World War, the control of major oil reserves began to constitute one of the main geo-economic parameters of hegemonic conflicts in the global system. To illustrate, the dramatic toppling of General Musaddıq in the 1950s after nationalizing Iran's oil industry became a harbinger of forthcoming conflicts that were somehow related to the control of oil reserves by global powers and the orderly flow of cheap-oil into industrialized economies. Meanwhile, the French followed a slightly different strategy in the region by explicitly supporting nationalization of petrol industries in various MENA countries. It was generally argued that the main motivation for this pragmatic French attitude was to disassociate themselves from the aggressive colonial image of the Anglo-Saxons conceived as "relentless pursuers of oil reserves through political/military pressures," while forming cordial relations with

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regional actors to secure an uninterrupted inflow of oil.[14]

A myriad of sophisticated colonial calculations became influential in the foundation and institutional consolidation of several micro states in the region as autonomous political actors, besides major states such as Egypt, Maghreb States, Syria, and Lebanon. In terms of regional and global balances of power, the critical geo-economic distinction between the so-called "new" and "old" MENA countries, roughly corresponding to the groups of states that did, or did not, possess substantial oil reserves, constituted one of the profound demarcation lines in the regional political economy. This demarcation line has also been critical in determining effective governance of economic stabilization and liberalization programs in some countries in the wake of multifaceted pressures of economic globalization, and rather protracted progress observed in some others.

At this juncture, it is worth referring briefly to the *rentier state* paradigm that became established in the development and comparative/international political economy literatures following the international oil crises as an attempt to conceptualize the domestic transformation trajectories of oil-producing MENA states around OPEC. Focusing on the reproduction of domestic political legitimacy through systematic distribution of rents acquired from oil production and foreign aid, the *rentier state* approach constituted the predominant perspective in Western academic circles adopted to analyze the political economy of the MENA up until the 1990s.[15] It was stipulated, in line with mainstream *modernization theory*, that state structures were supported by the population in democratic regimes both politically and financially, which made it possible to apply democratic principles such as transparency and accountability in return for nationwide taxation. In the history of Western democracies, the principle of "no taxation without representation" was widely used to indicate the intimate relationship between fiscal functions of the state and its political legitimacy on the one hand, and between political legitimacy and social representation capacity on the other.

Arguably, in typical *rentier states* political elites sought to sustain their political dominance by avoiding nationwide taxation and constituting complex rent-distribution mechanisms designed to allocate rents derived from oil production, foreign aid or similar channels isolated from productive economic activities. This state of affairs, in turn, stimulated a radical differentiation between production oriented politico-economic systems in which the value-added is created by the society at large and partly transferred to the state through taxation, and the *rentier* political economies in which financial sources and the value added are created by the state through the sale of natural resources, or the use of foreign channels independent of major social groups. This differentiation resulted in critical dissimilarities in terms of formation and preservation of political legitimacy, as well as profound socioeconomic dynamics that shaped the nature of state-society relations.

In productive political economies, the main role of the state is taxing the value-added created by social sectors and using the derived resources both for the realization of public services and provision of social welfare measures to maintain long-term stability. However, in *rentier states* commercial use of oil reserves and foreign aid tend to constitute ready-made resources for political elites that could be directly distributed to various social sectors to preserve the status-quo without any need for fiscal reform. Hence, in these states the distributive, rather than the fiscal roles of the political apparatus are emphasized, rendering taxation and promotion of production second-class activities. The most important reflection of this situation in terms of the recent history of the MENA concerns a general tendency among political elites to feel exempt from pressures of transparency and accountability in the absence of systematic taxation regimes, leading to a weakening of social forces that seek to promote democratic consolidation. The regional antidote to the Western principle of "no taxation without representation" in the region has been "no representation without taxation." [16]

