The Arab Spring has highlighted the profound economic grievances of citizens in Middle Eastern countries. In the ongoing uprisings, protestors have condemned their leaders for the lack of jobs, unequal distribution of wealth, and crony capitalist networks across the region, among other things. To be sure, the Arab protests and revolutions—like all social movements—have resulted from more than economic injustices, whether real or perceived. Economic factors, however, constitute a necessary component of any explanation for the Arab Spring. At a minimum, an understanding of the political economies of Middle East and North African (MENA) countries suggests that it is difficult to separate the economic and political roots of the uprisings.

Despite broad similarities in the economic challenges facing MENA countries, including high youth unemployment, limited opportunities for socioeconomic advancement, eroding systems of social protection, and underperforming economies, the precise nature and causes of economic problems vary from country to country. Thus, it is vital to establish a clear picture of cross-national variation in the political economies of the MENA countries. The Middle East encompasses countries with widely divergent economic structures and development trajectories. It is home to some of the richest countries in the world, including Kuwait, Saudi Arabia, the United Arab Emirates (UAE), and the other oil-rich monarchies of the Gulf, and some of the poorest, such as Yemen, where poverty is on par with some sub-Saharan African countries. In the UAE, oil wealth helped to fuel a massive real estate boom, including the construction of an indoor ski slope and hotels built on man-made islands in the shape of a palm tree. (See image on p. 660.) Meanwhile, in nearby Yemen, over 54 percent of the population lives below the poverty line, and 50 percent of women are illiterate.

This chapter introduces the distinct types of political economies found in the Middle East and traces the record of economic development in different clusters of
Middle Eastern countries. Since World War II, when most Middle Eastern countries either gained independence from colonial rule or consolidated their status as independent states, countries in the region experienced divergent development trajectories as governments faced distinct initial starting conditions and adopted different policies to promote growth and development.

The chapter opens by describing various indicators of economic development and applying these measures to the contemporary Middle East, differentiating between the oil-rich and oil-poor countries in the region. The subsequent section provides a basic typology of national political economies in the region, using political regime type and economic factors as the main criteria for classifying Middle Eastern countries. The chapter then traces the record of economic growth and development across these distinct political economies in different historical periods, including the World War II period, the golden age of economic prosperity during the 1960s and 1970s, and the period of economic crisis and increased integration in the global economy from the 1980s onward. After describing the array of economic challenges facing most Middle Eastern countries in the contemporary period, the chapter briefly reviews diverse explanations for relative underdevelopment in the region.

**Measuring Development in the Middle East**

Before delving into the different pathways of economic development found in the Middle East, it is necessary to define “development.” Traditional views of development focus on income and economic growth, which the World Bank defines as an expansion in a country’s overall economy measured as the percentage increase in the gross domestic product (GDP) in a single year. Economic growth can occur in different ways, including the use of more physical, human, or natural resources or the application of the same resources in more efficient or productive ways. In turn, economic growth is presumed to lead to higher per capita income and improvement in average living standards in the population.

Standard economic classifications of countries focus on per capita income. Table 3.1 provides a snapshot of the MENA economies at the dawn of the Arab uprisings in 2011 (although within the region, the relative endowments of income and resources have largely been stable for decades).

As the table shows, per capita income varies widely within the Middle East, ranging from the high-income states of the Gulf region to lower-middle income Palestine and Yemen, which until 2007 was classified as a low-income economy. Oil wealth is a key point of differentiation. All high-income countries—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE—have high levels of oil dependence. Population size is also an important factor in classifying income levels in the region. In our typology, then, the countries with high oil endowments and low indigenous or citizen populations are part of the resource-rich labor-poor (RRLP)
### TABLE 3.1
Gross Domestic Product, Oil Rents, and Country Classifications in the MENA Region, 2010

<table>
<thead>
<tr>
<th>Country Classification</th>
<th>GDP (billions)</th>
<th>Population (millions)</th>
<th>Oil Rents (billions)</th>
<th>Oil Rents per Capita</th>
<th>Oil Rents as a percentage of GDP</th>
<th>GDP per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource-rich labor-poor (RRLP)</td>
<td>$1,231.3</td>
<td>49.8</td>
<td>$438.8</td>
<td>$9,248.5</td>
<td>32.3</td>
<td>$32,435.5</td>
</tr>
<tr>
<td>Bahrain</td>
<td>22.9</td>
<td>1.3</td>
<td>4.4</td>
<td>3,489.5</td>
<td>19.2</td>
<td>18,174.6</td>
</tr>
<tr>
<td>Kuwait</td>
<td>124.0</td>
<td>2.7</td>
<td>59.9</td>
<td>21,858.4</td>
<td>48.3</td>
<td>45,255.5</td>
</tr>
<tr>
<td>Libya</td>
<td>74.8</td>
<td>6.4</td>
<td>31.6</td>
<td>4,974.9</td>
<td>42.3</td>
<td>11,761.0</td>
</tr>
<tr>
<td>Oman</td>
<td>57.8</td>
<td>2.8</td>
<td>20.9</td>
<td>7,505.7</td>
<td>36.1</td>
<td>20,791.4</td>
</tr>
<tr>
<td>Qatar</td>
<td>127.0</td>
<td>1.8</td>
<td>18.5</td>
<td>10,535.2</td>
<td>14.6</td>
<td>72,159.1</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>526.8</td>
<td>27.4</td>
<td>248.6</td>
<td>9,074.8</td>
<td>47.2</td>
<td>19,226.3</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>298.0</td>
<td>7.5</td>
<td>54.8</td>
<td>730.12</td>
<td>18.4</td>
<td>39,680.4</td>
</tr>
<tr>
<td>Resource-rich labor-abundant (RRLA)</td>
<td>882.3</td>
<td>235.3</td>
<td>259.1</td>
<td>1,015.1</td>
<td>28.1</td>
<td>3,250.9</td>
</tr>
<tr>
<td>Algeria</td>
<td>162.0</td>
<td>37.4</td>
<td>27.4</td>
<td>732.0</td>
<td>16.9</td>
<td>4,331.6</td>
</tr>
<tr>
<td>Iran</td>
<td>422.6</td>
<td>78.9</td>
<td>99.3</td>
<td>1,259.2</td>
<td>23.5</td>
<td>5,358.4</td>
</tr>
<tr>
<td>Iraq</td>
<td>142.8</td>
<td>33.7</td>
<td>105.1</td>
<td>3,118.7</td>
<td>73.6</td>
<td>4,237.4</td>
</tr>
<tr>
<td>Syria</td>
<td>59.1</td>
<td>22.5</td>
<td>9.6</td>
<td>427.6</td>
<td>16.3</td>
<td>2,623.2</td>
</tr>
<tr>
<td>Yemen</td>
<td>31.0</td>
<td>25.6</td>
<td>6.4</td>
<td>249.8</td>
<td>20.6</td>
<td>1,212.8</td>
</tr>
<tr>
<td>Resource-poor labor-abundant (RPLA)</td>
<td>425.1</td>
<td>140.3</td>
<td>15.6</td>
<td>55.8</td>
<td>2.1</td>
<td>4,032.8</td>
</tr>
<tr>
<td>Egypt</td>
<td>219.0</td>
<td>82.3</td>
<td>13.8</td>
<td>167.7</td>
<td>6.3</td>
<td>2,661.6</td>
</tr>
<tr>
<td>Jordan</td>
<td>26.4</td>
<td>6.3</td>
<td>0.0</td>
<td>0.1</td>
<td>0.0</td>
<td>4,183.8</td>
</tr>
<tr>
<td>Lebanon</td>
<td>37.1</td>
<td>4.3</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>8,627.9</td>
</tr>
<tr>
<td>Morocco</td>
<td>90.8</td>
<td>32.6</td>
<td>0.0</td>
<td>0.1</td>
<td>0.0</td>
<td>2,785.3</td>
</tr>
<tr>
<td>Palestine</td>
<td>7.4</td>
<td>4.1</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>1,827.2</td>
</tr>
<tr>
<td>Tunisia</td>
<td>44.4</td>
<td>10.8</td>
<td>1.8</td>
<td>166.9</td>
<td>4.1</td>
<td>4,111.1</td>
</tr>
<tr>
<td>OECD economies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Israel</td>
<td>217.0</td>
<td>7.9</td>
<td>0.0</td>
<td>0.2</td>
<td>0.0</td>
<td>27,468.4</td>
</tr>
<tr>
<td>Turkey</td>
<td>731.0</td>
<td>74.0</td>
<td>1.2</td>
<td>15.6</td>
<td>0.2</td>
<td>9,878.4</td>
</tr>
<tr>
<td>Overall MENA</td>
<td>3,486.7</td>
<td>507.3</td>
<td>714.7</td>
<td>2,067.0</td>
<td>20.5</td>
<td>15,413.2</td>
</tr>
</tbody>
</table>