Viewed from the perspective of interactions between key socioeconomic groups, there is no doubt that the galvanization of *rentier states* as the dominant political form in the MENA constituted a strong obstacle hindering structural transformation and political liberalization. Therefore, unlike many other regions of the globe, the emergence of relatively autonomous entrepreneurial classes who could organize powerful interest and pressure groups was considerably delayed, thereby enabling state elites to respond to societal demands in a rather inadequate and selective manner. In other words, state elites viewed income sources derived from oil extraction, foreign aid and worker's remittances as safety valves in line with their existential instincts, and preferred to meet only those social demands deemed essential in terms of long-term sustainability of their regimes and power bases.[17] Meanwhile, incorporation of entrepreneurial groups into networks of rent distribution as pseudo-public agents led to a situation in which domestic market mechanisms lost their dynamism and raising the degree of national competitiveness in world markets ceased to be a national goal. Consequently, consolidation of *rentier states* did not only stimulate antidemocratic tendencies aimed at hard or soft authoritarian rule, but also engendered inefficient domestic political economies based on corruption, clientelism, nepotism and misuse of public funds. In exceptional cases of partial political liberalization such as Morocco and Jordan, the initial impetus towards political relaxation came from fiscal difficulties experienced by these states and the need to expand the tax base through limited democratization. This could also serve as a clear example that illustrates the critical relationship between the processes of taxation, political representation, and legitimacy.[18]

Furthermore, it is also interesting to observe that oil wealth historically did not play a crucial role in financing socioeconomic development and structural transformation projects as a tool aimed at mobilizing inter-sectoral synergies. Beside its impact on triggering international financial flows and labor migration, the oil factor did not exert a considerable influence on the systematic integration of the MENA economies to constitute a dynamic regional political economy with sustainable growth potential, such as the case of East Asia. On the contrary, endless conflicts concerning legal sovereignty rights over oil reserves and relative distribution of oil wealth created a perpetual source of instability both within and among various MENA states. From a different angle, sectoral interactions between oil extraction and areas such as agriculture, industry, and employment creation remained extremely low on a regional basis, creating dual economic structures in many countries characterized by a relatively modern oil extraction sector and comparatively backward sectors in the remaining areas of domestic economy. Not surprisingly, the bulk of the technology, organizational skills, and know-how in the oil extraction sector were imported from abroad, contributing to a considerably weak intra-regional trade performance. To sum up, the political economy of oil limited economic relations between neighboring countries to rent transfers from oil exporting countries to oil importing countries through worker's remittances or tourism, as well as transfers originating from price fluctuations in international energy markets.[19]

It is worth stressing at this juncture that the presumed relationship between capital scarcity and slow growth in the development literature that derive principally from the studies of Walt Rostow[20] proved unwarranted in the light of the historical trajectory of the political economy of the MENA. It was strongly articulated in Western academia that the excess income gathered by various MENA countries associated with OPEC during the international oil crises in the 1970s would solve the problem of industrial finance and accelerate the pace of political and economic modernization. This approach, inspired by the early *modernization theory*, could be conceived as a perfect historical precursor to arguments relating to the potential impact of high oil prices in the early years of the new millennium on the post-war reconstruction and modernization of Iraq. In retrospect, the dreadful experience of the post-1970 period demonstrated that excessive dependence on exporting unprocessed oil to world markets rendered oil producers defenseless against global price fluctuations. Oil wealth, on the other hand, was frequently used for unproductive purposes such as luxury consumption, military expenditures, and politically-motivated rent distribution. Time will show whether the political economy of oil extraction in Iraq would follow an identical path, or represent a historic deviation from established patterns.

Another key aspect of the political economy of oil concerns the widespread use of oil wealth to support excessive employment in the public sector. This strategy was commonly conceived by political elites of oil producing countries as an appropriate way of legitimating their regimes through ever-expanding public employment schemes, while covering up hidden unemployment and reluctance to work among their populace. Revenues created by foreign-dominated oil extraction sectors were frequently used as leverage over key social groups to prevent political repercussions of macroeconomic failures, rather than a source of financing investment in underdeveloped sectors. To illustrate, Iran and many Arab countries that possess relatively inefficient agricultural sectors failed to modernize their domestic agricultural capacities for a long time and continued to finance their agricultural needs by maintaining massive trade deficits thanks to oil wealth. Furthermore, as emphasized by the *rentier state* literature, the secretive and authoritarian character of many political regimes in the region prevented transparency and accountability in the governance of domestic political economies as a result of which statistics concerning oil production and related revenues were generally kept in secret as a matter of national security.[21] To conclude, the oil factor which attracted the attention of major global powers to the MENA region since the early 20th century seems to have contributed very little to stimulate national and regional dynamics of socioeconomic development, except aggravating national security concerns of local elites and preparing a pretext for increased militarization.

Transformations in the Global Political Economy and Responses from the MENA

The collapse of the Bretton Woods regime based on fixed exchange rates and financial controls, international oil-shocks and fatal crisis of *dirigisme* manifested in the decline of inward-looking development strategies, i.e. import substituting industrialization and economic planning in the 1970s necessitated a profound re-articulation of the relative weight of states and markets in promoting economic growth and development. With the resulting ascendancy of neoliberalism as the new orthodoxy in global development discourse, deliberate policy programs aimed at substantially reducing the relative proportion of national resources controlled by the state and used for social purposes spread across the world. The collapse of the post-war *embedded liberal compromise* in Europe based on "a form of multilateralism compatible with the requirements of domestic stability"[22] went hand in hand with the advent of profound liberalization projects in developing countries. Unsurprisingly, the MENA became one of the prominent regions where the foremost experiments with comprehensive economic liberalization were executed, given the intense influence of global power struggles in the area.

To cite a few concrete examples; the Egyptian policy of *Infitah* (liberalization, opening-up) initiated by President Anwar Sadat in the mid-1970s attracted the attention of economic analysts, closely followed by the Likud Party's commitment to economic liberalization before the 1977 General elections in Israel amid a serious balance of payments crisis. Likewise, renouncement of socialist planning in Algeria with the coming to power of Benjedid in 1978, and the structural overhaul of Turkey's political economy with the 24 January 1980 decisions triggered similar dynamics of economic liberalization.[23] In view of the fact that parallel processes of economic reform were taking place all over the world except in the communist bloc, conjunctural or systemic-oriented explanations were proposed to understand the fundamental dynamics that underpinned systemic transformation in the MENA.

Conjunctural explanations broadly stated that the global recession in the mid-1970s, increased international indebtedness, and strict conditionality criteria of the IMF-World Bank structural adjustment programs have triggered a trend towards global standardization of macroeconomic policies and development approaches around market-friendly neoliberalism. Systemic explanations, on the other hand, focused on the systemic causes of crisis in inward-looking economies, as exemplified by the seminal work of Guillermo O'Donnell on Latin America.[24] These explanations emphasized that state-led development strategies typically let to a misallocation of economic resources, and inevitably triggered foreign exchange crises due to their acute neglect of exports. Representative analyses written from systemic and conjunctural standpoints in a Middle Eastern context include *State and Class in Turkey*[25] and *the Egypt of Nasser and Sadat* respectively.[26] Yet, one needs to express the qualification that such generalizing analyses are bound to underestimate national variations and context-specific conditions, illustrated by the fact that oil-rich Middle Eastern states managed to postpone the unraveling of economic/developmental crises in the Latin American type up until the 1980s, unlike Israel and Turkey which had to enter into the course of structural change earlier due to unparalleled foreign exchange shortages.

Although the external stimuli towards accelerated global economic integration and liberalization of commercial and financial realms were common for all developing countries, including those located in the MENA, unique trajectories followed in reforming statist systems of economic governance have been extremely varied. Historical experience reveals that the need for urgent and fundamental reform in itself no way dictates the nature of the policies to be pursued, main instruments to be used, institutional designs to be adopted, societal priorities to be taken into account, and potential costs to be born subsequently. On the contrary, the formation of a peculiar transformation trajectory seems to be conditional upon a myriad of interrelated factors including the depth of the initial socioeconomic crisis; the intensity of international pressures attached to credit conditionality; geo-strategic importance of the country in terms of natural resources and US/Western foreign policies; and the size and the productive capacity of the local economy.[27]

The cumulative consequence of all such factors proved to be a complex web of politico-economic games played out in a variety of institutional settings and at various levels, with the eventual restructuring of established relationships between the state, society, and economy in the region. However, concrete experiences of MENA countries revealed that the course of events followed a largely different path than foreseen by the mainstream neoliberal discourse of rhetoric of "retreating states, expanding societies." In the majority of MENA countries, what happened in the economic realm reflected processes of "re-regulation" and "re-positioning," whereby political authorities redefined the position of the state vis-à-vis the economy in order to better cope with emerging global realities while preserving their political power bases and domestic interest configurations.