Sources: World Bank, World Bank Institute (WBI) data; International Monetary Fund (IMF), World Economic Outlook (WEO).

Note: All figures in 2010 US dollars.

Countries with high oil dependence and large populations, such as Algeria and Iran, fall in the lower-middle-income group, despite their valuable natural resource endowments and are classified as the resource-rich labor-abundant (RRLA) group. It is worth noting that Libya defies easy classification. On the one hand, its per capita oil rents and income level places it in the RRLP group. On the other hand, its per capita GDP is lower than all other RRLP countries and its longtime ruler, Muammar al-Qaddafi, distributed oil rents far more unevenly among citizens than most other RRLP countries (see chapter 18). The remaining lower-middle-income countries—the resource-poor labor-abundant (RPLA) group—export a relatively low volume of hydrocarbons, or none at all, and tend to have high indigenous populations.
Labor remittances are also an important source of income in the region, well above the global average and second only to South Asia and Africa (see Figure 3.1).

However, the importance of remittances in national economies varies across the distinct groups of MENA countries. As Figure 3.2 shows, within the Middle East, the non-oil economies and high-population oil exporters are a much larger source of migrant labor than the oil economies, which host large “guest worker” populations that often exceed the total number of nationals.

The largest labor exporters in the Middle East are RPLA economies. Some of the RRLA countries, such as Iran and Algeria, also send substantial numbers of emigrants abroad because they have insufficient domestic employment opportunities and resources to meet the demand for jobs of their high populations and have insufficient per capita resources to distribute substantial benefits to their citizens. RRLA countries such as Iraq and Syria face protracted instability and violence, providing additional motivations for citizens to seek opportunities elsewhere. A long history of migration dating back to the nineteenth century, conflict, and political instability have contributed to the exceptionally high rate of labor migration in Lebanon, which depends heavily on remittances for the domestic economy to function.

In general, patterns of economic growth also vary across resource rich and resource poor economies. Oil-rich economies experience spectacular increases in growth during boom years in world oil markets. Kuwait’s experience is illustrative. In 2003, Kuwaiti per capita GDP grew by 14 percent and by 8 percent the next two years.

---

**Figure 3.1**

**Workers’ Remittances by Region, Percentage of GDP, 2014**

![Graph showing remittances by region](image)

*Source: World Development Indicators (2014, or most recent year).*
Yet in the early 1980s, when oil markets were declining, Kuwait’s per capita GDP contracted enormously, with a 25 percent decline in 1980. Although it’s not a resource rich economy, Jordan has experienced similarly volatile rates given its dependence on external rents such as foreign aid and remittances. Jordan’s economy was threatened by its decision not to join the US-led coalition in the first Gulf war against Iraq and the expulsion of Jordanians, largely of Palestinian origins, returning from the Gulf monarchies. The country’s economic outlook improved after it reconciled with the West and signed a peace treaty with Israel in 1995; and it picked up significantly after its alliance with the United States in the “global war on terror” was cemented in the aftermath of September 11, 2001, or 9/11.

Economies that are not as dependent on oil revenues and remittances have also experienced variable growth rates, although the fluctuations have been less dramatic. For example, Turkey is considered one of the better performing economies in the region, thanks to its relative success in economic diversification and in promoting export-oriented manufacturing. From 2002 through 2006, Turkish per capita GDP grew at an average annual rate of approximately 6 percent. Yet, in the prior three years (1999–2001), the Turkish economy contracted by nearly 3 percent. Similarly, in Tunisia, GDP per capita grew at an average rate of 2.5 percent from 1990 to 1996, but in 1986, when the country experienced an economic crisis, per capita GDP shrank by 5 percent.
Another common indicator of development is a country’s level of industrialization, or a change in the structure of production and employment so that the share of agriculture in the economy declines while the share of manufacturing increases and comes to play a leading role in the economy. As Figure 3.3 shows, levels of industrialization, measured by the percentage of manufactured exports over total exports, vary widely within the Middle East.

As the figure shows, the RRLP and RRLA countries are far less developed than the RPLA countries and Turkey when measured by levels of industrialization. This is largely because natural resource extraction has dominated their domestic economies, although some of the high population oil exporters made a big push for industrialization in the initial decades after independence. For example, capitalizing on its oil revenues, Algeria developed a significant industrial base oriented toward the domestic market in the 1970s. Since 2005, however, Algeria’s manufactured exports as a percentage of total merchandise exports have been on par with those of Yemen. Most local industries in the Gulf states are related to petroleum and natural-gas processing. On the other end of the spectrum, Turkey has a highly developed industrial sector and has become a major exporter of manufactures. Other countries in the

**FIGURE 3.3**

INDUSTRIALIZATION IN MENA COUNTRIES

Source: World Development Indicators (2013 or most recent year for which data are available).

Copyright ©2017 by SAGE Publications, Inc.
This work may not be reproduced or distributed in any form or by any means without express written permission of the publisher.
region, such as Egypt, Jordan, Morocco, and Tunisia, which are all in the RPLA group, also have significant manufacturing industries. As a comparison of Table 3.1 and Figure 3.3 suggests, oil dependence tends to be negatively correlated with the development of a strong industrial sector. In other words, countries with high oil reserves have generally neglected the development of manufacturing, although governments in these countries are increasingly cognizant of the need to diversify their economies. In short, the RRLP countries, such as the Gulf monarchies, have minimal industrial sectors, and their oil-poor neighbors, who lack the windfall profits brought by oil earnings, were obliged to invest more heavily in domestic industry at an earlier time.

As measures of development, per capita gross domestic product and levels of industrialization capture some important aspects of development and are highly correlated with other measures of development. But indicators based on income and structural changes in the economy are not sufficient for several reasons. First, growth can occur without development. That is, economies can grow on the aggregate, but the average person may be no better off. Second, an income-based approach neglects distributional issues, or how income is actually dispersed within a given society. Income-based measures of development implicitly assume that economic growth will trickle down to the masses in the form of jobs and other opportunities, but this may not necessarily occur if income distribution is highly skewed. As a result, such measures do not provide an accurate picture of well-being in the population. Finally, income measures do not include nonmarketed production, such as subsistence agriculture and domestic work, and, therefore, do not measure important components of a society’s economic activity.