Politics of Economic Reform and Divergence

At this juncture, it seems illustrative to present a historical detour into respective experiences of certain countries in the MENA with economic liberalization to underline regional parallelisms and divergences in policy formulation and implementation. To start with, when Turkey was experimenting with import substitution industrialization-cum development planning between 1960 and 1980, North African countries including Egypt were following similar courses even with a heavier doze of state interventionism. In Egypt and Tunisia, state-led industrialization under a tight regime of capital controls and extension of public ownership lasted throughout the 1960s, followed by Algeria in the 1970s. Reminiscent of Turkey's economic planning experience, the initial enthusiasm with planned development was soon over in these countries, once the inability of inward-looking regimes in generating the foreign exchange required for necessary (capital and intermediary goods) imports and maintenance of welfare regimes became clear. Consequently, all of these three countries adopted programs of economic liberalization and gradual opening to international capital, the most spectacular being the 1974 program of *Infitah* in Egypt. Preceding the similar Turkish experience, the *Infitah* initiative replaced the emphasis in public policy on five-year plans, heavy industry, and state economic enterprises with calls for encouraging private sector activity, foreign direct investment, administrative decentralization, deregulation, and privatization.

Nevertheless, all three major North African countries proved less successful in implementing structural changes in the economic sphere compared to Turkey, which was commended by international financial community in the 1980s as a textbook example of economic liberalization. In the face of mounting social unrest with austerity measures and declining income as a result of declining oil prices Egypt, Tunisia, and Algeria were forced to receive assistance from the IMF, World Bank, and international creditors from the mid-1980s onwards as a result of which structural adjustment continued as a protracted and open-ended process. Consequently, North African states administered by hard or soft authoritarian regimes managed to maintain a crucial degree of control over the economic realm in order to preserve distributional channels that ensured sustainability of established political balances. Moreover, resembling the post-communist transitions, the first group of entrepreneurs to take advantage of liberalization reforms often acted as political allies of the ruling elite and attempted to block further change to maintain their distinctive privileges. Political liberalization was deliberately left behind schedule and became disassociated from economic reform based on the widely exploited excuse that masses displeased with austerity measures could turn to ethnic-religious radicalism and threaten the countries' standing in the international system.

From a different angle, oil-rich Arab states such as Syria and Iraq enjoyed steady rates of economic growth in the 1970s thanks to the international oil crisis and quadrupling oil prices. However, these countries also witnessed galvanization of a system of crony capitalism whereby Ba'ath Party officials, public managers, trade unionists, and local businessmen developed networks of financial manipulation and corruption. Expectedly, long-lasting regional conflicts such as the Iran-Iraq War, or Syria's feud with Israel created extra sources of rent-creation through military procurement and aid schemes. Both Syria and Iraq managed to maintain strictly authoritarian and sectarian regimes in the presence of economic dirigisme for a considerably long period of time. Even Jordan, known as the most liberal of the countries in its respective location, proved extremely reluctant in privatizing some of the critical state economic enterprises for both political and redistributive reasons and maintained a partially liberal trading regime with a certain doze of public control.

> Most MENA regimes preferred to limit their reformism in the economic field and carefully avoided political liberalization over the course of the transition from *developmentalist* to *managerial* modes of governance

Finally, in the group of small Gulf States, personal control of oil revenues by the ruling families and absence of taxation on personal wealth considerably diminished demands for political representation and delayed popular pressures in this regard. Yet, political consent was conditional upon the maintenance of high levels of military spending for national security purposes and a comprehensive range of welfare services which created an increased emphasis on private sector activity and foreign investment in recent years. Nevertheless, steps towards privatization of strategic enterprises and liberalization of political regimes progressed at a snail's pace. While analyzing the interrelationship between economic liberalization and democratization in the MENA, it is inevitable to discern a typical *Third World Passage* which left its mark on the subsequent configuration of national political economies. This involved a swift transition from colonial rule to formal national independence on the basis of authoritarian systems legitimized with reference to security threats and urgent developmental needs in the socio-economic realm. The second phase typically witnessed a partial re-articulation of established authoritarian compacts in line with international pressures via predominantly economic, and to a lesser extent political, openings aimed at providing some breathing-space for various interest groups without endangering systemic fundamentals.