Recognizing these deficiencies, understandings of development broadened beginning in the 1970s to include more attention to social dimensions. Increasingly, other factors were emphasized, such as poverty levels, inequality, and unemployment, within the context of a growing economy. Definitions of development also came to include social indicators, such as literacy, rates of schooling for boys and girls, the extent of educational services, health conditions, and access to housing. In 1990, the United Nations Development Programme (UNDP) started to publish its annual *UN Human Development Report*, which provides its own measure of development—the human development index (HDI). Designed to capture social aspects of development, the HDI provides an aggregate measure of the living conditions of the population across different countries and includes measures of health and access to health care services, nutrition levels, life expectancy at birth, adult literacy and mean years of schooling, access to basic infrastructure such as water and sanitation, real per capita income adjusted for the differing purchasing power parity of each country’s currency, and the percentage of the population living below the poverty line.10

Every year, the *Human Development Report* divides countries by HDI rankings into “very high,” “high,” “medium,” and “low” human development. In the 2014 report, which is based on data from 2013, most Arab countries fell into the medium or high category (see Table 3.2).
Policies implemented by postindependence governments, including high social expenditures and public-sector employment, help to explain the relatively high rankings of the Middle East as a whole with respect to human development. Cross-regional comparisons illustrate the importance of government spending in MENA economies (see Figure 3.4).

As Figure 3.4 shows, state spending as a percentage of GDP in the Middle East consistently outstripped that of other regions until the last decade. Across the region, new ruling elites emphasized economic and social development, in part in response to neglect by colonial authorities and a genuine commitment to raising living standards, and in part in the context of “authoritarian bargains” in which citizens traded political voice for improved well-being, as discussed below.

A more disaggregated look at the region, however, shows significant variation in human development. As would be expected, the RRLP countries of the Gulf and Libya have higher HDI rankings and are clustered in the “very high” and “high” human development categories. Conversely, the lower-income countries in the RPLA and RRLA categories, with larger populations and higher poverty levels, tend to have lower human development rankings, although there is substantial variation on HDI measures within these two groups of political economies.

<table>
<thead>
<tr>
<th>Country</th>
<th>Score</th>
<th>Rank</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>RRLP</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bahrain</td>
<td>0.815</td>
<td>44</td>
<td>Very High</td>
</tr>
<tr>
<td>Kuwait</td>
<td>0.814</td>
<td>46</td>
<td>Very High</td>
</tr>
<tr>
<td>Libya</td>
<td>0.784</td>
<td>55</td>
<td>High</td>
</tr>
<tr>
<td>Oman</td>
<td>0.783</td>
<td>56</td>
<td>High</td>
</tr>
<tr>
<td>Qatar</td>
<td>0.851</td>
<td>31</td>
<td>Very High</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>0.836</td>
<td>34</td>
<td>Very High</td>
</tr>
<tr>
<td>UAE</td>
<td>0.827</td>
<td>40</td>
<td>Very High</td>
</tr>
<tr>
<td>RRLA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Algeria</td>
<td>0.717</td>
<td>93</td>
<td>High</td>
</tr>
<tr>
<td>Iran</td>
<td>0.749</td>
<td>75</td>
<td>High</td>
</tr>
<tr>
<td>Iraq</td>
<td>0.642</td>
<td>120</td>
<td>Medium</td>
</tr>
<tr>
<td>Syria</td>
<td>0.658</td>
<td>118</td>
<td>Medium</td>
</tr>
<tr>
<td>Yemen</td>
<td>0.5</td>
<td>154</td>
<td>Low</td>
</tr>
<tr>
<td>RPLA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Egypt</td>
<td>0.682</td>
<td>110</td>
<td>Medium</td>
</tr>
<tr>
<td>Jordan</td>
<td>0.745</td>
<td>77</td>
<td>High</td>
</tr>
<tr>
<td>Lebanon</td>
<td>0.765</td>
<td>65</td>
<td>High</td>
</tr>
<tr>
<td>Morocco</td>
<td>0.617</td>
<td>129</td>
<td>Medium</td>
</tr>
<tr>
<td>Palestine</td>
<td>0.686</td>
<td>107</td>
<td>Medium</td>
</tr>
<tr>
<td>Tunisia</td>
<td>0.721</td>
<td>90</td>
<td>High</td>
</tr>
<tr>
<td>OECD</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turkey</td>
<td>0.759</td>
<td>69</td>
<td>High</td>
</tr>
</tbody>
</table>

Intraregional variation in literacy rates is also associated with per capita income. As Figure 3.5 shows, the wealthy oil countries of the Gulf tend to have higher adult literacy rates, and lower-income countries, such as Egypt, Morocco, and Yemen, have lower rates.

At the same time, as Figure 3.5 shows, some exceptions to the correlation between income and literacy stand out. For example, the Palestinian territories have high literacy rates, despite poor economic conditions as a result of protracted conflict and the Israeli occupation discussed below. This is largely due to the fact that Palestinians have valued education as the primary means of upward mobility in the face of few other opportunities and because protracted conflict and instability have made property rights more precarious. Conversely, in the 1970s and 1980s, Iraq boasted one of the most educated and skilled populations in the region, but war and international sanctions contributed to a marked decline in Iraqi literacy rates and other social conditions. Similarly, social indicators have declined precipitously in Syria with the outbreak of the civil war and the massive humanitarian crisis that has ensued.

Source: World Development Indicators, various years.
A closer look at the HDI also underscores that high income does not automatically translate into high human development levels. This is particularly apparent when Middle Eastern countries are compared to countries in other regions. For example, Kuwait’s per capita income ($71,000) is almost three times that of Portugal, yet it ranks slightly lower in its overall HDI score. Much of this discrepancy arises from Portugal’s higher rates of literacy and school enrollments, demonstrating how the HDI provides a more comprehensive perspective on development than do income measures alone.

A cross-regional comparison of per capita GDP and literacy rates also indicates that income does not guarantee human development (see Figures 3.6 and 3.7).

As Figure 3.6 shows, the Middle East generally has higher per capita GDP levels when compared with sub-Saharan Africa and Latin America, especially prior to the last decade. Yet it has consistently lagged behind East Asia and, in most periods, South Asia. This is noteworthy, given the high income levels and resource endowments of many Middle Eastern countries and the fact that South Asian countries, such as India and Bangladesh, have some of the highest poverty rates in the world.

The Middle East also underperforms with respect to literacy levels. Figure 3.7 shows that the Middle East lags behind East Asia and Latin America in literacy rates, and the gap between total literacy and female literacy is greater in the Middle East than in these two other regions. Indeed, among developing regions, the Middle East’s literacy
rates and gender gap in the literacy rate are only ahead of those in sub-Saharan Africa and South Asia, the two regions with the highest poverty rates and lowest income levels in the world. The gap between income and literacy, evident in Figures 3.6 and 3.7, demonstrates in stark terms that wealth does not necessarily buy development.

By the dawn of the new millennium, many countries in the Middle East faced persistent economic problems, many of which are cited as key underlying causes of the Arab Spring. Although not unique to the region, rising food prices spread mass grievances among Middle Eastern populations, which are heavily dependent on food imports. A spike in food prices after 2008, which had immediate effects on household budgets and nutrition levels, as well as rising poverty and inequality, have led to discontent across the region. These factors may also have helped to spur social mobilization on a large scale in the Arab uprisings. Official statistics indicate that the Middle East has consistently had lower inequality levels than other regions such as Latin America. These figures, however, may not capture the full reality of change over time in Middle Eastern countries and undoubtedly underestimate the true extent of wealth inequality, in part because the top 1 percent of the income scale tends to be underrepresented in household surveys and because measures of

Source: World Development Indicators (various years).
inequality generally focus on income rather than total assets. At a minimum, they do not reflect mass perceptions of growing inequality, as well-connected elites appeared to benefit disproportionately from new economic opportunities in domestic and global markets. Furthermore, the Arab uprisings exposed stark subnational inequalities cemented by decades of neglect of certain regions by central governments. For example, the self-immolation of Mohammad Al-Bouazizi, the Tunisian fruit and vegetable peddler whose suicide on December 17, 2010, is widely credited with sparking the Arab Spring, took place in his hometown of Sidi Bouzid, a neglected town in central Tunisia. Since the Tunisian Revolution, data on inequalities within Tunisia have received growing amounts of policy attention. Lack of opportunities for social advancement, reflected in high youth unemployment, is also a crucial backdrop to dissatisfaction across the Middle East, although youth unemployment peaked well before the uprisings and only rose again after mass mobilization and protracted instability ensued. As Figure 3.8 shows, high levels of youth unemployment have distinguished the region for more than a decade.
Finally, corruption and crony capitalism, a system in which business success depends on personal ties to government officials and privileged access to economic opportunities rather than on merit, are often invoked to explain popular dissatisfaction with governments in the Middle East. At its root, corruption is a political phenomenon; but some consider it to be a cause of economic underdevelopment in the region, as discussed below.

Social mobilization is a complex phenomenon. Decades of research demonstrate that economic grievances alone cannot explain mass collective action. Socioeconomic factors are not sufficient explanations for the Arab Spring, but they are necessary components of any account. Indeed, as discussed in chapter 6, public opinion polls in Egypt and Tunisia indicate that economic grievances have been and remain foremost on the minds of citizens in these countries.

Experts debate the nature and effects of economic trends in the Middle East. For some, economic liberalization has not gone far enough and failed efforts to
implement market-friendly policies are at the root of economic stagnation in the region. Others contend that market-oriented economic reforms are at the root of declining living conditions for MENA populations, driving an absolute increase in poverty and rising inequality. Elements of both perspectives have merit: Concerns about political instability and the desire to stave off both elite and popular protests have prevented rulers from adopting many of the policies urged on them by international financial institutions. As a result, proponents of neoliberal economic reforms argue, the fruits of these policies could never be realized. At the same time, outside of the wealthy oil economies, public social programs have declined and absolute poverty levels have increased across the region. Furthermore, market reforms do not occur in a political vacuum, as a sociopolitical perspective on market-building holds. Across the MENA region, well-connected elites monopolized economic opportunities as governments “liberalized” their economies. Regardless of the true effects of economic reform of the past few decades, it seems plausible that citizens of MENA states expect a lot from their states, a legacy of decades of state intervention in the economy including guaranteed public employment schemes. Arguably, the lack of social mobility since the 1980s transformed high expectations of the state into dashed hopes. Indeed, public opinion polls indicate that citizens continue to expect extensive support from their states across the region in the wake of the Arab Spring.

Varieties of Political Economies in the Middle East

Economic and social factors, such as oil dependence, industrialization, and literacy rates, cannot alone describe the diversity of political economies in the Middle East. It is also necessary to account for political regime type, or the basic rules determining the allocation of political power, which shape both how economic and social policies are made and how workers, different segments of the business community, and other key social groups adapt to economic change. Political institutions, whether formal or informal, shape and are shaped by the development trajectories of Middle Eastern countries. In this section, we describe the varied types of governments in the Middle East and develop a typology of regional political economies based on both economic and political factors.

With the notable exceptions of Israel, Turkey, Tunisia after 2011, and to a lesser degree, Iran, Iraq, and Lebanon, virtually all Middle Eastern countries are characterized by relatively unchecked executive power and varying degrees of limitations on political and civil liberties. The remaining countries are either monarchies or single-party republics. Some countries have ostensibly embarked on democratic transitions but have slid back to authoritarianism (e.g., Egypt) or have fragile state institutions (e.g., Libya and Yemen). As discussed in chapter 3, within these distinct regime types, the structure of representation, or the ways that societal interests are transmitted in the political system, varies. While some regimes sanction the existence of multiple
political parties, others are dominated by a single political party or ban parties altogether. Furthermore, different political economies are associated with distinct types of social contracts, or the commitments of rulers to provide for citizens in exchange for political support as institutionalized in postindependence constitutions, laws, and political rhetoric.\(^{28}\)

Integrating the economic factors described in the previous section and political regime types detailed in this section yields a typology of Middle Eastern political economies (see Table 3.3). This typology of Middle Eastern political economies differentiates countries according to per capita oil wealth,\(^{29}\) which roughly correlates with income levels, as well as political regime type. In broad terms, different types of political economies—the RRLP, RRLA and RPLA countries—are associated with different strategies of economic development and redistribution. In part because of varied resource endowments and different strategies of legitimation, rulers in these diverse political economies have faced development challenges in distinct ways, as described below.

The typology also roughly corresponds with differences in “institutional quality”\(^{30}\) and levels of corruption across different Middle Eastern political economies.

### Table 3.3

**Political Economies of the Middle East**

<table>
<thead>
<tr>
<th>Resource Endowment Group</th>
<th>Authoritarian Republics</th>
<th>Islamic Republics</th>
<th>Monarchies</th>
<th>(Quasi-) Democracies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Yemen Arab Republic (1962–1990)</td>
<td>• PDR Yemen (1967–1990)</td>
<td>• Morocco</td>
<td>• Lebanon</td>
</tr>
<tr>
<td></td>
<td>• Algeria</td>
<td>• Iraq (1958–2003)</td>
<td>• Syria</td>
<td>• Tunisia (2011–present)</td>
</tr>
<tr>
<td></td>
<td>• Yemen (1990–2011)</td>
<td>• Iran (1979–present)</td>
<td>• Syria</td>
<td>• Yemen (2011–present)</td>
</tr>
<tr>
<td>RRLA Countries</td>
<td>• Iraq (1936–1958)</td>
<td>• Pahlavi Iran (1921–1979)</td>
<td>• Bahrain</td>
<td>• Iraq (2003–present)</td>
</tr>
<tr>
<td></td>
<td>• Syria</td>
<td>• Iran (1979–present)</td>
<td>• Kuwait</td>
<td>• Yemen (2011–present)</td>
</tr>
<tr>
<td></td>
<td>• Yemen (1990–2011)</td>
<td>• Jordan</td>
<td>• Oman</td>
<td>• Libya (2011–present)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Morocco</td>
<td>• Qatar</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Saudi Arabia</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• UAE</td>
<td></td>
</tr>
<tr>
<td>RRLP Countries</td>
<td>• Libya (1969–2011)</td>
<td></td>
<td></td>
<td>• Israel</td>
</tr>
<tr>
<td>OECD Members</td>
<td></td>
<td></td>
<td></td>
<td>• Turkey</td>
</tr>
</tbody>
</table>
In recent years, factors such as the nature of institutions, including property rights, state regulatory capacity, and other institutions that contribute to well-functioning markets, have been linked to economic performance. The World Bank’s World Governance Indicators Database compiles data on six indicators designed to capture the quality of governance, or the “set of traditions and institutions by which authority in a country is exercised.” These aim to measure “(1) the process by which governments are selected, monitored and replaced, (2) the capacity of the government to effectively formulate and implement sound policies, and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them.” The database’s governance indicators provide measures of “government effectiveness,” “rule of law,” “regulatory quality,” “political stability,” “voice and accountability,” and “control of corruption.”