In a region struggling to catch a developmental momentum while striving for protection from external threats, the existential goals of national security and

Endemic instability in the regional security framework and fluctuations in fragile energy markets continued to determine the domestic transformation trajectories of MENA countries to a great extent

rapid industrialization received priority over those of political pluralism, consolidation of rule of law and protection of human rights and liberties. The locus of public administration became creation of a national consensus on vital priorities, which often occurred in the absence of a freely conducted public debate. Even in countries attempting to maintain a democratic path, i.e. Turkey, Israel, and Lebanon, the sheer amount of politico-economic requirements on national administrations aggravated the intensity of political conflicts, thereby triggering occasional regime crises and preventing democratic consolidation.

The end of the Cold War with the apparent victory of liberal democracy and free market capitalism created brand new challenges as well as opportunities for the countries in the region through a mixture of political, economic, and military pressures. Throughout the 1990s the main impetus for systemic change originated from the need for economic liberalization in order to decrease the economic role of the state and expand that of the private sector, with the implied hope that this would pave the way for gradual democratic opening. However, in stark contrast to the original expectations, most MENA regimes preferred to limit their reformism in the economic field and carefully avoided political liberalization over the course of the transition from *developmentalist* to *managerial* modes of governance.

Consequently, re-regulation of economic activity in the 1990s invariably maintained and even galvanized extensive state control over resource allocation through various forms of crony capitalism, whereby well-connected businessmen collaborated with public authorities to consolidate *ad hoc* and corrupt forms of global integration. In the absence of democratic consolidation, political pluralism and removal of restrictions on civil society activity, national armies maintained strong leverage over political processes behind the scenes. The main concerns of intra-elite competition was practically restricted to a quite narrow set of issues such as presidential succession, manipulation of election results, various interpretations of Islam and secularism, controlling dissemination of sensitive information and restricting NGO activities. So far, the overall track record of the MENA countries in terms of establishing compacts that bring together a productive free-market economy and functioning democratic regime has been quite dismal. Not surprisingly, the military occupation of Iraq and physical presence of the US in the region since 2003 contributed to the intensification of national security concerns held by most political regimes and galvanized existing authoritarian tendencies against the real or perceived external threats. Despite abortive projects through which region-wide dynamics was attempted to be transformed to accommodate regimes that endorse liberal democracy and free market capitalism, the picture on the ground reflects selective economic liberalization mixed with various forms of political authoritarianism.

Performance Effects of Economic Liberalization

Despite differential performances of economic growth and structural transformation in the MENA since the first quarter of the 20th century, it must be stressed that most of the countries in the region traditionally have had inflated public sectors compared to other middle and low income countries in the world. Moreover, many observers interpret the acute failure of political regimes to successfully implement developmental strategies such as import substitution and export promotion as a natural consequence of their inability to form stable macroeconomic environments due to unrelenting national security obsessions.[28] Just as the Cold War environment used to trigger the formation of "national security states," endless political and military conflicts in the region triggered state structures with overgrown security, intelligence, and military facilities; as opposed to weakly composed socioeconomic transformation capacities and civil societies. It is also worth stressing that the Hobbesian psychology of "total war" both encouraged the state elites to create artificial scapegoats from foreign actors to occasionally camouflage their policy failures, and create conflict-oriented rent-distribution mechanisms that lead to unproductive use of physical and human resources.[29] In this context, endemic instability in the regional security framework and fluctuations in fragile energy markets continued to determine the domestic transformation trajectories of MENA countries to a great extent.

The MENA region contains great discrepancies in terms of financial and human resources, governance capabilities, and average living standards. Moreover, these discrepancies trigger both national and regional conflicts pertaining to resource distribution. In the critical time frame between 1980 and 2000 during which numerous neoliberal revolutions were experienced across the developing world, one could clearly detect that the MENA followed an exceptionally disappointing development trajectory that failed to capitalize on the potential benefits of economic globalization. In the period concerned, the average increase in per capita income levels in the MENA area remained around half of that in South

Asia and dramatically lower than that in Asia-Pacific.[30] Given the rapid population growth in the region, it is conceivable that the abysmal economic growth and wider development performance displayed by many MENA countries along with political conflicts and repression of distributive demands could stimulate further instability in the future.