Corruption and “cozy capitalism” are emblematic features of Middle Eastern political economies. Wasta (influence and personal connections) and baksheesh (bribes or tips) are integral parts of daily living in the Middle East. Corruption and reliance on personal connections are common throughout other developing and even industrialized regions. However, they play a profound role in structuring access to opportunities in the Middle East, particularly in comparison with Organization for Economic Cooperation and Development (OECD) countries. In order to obtain government documents or official approvals, gain access to basic social services, secure a spot in a university, or find a job, Middle Easterners routinely rely on personal connections and bribery. For ordinary citizens, who lack the connections of elites to top officials and power holders and have limited material resources, the prevalence of wasta in their social and economic systems is exhausting and frustrating, at best, and often means restricted possibilities for social advancement and improved well-being.

Despite the general prevalence of corruption in the region, Middle Eastern countries differ in the extent to which they exhibit “good governance,” and this intraregional variation appears to correlate with political economy type. Figure 3.9 depicts variation across Middle Eastern countries in the rule of law, which measures the extent of confidence in and adherence to the rules of society, such as contract enforcement, as well as the quality of the police and courts and the likelihood of crime and violence. For each figure showing governance indicators, we include values from 2010 in order to show a picture of regional variation on the eve of the Arab uprisings.

The rule of law, which entails a predictable legal environment and security from arbitrary expropriation of assets, is critical for a positive investment climate. Figure 3.9 shows that there is broad dispersion in perceptions of the rule of law within the region, ranging from low levels in countries such as Iraq, Yemen, and Libya to high scores in Israel and the Gulf oil monarchies. Thus, in this respect, the RRLP Gulf monarchies and RPLA countries such as Jordan, Tunisia, and Turkey offer more favorable environments for private investment.
group, Libya is a glaring exception, suggesting that it has more affinities with the RRLA countries. 35

A comparable pattern holds with respect to physical repression in the Middle East. Figure 3.10 depicts country scores on the Cingranelli-Richards (CIRI) Physical Integrity Rights Index, which measures physical repression of populations at the country level and ranges from 0 (no government respect for physical integrity rights) to 8 (full government respect for physical integrity rights). On the eve of the uprisings, the oil-rich, sparsely populated RRLP countries had the lowest levels of physical repression (highest scores; until 2011, when several RRLP countries employed violence against their people in response to the uprisings). Conversely, the oil-rich, populous RRLA countries employed the highest levels of violence against their people. The RPLA countries adopted mid-range levels of repression when compared with both groups of oil-rich countries. Within each political economy grouping, and especially, within the RRLA countries, there is some variation. While countries such as Iran, Sudan, Syria, and Yemen repressed their populations extensively, Algeria is an outlier because it employed less violence against its citizens than many other countries.

within the group and across the entire region. The RRLP group also exhibits some cross-national variation, with Libya and Saudi Arabia employing far more repression against their populations than other regimes in this category (again, until 2011).

General regional patterns observed with respect to the rule of law and repression, however, do not hold for measures of political and civic rights. Figure 3.11 depicts measures of the Cingranelli and Richards empowerment index, which is an additive index capturing government respect for seven different basic political and civic rights such as the freedom of assembly, speech and religion, electoral self-determination, labor mobility and workers’ rights. The variable ranges from 0 (no government respect for these rights) to 14 (full government respect for these rights).36

Thus, measures of the rule of law and repression roughly vary across the different political groups, with RRLP Gulf oil monarchies and the poorer RPLA countries exhibiting higher scores than the oil-rich, high population RRLA countries in the Middle East.37 As Figure 3.11 suggests, however, this relationship does not hold with respect to political and civil liberties in the sample of Middle Eastern countries. On this measure, many RRLP countries deviate from the general pattern by tolerating little political dissent and permitting minimal civic participation.
The remainder of this section elaborates on the varieties of political economies outlined in Table 3.3 and briefly describes the nature of state-society relations, particularly with key economic groups such as business and labor. Distinct patterns of state-business-labor relations have shaped societal patterns of adjustment to economic change and have varied implications for future economic growth and development.

The RRLP Monarchies

Most of the world’s monarchies are located in the Middle East, but the structure of politics varies significantly across the region’s kingdoms—particularly between RRLP and RPLA monarchies. In the Arab Gulf countries, including Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates, monarchies are characterized by dynastic rule in which ruling families maintain firm control over all state institutions.38 During the colonial era, all of the Gulf principalities, apart from Saudi Arabia, became British protectorates and were ruled only nominally by their traditional tribal shaykhs. The nationalist ideology that took hold in the other Arab
countries from the 1950s through 1970s was weaker in the Gulf, and the shaykhs were able to consolidate power as their countries gained independence and modernized between 1961 and 1971.

The Gulf monarchies exercise strict control over societal expression, and all officially ban political parties, although Kuwait and Bahrain, which have more established histories of political pluralism, effectively permit parties to operate by allowing organized groups to field candidates in elections. Similarly, most Gulf states prohibit the formation of labor unions, although some have recently reversed this policy as a result of free trade negotiations with the United States, which requires signatory countries to legalize collective rights for workers.

In the Gulf monarchies, societal opposition to authoritarian rule has been less extensive than expected, in part due to generous social transfers initiated after the large-scale exploitation of oil and gas reserves, as discussed in more detail below. In addition, elaborate patronage networks have ensured the construction of a loyal client base for ruling families in the Gulf. Local elites have benefited from privileged access to economic opportunities, particularly as intermediaries for foreign investors seeking to do business in their countries. Given the vast size of royal families in some oil monarchies, however, ruling monarchs will not be able to placate elites or even extended family members forever.

The RPLA Monarchies

Political authority is institutionalized differently in the oil-poor kingdoms of Jordan and Morocco. In both countries, monarchs exercise tight social control but permit a much greater measure of political pluralism than in the Gulf shaykhdoms. Diverse political parties are permitted to operate legally and to win seats in parliament. Although the Jordanian and Moroccan kings retain ultimate authority over all political decisions of consequence, multiparty politics permits greater scope for the transmission of societal interests to decision makers and, occasionally, for organized opposition to state policies.

Pluralism has a longer history in Morocco, where major political movements and labor unions were established during the period of French colonial rule (1912–1956) and were active in the anticolonial movement. At independence, the monarchy consolidated its power but was forced to accommodate the Istiqlal Party, which included many of the most prominent and wealthiest families of the urban bourgeoisie and was the central player in the nationalist movement. To counterbalance the power of the Istiqlal, the monarchy forged alliances with rural notables and encouraged the formation of other parties while carefully positioning itself above the fray of party politics. After independence, labor unions remained active, and the major unions were directly linked to political parties, affording them greater leverage in the political system.
In Jordan, political pluralism developed more recently. In 1957, the monarchy banned political parties and only relegalized them in 1992, although “independent” candidates were permitted to contest elections before then. In practice, most Jordanian political parties, apart from the Islamic Action Front, are ineffective and poorly organized, and individual tribal candidates, many of whom enjoy favorable ties with the palace, play an important role in the system.44 Like Morocco, Jordan permitted the establishment of unions with collective bargaining rights and legalized the right to strike, albeit subject to various restrictions, but labor representation diverged in the two countries. In Jordan, labor representation evolved without any linkages to political parties, denying labor the opportunity to exert direct pressure on political institutions. Furthermore, the single labor confederation is more easily controlled by the state than the multiple, competing unions found in Morocco.45

Despite these differences in the representation of interest groups, the non-oil monarchies exhibit certain similarities, particularly with respect to patterns of state-business relations. In both countries, traditional private-sector elites emerged intact and occupied a privileged position in the state’s social base in the postindependence period.46 Both rhetorically and in reality, the non-oil monarchies permitted relatively broad scope for the private sector in the domestic political economy, even if public-sector investment dominated and ties to the palace were a virtual sine qua non for large-scale economic success.47

The RRLA and RPLA Single-Party Republics

The republics treated in this chapter, including Algeria, Iraq, Syria, and Yemen, as well as Egypt and Tunisia until 2011 have all been dominated by a single, hegemonic party, in which one political party linked to the ruler dominates political life and permeates society through the creation of cells on university campuses and other social institutions as well as de facto control over significant portions of associational life. In practice then, many Middle Eastern republics permit fewer political and civic freedoms than the RPLA monarchies, especially Morocco.

In both the RRLA and RPLA single-party republics, the representation of economic interests has been highly centralized, facilitating state control. For example, all of the single-party republics have an encompassing trade union confederation linked to the dominant party, facilitating maximum government control over labor.48 In addition to government interference in union leadership selection, the confederations in these countries are subjected to registration requirements and government monitoring of their finances, among other controls. Even in countries such as Tunisia, where formidable traditions of labor activism date to the colonial period, single-party rule led to the gradual suppression of an independent voice for labor prior to the uprisings.49
Similarly, single-party states maintain tight control over the business community. Formally, this control is manifested in peak-level business associations, which are headed by cronies of political leaders and serve as little more than mouthpieces for state policy. (Again, Tunisia after 2011 is an exception since the former leadership of the main employers union was ousted after Ben Ali’s departure.) Informally, members of the private sector who appear to challenge the ruling party may be subject to “arbitrary” tax audits and may face heavy fines or even imprisonment for alleged legal infringements.  

The RRLA and RPLA Democracies and Quasi-Democracies

In the democracies and quasi-democracies of the Middle East, no shared pattern emerged with respect to the organization of the economy and the nature of state-society relations. Lebanon’s “laissez faire” economy falls on one end of the spectrum. Given the relatively minimal state role in the national economy and limited state commitment to redistribution, Lebanon is unusual in the Middle East, where even conservative monarchies have adopted redistributive policies and at least rhetorically accepted the state’s need to mitigate the worst forms of poverty. At independence in 1943, Lebanon was dominated by a merchant elite committed to minimizing state intervention in the economy, particularly for the purposes of redistribution. Furthermore, political sectarianism, or the institutionalized representation of political interests along religious lines, hindered the construction of a national welfare regime. By creating and perpetuating sectarian leaders, who were most interested in preserving their own power rooted in their respective religious communities, the system discouraged the adoption of policies that would promote redistribution along national lines.

With its vibrant electoral contests and substantive parliamentary debates, the Islamic Republic of Iran, established after the shah was deposed in 1979 (see chapter 12), has been characterized by greater political freedoms than the single-party regimes and monarchies of the Middle East, although the scope for political freedoms has narrowed substantially over time. De facto veto power over key government decisions by the ruling clerics of the Supreme Council and the regime crackdown following the contested 2009 presidential elections point to the limits of pluralism in the country. In postrevolutionary Iran, direct and indirect state control over the economy was consolidated with the nationalization of most banks and the establishment of bonyads, or foundations involved in both production and social provision and headed by religious leaders, although important components of the leadership maintain strong support for private enterprise and property rights.  

While almost all other countries that emerged from the former Ottoman Empire evolved into authoritarian regimes, Turkey developed multiparty democracy after
its establishment as an independent state. Political openness is reflected in the representation of interest groups, which have enjoyed relative freedom to organize, except during periods when the army, which traditionally viewed itself as the “guardian” of Turkish democracy, intervened temporarily to suspend democracy. Historically, one business association, the Turkish Industrialists’ and Businessmen’s Association (TUSIAD), which primarily represents large-scale firms based in Istanbul and other major urban centers, dominated the private sector. But other associations, standing for smaller-scale interests elsewhere in the country, have emerged since the 1980s. Represented in multiple confederations, labor, too, has enjoyed relative freedom to organize, although unions were shut down during periods of military crackdown, such as in the early 1980s, and never regained their levels of activism.53

Before elaborating on the development trajectories of these distinct types of political economies, it is essential to highlight another key factor that has shaped economic prospects in some countries in the region—notably, long-term war and conflict.

The Economic Costs of War and Protracted Conflict

The Middle East has been at the epicenter of geopolitical struggles for decades and is the site of multiple protracted regional crises, including the Israeli-Palestinian conflict, the US occupation of Iraq, the civil war and humanitarian crisis in Syria, state breakdown in Libya and Yemen (see chapters 18 and 26), and ongoing struggles between various Middle Eastern governments and armed opposition or secessionist groups. In addition to physical and psychological destruction on the individual and societal levels, war and ongoing conflict have enormous economic costs. The experiences of the Palestinian territories and Iraq since the 1980s illustrate this point.

War and civil conflict have also taken a serious toll on economic and social conditions in Iraq (see chapter 12) and, more recently in Syria (see chapter 23). In the 1970s, Iraq was considered the most developed country in the Middle East and ranked as an upper-middle-income country in the World Bank’s classification. The educational and health systems were among the best in the region, and Iraq scored high marks on almost all well-being indicators, such as infant mortality, school enrollment, nutrition, income, and employment. Political repression, war, international sanctions, and occupation have systematically undermined economic and social conditions, leading to immense suffering throughout Iraqi society. Iraq now ranks at the bottom on a range of well-being indicators, and some measures, such as secondary-school enrollment and immunization rates, are on par with the poorest countries in sub-Saharan Africa and Asia.54 The civil war in Syria has had an even more devastating effect on that country in recent years.
Figures 3.12 and 3.13 depict immunization rates for children between the ages of twelve and twenty-three months and gross secondary-school enrollments, respectively, in Iraq and Syria.

For Iraq, the figures show a decline in public health and educational outcomes from the 1980s through the first half of the 2000s. (Data was only available for Iraq through 2007.) This is particularly striking in light of an overall regional trend toward improvement in basic social indicators, even in the face of economic downturn. Conflict followed by sanctions imposed on Iraq after the first Gulf war helped to drive the marked decrease in the well-being of the population. Oil for Food, a UN program instituted from 1995 to 2003 that permitted Iraq to sell oil on world markets in exchange for food, medicine, and other humanitarian needs, brought some improvement in public health outcomes, although elites with close connections to the regime profited from international contracts facilitated by the program.55

Civil war in the aftermath of the US invasion of Iraq and the overthrow of Saddam Hussein in 2003 also took an enormous toll on the Iraqi population, with

**FIGURE 3.12**

DPT AND MEASLES IMMUNIZATION IN IRAQ AND SYRIA (PERCENTAGE OF CHILDREN AGES 12–23 MONTHS)

Source: *World Development Indicators* (various years).
estimates of hundreds of thousands of Iraqi noncombatant deaths since 2003. Since 2007, the situation has become more stable, although car bombings and other forms of violence remain a daily fact of life in many Iraqi cities. Many Iraqis have suffered economically because “ethnic cleansing” has forced them to leave their homes or primary breadwinners in many families have been killed or incapacitated. Civil conflict has also directly harmed the economy in other ways: Periodic attacks and sabotage have undercut oil drilling and shipping operations; prolonged uncertainty deters private capital holders from making longer-term investments; physical and security-related restrictions hinder the free movement of people and goods; and many educated professionals have fled the violence in the country. At the same time, as in most war zones, black market operations have flourished, and a new group of Iraqis with connections to the government has profited from import supply chains.