Likewise, in terms of attracting foreign direct investment (FDI), the MENA region stayed well behind many regions with comparable development levels. Despite conjunctural successes by Turkey and several Gulf states on the FDI front between 2002 and 2008, deep-seated political conflicts led by the Palestinian problem, and constant social tensions kept the region outside the remit of mainstream global FDI flows. Between 1980 and 2000 when dynamics of economic liberalization, export-led growth, and global economic integration reached their zenith, the total export figures of the Latin American and Caribbean countries have increased by 350%, those of South Asia increased by 400%, East Asia by 550%, Sub-Saharan Africa by 24%; while the total exports in the MENA region increased by a mere 5%.[31] The overall regional outlook has remained bleak despite the relatively successful economic growth and export performances of Turkey, Morocco, Israel, and various members of the Gulf Cooperation Council in the post-2002 era.

From an analytical angle, as regards to the regional responses given by the MENA states to the dissemination of the so-called Washington Consensus, it is possible to discern three broad approaches in the form of "total acceptance," "total rejection," and "selective acceptance." Through a broad categorization of countries in terms of their respective policy outlooks, one could describe Turkey, Israel, Morocco, Tunisia, Jordan, Lebanon, and the Gulf states as countries that adopted various structural adjustment programs around the 1980s, and at least on a formal level, followed relatively market-friendly economic strategies. At the same time, these countries played a leading role in the region in forming first institutionalized trade relations (in the case of Turkey, a Customs Union Agreement with the European Union in 1995). Before the 1993 Oslo Accords, Egypt and Saudi Arabia were also integrated into this group of countries as a result of the initiatives of the US. Despite domestic instability and violent conflict, Lebanon also followed a broadly neoliberal policy trajectory.

Likewise, Turkey, Israel and, the Gulf states became the first regional actors that joined the World Trade Organization in the aftermath of the Uruguay Round to take advantage of early trade liberalization. Egypt, Jordan, Morocco, and Tunisia also joined the WTO but continued to apply high rates of customs duties in selective sectors, while crucial countries such as Iran, Iraq, Syria, and Yemen preferred to remain outside of the global trading regime. However, whatever their policy approach or developmental needs, all political regimes have developed safeguards to prevent rapid socioeconomic transformation, while carefully avoiding clear loyalty to any macroeconomic governance and development strategy.[32]

Perceptive Dissonance and Anti-Globalism in the MENA

The new global integration dynamics played a double role of keeping the MENA region at the epicenter of the global political economy and geo-strategic calculations among major powers on the one hand; and triggering domestic forces of sociopolitical, economic, and cultural transformation in domestic domains on the other, albeit with varying paces and scopes. A careful observer could easily discern an ever-strengthening tendency towards the blurring of the demarcation line between domestic and international spheres of politico-economic activity in the MENA, indicating an intensification of national and regional reflections of mainstream developments and debates dominating the global agenda. When it comes to the analysis of peculiar regional perceptions of globalization in the MENA in the light of historical factors as well as current economic and geo-strategic realities, the spectrum of barriers to be removed in the course of global integration has been expanded to include not only protectionist trade and monetary policies but also the *political regimes* themselves.[33]

Particularly in the aftermath of the military invasion against Iraq, the largely controversial issue of "regime change" began to be seen as an integral part of the region's prospects of integration with the global system. This led many analysts to indicate an intensifying "clash of globalizations,"[34] instead of the projected "clash of civilizations" proceeding full blown under specific regional circumstances. Accordingly, this strategic and vulnerable region has been witnessing a brutal clash between the monolithic vision of globalization held by the American administration based on stimulating *regime change* and protecting their economic interests via unilateral interventionism; and apparently more humane and participatory form of globalization advocated by certain international organizations, civil society groups, and various European states based on intensive integration in the economic sphere while striving to improve democratic standards.

The root causes of this perceptive conflict and the overwhelming tendency to equate globalization with imperialist expansion undoubtedly derives from the implications of ongoing conflicts such as the Palestinian problem and the Iraq War as well as the region's exceptional historical legacy characterized by unrivalled colonial meddling. As Brown has succinctly stated, "*the Middle East has been caught*

> The second wave of economic globalization was conceived and publicly articulated as a clear threat to the national, religious, or cultural definitions of identity formulated by the prevailing political elites in the region

up in multilateral great power politics and imperialist interventions over the course of the last two centuries more consistently and thoroughly than any other region in the non-Western world," and this experience has left its mark on prevailing political attitudes and actions of elites.[35] Therefore, it was not surprising to observe that any form of political and economic liberalization following decolonization was met with deep suspicion and both popular and elite level resistance. To illustrate, the IMF discipline exercised over various indebted MENA economies in the 1980s was easily associated with the infamous "contracts of submission" enforced in the region by the great imperialist powers of the last century through gunboat diplomacy and coercion.[36] A colonial dialectic is easily reenacted particularly in the Arab Middle East against pressures for economic and political reform, frequently mobilized in defense of entrenched authoritarian and corrupt regimes, *rentier states,* and clientele politics in the name of patriotism and national independence. Therefore, it is not surprising that so far the most thorough experiments with economic liberalization and democratization were witnessed in Turkey, Israel, and to a lesser extent Iran, three non-Arab entities in the region without an entrenched colonial collective memory. Multifaceted processes of transformation which intensified in the region since the 1990s along with economic integration and political liberalization initiated a new era in which not only geo-political and geo-strategic concerns directly related to national interests, but also geo-economic and geo-cultural dynamics of global integration ought to be evaluated as crucial variables in the formulation and implementation of peculiar transformation projects.

Conclusion

In this study, the main parameters underpinning the transformation trajectory of the political economy of the MENA region were evaluated from a historically and theoretically informed perspective. In so doing, special emphasis was attached to the critical historical legacy reaching deep into the Ottoman past and the colonial period during which the bulk of the current relationship patterns between the political elites and peoples in the region were consolidated. It was emphasized that the majority of the consolidated political regimes in the region carried the defensive collective memory and downbeat legacy derived from their dealings with colonial powers in the last two centuries and the US in the last half century while facing the opportunities and challenges created by the multifaceted process of globalization. In relation to that, the impact of this historical and socio-psychological legacy in preparing a fertile ground for pragmatic opposition movements operating against various forms of global economic integration was emphasized. Intensification of international capital movements and foreign investment flows in the context of accelerated global integration in the late 20th century was perceived as a natural continuation of the first wave of globalization on the eve of the First World War, which carried the expansionary flag of colonialism. Consequently, the second wave of economic globalization, in a rather similar fashion to the first one, was conceived and publicly articulated as a clear threat to the national, religious, or cultural definitions of identity formulated by the prevailing political elites in the region.

The upshot of the hitherto presented analysis concerns the idea that, instead of evaluating emerging trends and realities in the global political economy in a rational manner and formulating dynamic and comprehensive responses supported by institutional and sectoral designs, socioeconomic processes are imprisoned in the region into discursive patterns of "securitization" and ideological justification by political establishments. This, in turn, leads to a situation in which political conflicts are accompanied by socioeconomic and distributional conflicts, and perpetual "crisis management" becomes a norm, rather than the exception. In this regard, the positive growth and structural transformation momentum achieved by Turkey between 2002 and 2008 up until the onset of the global economic crisis, along with a systematic move towards democratic consolidation, might constitute an exemplary and inspiring model for the region if it proves sustainable in the long-run.

In a way, the jury is still out to decide whether the experience of uninterrupted growth between 2002 and 2008 represented a genuine break from Turkey's past trajectory characterized by endemic financial crises and politico-economic instability, or a conjunctural recovery realized thanks to favorable global liquidity conditions for emerging markets, the confidence-building impact of ongoing relations with the IMF, and the prospects of full membership to the EU after the start of accession negotiations in 2005. The answer, which is likely to crystallize once the negative effects of the global economic crisis are over and counter-measures taken by public authorities are withdrawn, will have direct implications in terms of Turkey's democratic consolidation, the strategic direction of the country's incomplete structural transformation, and the political economy of the MENA in general.

The study has also highlighted the strategic role of oil both as a source of economic revenue and political consolidation by stressing that accumulation of oil wealth did not generate a regional dynamism for growth and extensive development. On the contrary, it was argued that oil resources frequently fueled territorial disputes and rent-distribution struggles between and within states, thereby effecting differential national responses to the implementation of neoliberal transformation packages in line with the "Washington" and "post-Washington Consensus" principles. The fundamental argument raised throughout the study concerns the idea that comprehensive projects of socioeconomic development and structural transformation require systematic mobilization of endogenous dynamics accompanied by a strong political will and institutional framework, while paying due attention to contemporary trends in the global political economy. The political economy of the MENA will witness systemic transformations that match and transcend global trends only when domestic leadership, political institutions, civil society, and entrepreneurial groups develop progressive synergies aimed at socioeconomic development and democratic consolidation.