In Syria, the government’s harsh crackdown on peaceful protests soon escalated the conflict into a full-blown war with an enormous toll on human life and infrastructure. According to the Syrian Observatory for Human Rights, as of June 2015, more than 320,000 people have died in the Syrian civil war since March 2011 and more than 1.5 million people have been wounded. The war has also resulted in the large-scale
destruction of social service infrastructure and the breakdown of the economy. Access to medical care and schooling and, as a result, health and educational outcomes have deteriorated markedly in the country. The relatively strong health care infrastructure Syria built in the decades prior to the conflict is now devastated in significant portions of the country and health outcomes are declining. On the eve of the conflict, life expectancy in Syria was high (75 in 2010) while the under-five mortality rate (15 per 1,000 live births in 2010) was low compared to many neighboring countries, but these achievements are rapidly being reversed. The enormous devastation of the Syrian health care system has resulted in a sharp decrease in immunization rates across the country, falling from 90 percent before 2011 to 52 percent in March 2014, according to the World Health Organization’s Global Health Observatory data. Outbreaks of epidemics such as measles and polio, and the limited response by the health care system, are worsening the situation. In addition, the domestic economy has contracted significantly while the unemployment rate spiked, rising from 37 percent in 2012 to over 54 percent in 2013. The poverty rate showed a parallel rise, reaching 75.4 percent in 2013. Extreme poverty hit 54.3 percent. The conflict also led to massive displacement of the Syrian population with about 2.5 to 3 million Syrians seeking refuge in other countries, putting enormous stress on welfare regimes and infrastructure in neighboring countries such as Lebanon, Jordan and Turkey.

As discussed in chapter 20, the Palestinian economy has undergone a progressive process of “de-development,” or decline in the capacity for production, structural change, and reform, obviating the possibility for economic advancement since the late 1980s. From 1996 through 2005, per capita GNI fell from $1,510 to $1,290. Growth rates in the West Bank have risen substantially since 2008, and standards of living have returned to the levels of the late 1990s, but this is largely a result of donor aid rather than domestic private-sector development. Poverty levels have steadily risen, despite the high educational attainment of the population, while official unemployment, which underestimates actual levels, spiked from 12 percent in 1999 to over 23 percent in 2011. The Palestinian economy’s productive base has progressively “hollowed out,” as evidenced by the shifting structure of GDP. In 1999, agriculture and industry amounted to about 25 percent of GDP but dropped to 17 percent in 2011. Conversely, education, health, and public administration expenditures rose from less than 20 percent of GDP in 1999 to about 25 percent in 2008. As a result, the Palestinian economy has become increasingly dependent on foreign aid.

Multiple factors have spurred Palestinian de-development and the decline of agricultural and industrial production, including high water salinity, high land prices, and the decreased supply of cultivated land. The primary and most proximate cause, however, is the policy of Israeli closure of the territories. Although the Israeli restrictions on movement and access in and out of the Palestinian territories eased somewhat since 2010, regular closures and checkpoints continue to hinder trade and labor flows and periodic large-scale Israeli attacks on Gaza, most recently in July 2014, have introduced additional hardship, loss of life, further destruction of property and
infrastructure, and restrictions on the movement of people and goods. While recognizing the stated security motivations for Israeli restrictions on movement within and outside of the West Bank and Gaza, the closures have an enormous economic impact on the Palestinian economy. These restrictions negatively affect Palestinian economic development by undercutting the development of economies of scale (which undercuts the ability of private firms to justify additional investment); access to natural resources such as land, water, and telecommunications infrastructure; and the formulation of a clear investment horizon on which private investors can calculate risk.63 Private-sector development is critical for sustained growth in the Palestinian economy, but local entrepreneurs are entirely dependent on Israeli authorities to allow imports of inputs and final product exports through borders. Given the need for timely delivery of goods produced for world markets, the local economy is all the more vulnerable to Israeli border policies.

Closure not only limits or shuts down Palestinian trade channels but also severs the links between the Israeli and Palestinian economies, which have been tightly intertwined since at least 1967. Palestinian unskilled and semiskilled labor is highly dependent on employment opportunities in Israel. With Israeli incorporation of hundreds of thousands of foreign workers from eastern Europe and South Asia since the 1990s, Palestinian employment prospects have further declined.64 Furthermore, many Palestinian firms are dependent on the Israeli economy through subcontracting or production relationships with Israeli investors. Closure then limits production possibilities and undercuts the domestic employment generation potential of Palestinian private enterprises.

Israeli closure policies have varied across the territories and at different times, depending on broader political conditions. Ironically, de-development accelerated after the 1993 signing of the Oslo accords, which were designed to establish a framework for a comprehensive peace between Israel and the Palestinians. After its partial withdrawal from the territories, as stipulated in the agreement, Israel instituted the closure regime (see chapter 7).65 Prior to the accords, one-third of the total Palestinian labor force, including 70 percent of Gazan workers, were employed in Israel. Periodic total closures of the West Bank and Gaza led to spikes in the unemployment rate, which shot up to over 60 percent whenever access to Israeli jobs was cut.66

The split between the Fatah-controlled West Bank and Hamas-controlled Gaza, after Hamas’s victory in the 2006 national elections, further separated the two territories. As a result, economic and social conditions increasingly diverge in the West Bank and Gaza. In 2010, the official poverty rate in Gaza was almost 38 percent, compared to 18.3 percent in the West Bank. Based on data from a report on the Palestinian economy published in 2008, poverty rates in Gaza and the West Bank jump to over 79 percent and 45 percent, respectively, when labor remittances and food assistance are excluded from the calculations, demonstrating the high dependence on external funds and aid to sustain the population.67 In early 2010, the Israeli government
 eased some restrictions in the West Bank, helping to improve the economic situation, but access to trade channels and basic economic infrastructure remains restricted. In Gaza, where an Israeli blockade was instituted in June 2007, the situation is dire, and international humanitarian agencies claim that the population lacks even the most basic subsistence requirements. Since the Arab uprisings across the region and changes in the political leadership in neighboring Egypt, where the new government led by the Muslim Brotherhood has a more conciliatory relationship with Hamas in Gaza, tensions have mounted in the Palestinian territories. Although Palestinians have not launched sustained protests aimed at toppling their political leaders, conflict reemerged with the Israeli attack on Gaza in November 2012 and July 2014.

The chapter thus far has provided a snapshot of Middle Eastern state-society relations and development indicators in the contemporary period. The next section traces the development trajectories of different types of political economies within the region from independence to the present. Focusing on industrialization strategies and social policy, this discussion provides a picture of the very different paths that postindependence governments of Middle Eastern countries adopted in the pursuit of economic development.

Development Paths in the Middle East

Most Middle Eastern countries did not become independent states until the mid-twentieth century, when the colonial powers withdrew. Among the first order of business for postindependence elites was economic development and the establishment or consolidation of national market institutions. In the decades since independence, the political economies of Middle Eastern countries developed in divergent ways. This section provides an overview of phases of development policy in distinct Middle Eastern political economy groups from about the 1950s to the present.

Background: The Construction of National Economies in the Interwar Period

With the fall of the Ottoman Empire and the establishment of the Republic of Turkey in 1923, European colonial powers took direct control of much of the region, dividing former Ottoman provinces among them. The Sykes-Picot Agreement, which the British and French negotiated secretly during World War I, created colonial protectorates, establishing British control over Iraq, Palestine, and Transjordan and French control over Syria and Lebanon. The territories of the Gulf were loosely ruled by prominent families and tribal leaders and, with the exception of Saudi Arabia, were largely under British control through a series of treaties signed in the late nineteenth and early twentieth centuries between the British and various shaykhdoms. In North Africa, France had a longer record of colonial rule, with the occupation and subsequent incorporation of Algeria into France in 1830 and the establishment of protectorates in Morocco and Tunisia in 1913 and 1881, respectively.
As discussed in chapter 1, during the latter period of Ottoman rule, some regions and communities in the Ottoman Empire were increasingly integrated in the global economy in part through capitulations, or preferential relationships between minority communities and European governments. Colonial rule integrated these territories more directly in global markets controlled by European powers and laid the foundations for the creation of national economies with fixed borders, national systems of taxation, and tariffs and other trade barriers. These institutions brought about large-scale changes in the regional economy, which had virtually free exchange within the territories of the Ottoman Empire.