Endnotes

1. Despite premature assessments to the contrary, Turkey's recent (post-2003) success in accomplishing sustainable economic growth along with gradual democratic consolidation does not yet constitute a clear exception to this generalization regarding the MENA region. It seems still quite early to conclude that the country has completed a structural and institutionalized rupture from the vicious political and economic cycles of the past. Given the resilience of undemocratic tendencies within the civil-military establishment which were unveiled yet again via critical court cases in recent years, as well as sources of economic fragility such as high current account deficit, unemployment and insufficient levels of domestic savings, there is still substantial distance to be covered.

2. For deliberately popularized examples of typically superficial and over-generalizing analyses that paid scant attention to regional circumstances and politico-cultural backdrops in their interpretations of transformation dynamics in the MENA see, Francis Fukuyama, *The End of History and the Last Man* (New York: St. Martin's, 1992); and Samuel Huntington, *Clash of Civilizations and Remaking of Word Order* (New York: Simon Schuster, 1996).

3. Bahgat Korany, "The Middle East since the Cold War: Torn between Geopolitics and Geoeconomics," in Louise Fawcett (ed.) *International Relations of the Middle East* (Oxford: Oxford University Press, 2005), pp. 59-75.

4. Fred Halliday, *The Middle East in International Relations: Power, Politics and Ideology* (Cambridge: Cambridge University Press, 2006), p. 261.

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7. Alan Richards and John Waterbury, *A Political Economy of the Middle East,* Third Edition (Boulder, CO: Westview Press, 2007), p. 37.

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12. Henry and Springborg, *Globalization and the Politics of Development,* pp. 20-29.

13. Alawi Kayal, *The Control of Oil: East-West Rivalry in the Persian Gulf* (London: Kegan Paul, 2002).

14. Daniel Yergin, *The Prize: The Epic Quest for Oil, Money and Power* (New York: Simon Schuster, 1991).

15. For the founding analyses of the "rentier state" paradigm, see Hussein Mahdavy "Patterns and Problems in Rentier States: The Case of Iran", in Michael Cook (ed.) *Studies in the Economic History of the Middle East* (Oxford: Oxford University Press, 1970), pp. 35-54; and Hazem Beblawi and Giacomo Luciani (eds.) *The Rentier State* (London: Croom Helm, 1987).

16. Giacomo Luciani, "Oil and Political Economy in the International Relations of the Middle East," in Louise Fawcett (ed.) *International Relations of the Middle East* (Cambridge: Cambridge University Press, 2005), pp. 79-102.

17. Strategically important countries in the MENA in terms of major global powers such as Egypt and Israel were consolidated as "*fully-fledged rentier states*" due to the inflows of comprehensive American economic and military support which reached to billions of dollars concomitant with sources of regional instability. Both official development assistance (ODA) and informal assistance provided by the US played a key role in the galvanization and long-term survival of political regimes in these countries under extremely volatile international conditions.

18. Giacomo Luciani, "Oil Rent, Fiscal Crisis of the State and Democratization," in Ghassam Salamè (ed.) *Democracy without Democrats: The Renewal of Politics in the Muslim World* (London: I.B. Tauris, 1994), pp. 119-140.

19. Richards and Waterbury, *A Political Economy of the Middle East*, p. 173.

20. Walt Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto* (Cambridge: Cambridge University Press, 1960).

21. Henry and Springborg, *Globalization and the Politics of Development*, p. 277.

22. John Gerrard Ruggie "International Regimes, Transactions and Change: Embedded Liberalism in the Post-war Economic Order," *International Organization,* Vol. 36 (1982), p. 399.

23. Roger Owen, *State, Power and Politics in the Making of the Modern Middle East*, Third edition (London: Routledge, 2004), p. 113.

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32. Bahgat Korany, "The Arab World and the New Balance of Power in the Middle East," in Michael C. Hudson, (ed.) *Middle East Dilemma: The Politics and Economics of Arab Integration* (London: I.B. Tauris, 1998), pp. 40-45.

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35. Carl Brown, *International Politics and the Middle East: Old Rules, Dangerous Game* (Princeton NJ: Princeton University Press, 1984), p. 3.

36. Clement Moore Henry, "The Clash of Globalizations in the Middle East," in Louise Fawcett (ed.) *International Relations of the Middle East* (Cambridge: Cambridge University Press, 2005), pp. 105-127.