The colonial period left important legacies for subsequent development trajectories and, in some countries, laid the foundations for a nascent industrial sector. Colonialism in the Middle East, whether British or French, followed the same general principles. Colonial authorities tended to dominate local industry and invested little in local economies, expecting the colonized proto-states to balance their own budgets and devoting few resources to welfare and public works. Local currencies were also closely tied to those of the colonial powers, facilitating trade while increasing the vulnerability of the colonized economies to global market fluctuations. Similar patterns in the administrative mechanisms of colonial rule also emerged: Throughout the region, colonial authorities relied heavily on alliances with tribal elites and large landowners to consolidate their control.

Despite these shared patterns, the precise nature of colonial involvement in the territories varied across the region. The French invested most heavily in North Africa, where they established significant settler communities. In these countries, colonial expatriate investors founded industrial firms and controlled the major farms and agricultural enterprises. French workers were even employed in some of the urban industrial enterprises. The relative vibrancy of North African labor movements during the colonial period and in the first decades after independence was partly due to the exposure to unionization that indigenous workers gained through contact with their French counterparts. Although these patterns of French investment in the region ensured that the North African economies remained dependent on France and granted preferential treatment to French investors and workers, the colonial authorities also invested in infrastructure and public services.

In the East, the British and French colonial authorities also transformed local economies, but they did not own land; nor did they establish resident communities to the same degree as in North Africa. The British effectively took control of Egypt in 1881 and established a formal protectorate in 1914. By this time, European investors had established some factories that largely targeted the domestic market, but British economic interests centered largely on cotton exports. As was true throughout the region, colonial domination granted little or no indigenous control over economic policymaking, and, therefore, few protective trade barriers designed to spur the rise of local industry were instituted under colonial rule. During the Great Depression, however, increased protectionism enabled more local investors to establish manufacturing enterprises.
In the British and French mandates in the East, including Palestine, Transjordan, Iraq, Lebanon, and Syria, colonial economic control operated in similar ways. Large-scale manufacturing was dominated by foreign investors, usually from the colonizing country, while the bulk of the local economy remained heavily agrarian and low income. In Jordan and Iraq, where much of the population was nomadic and rural, little industrial and agricultural development occurred during this period, particularly in Jordan. The discovery of oil in Iraq in the 1930s provided more resources but did little to stimulate industrialization. In Syria and Greater Lebanon, which encompassed many former Ottoman provinces, the French established close economic and cultural ties with certain Christian communities, particularly the Maronites, prior to the establishment of the mandate. As in the French protectorates of North Africa, however, most of the Syrian and Lebanese economies remained primarily agricultural; a significant manufacturing base did not develop; and French investment did not benefit most of the population.

In Palestine, the influx of Jewish settlers, some of whom came with advanced skills and education, provided an additional dimension to the economic impact of colonialism. Thanks to financial and infrastructural support from Britain and the community’s own resources and skills, the Jews in Palestine constructed a relatively prosperous and industrially developed sub-economy within the British mandate. In Arab areas, however, infrastructure was generally less developed; agricultural techniques were not as productive; and industrial development lagged.

Until the discovery of oil in the 1930s, the Gulf economies were dominated by fishing, pearl diving, and in the case of Saudi Arabia, earnings from the pilgrimage to Mecca. The Gulf shaykhdoms had virtually no manufacturing base or agricultural production, apart from date harvesting. Many contained significant Indian merchant communities, which received British legal protection. The discovery of oil brought an influx of foreign oil companies, which developed close relationships with ruling families, although significant royalties did not come in until the late 1930s and 1940s.

Unlike most Arab countries, non-Arab Turkey and Iran were never directly colonized by the European powers, although Iran was occupied by British, American, and Soviet forces during World War II. Nonetheless, capitulations and high foreign debt ensured Turkish and Iranian dependence on Europe. After the establishment of an independent state in 1923, Turkey began to promote the local industrial sector, channeling funds through state-owned banks to encourage business development. In the 1930s, Turkey adopted an etatist economic approach, or policies that entailed extensive government intervention in the economy and the promotion of domestic industry through subsidies and protective barriers. As a result, Turkey had a more substantial industrial base than other Middle Eastern countries on the eve of World War II. In adopting state-led development, Turkey was a pioneer in the region and served as a model for the Arab states in the post–World War II period. In Iran, Colonel Reza Khan, who became shah in 1925 and founded the Pahlavi “dynasty,” embarked on a nation-building initiative, which entailed the growth of the state bureaucracy.
as in Turkey, the Great Depression compelled the shah’s government to adopt etatist policies and, at the same time, to establish public enterprises in diverse industries. The state also invested substantial sums in infrastructure and industry.\textsuperscript{70}

The Great Depression and, later, World War II were extremely disruptive to the region but had the side effect of boosting domestic manufacturing. As most states in the Middle East protected themselves from the global downturn by instituting import barriers, local industry and even agriculture expanded. During World War II, with the disruption of trade routes, local manufacturing and processing factories emerged to compensate for the sharp reduction in consumer imports. At the same time, colonial authorities instituted some policies to promote local industry as a way to support the war effort, creating a legacy of state intervention in the economy that was greatly consolidated in the post–World War II period. Still, the countries of the region remained vulnerable to global market fluctuations and remained fundamentally low-income, agrarian economies.

1950s–1970s: Protectionism, Indigenous Industrial Development and the Transition to a New Development Model

In the postwar period, countries in almost all developing regions, including the Middle East, adopted import-substitution industrialization (ISI) as a strategy for economic development. ISI involves a set of trade and economic policies aimed at reducing dependence on foreign imports and substituting foreign with domestically produced goods. To promote national industry and industrialization, ISI policy instruments include tariff barriers, quotas on imports, and, at times, the nationalization of industries. ISI also has ramifications for domestic social structure by fostering the rise of a domestic industrial bourgeoisie oriented toward the local market and the emergence of a local industrial working class, which benefits from relatively high wages in the formal sector and constitutes an important consumer base for domestic production. Populist policies, such as consumer price subsidies on staple goods, often accompany ISI development strategies, constituting an important de facto form of state welfare.

From the 1950s to the 1970s, a period of high growth throughout the region, countries throughout the Middle East adopted ISI policies. This was particularly true of the non-oil economies and the high-population oil exporters such as Algeria, Iraq, and Iran, all of which enjoyed an economic expansion during these decades that has been unmatched ever since. As a result, these countries experienced a marked shift in the sectoral structure of their economies, with fast growth in employment and production in manufacturing and the decline of raw material exports and agriculture. At the same time, the public sector grew dramatically with the establishment of state-owned enterprises in all Middle Eastern political economies and vast public investment.\textsuperscript{71} ISI ultimately faced serious challenges in the Middle East—and in most developing countries—because it failed to generate sufficient foreign exchange,
a problem that especially plagued the non-oil economies that could not benefit from the sale of oil on world markets.

**RRLA and RPLA Republics.** Both the oil and non-oil single-party republics went furthest in adopting ISI policies, constructing state-owned enterprises (SOEs), and marginalizing the private sector. Like most developing countries in the 1950s and 1960s, the single-party republics adopted protectionist trade policies to promote local manufacturing and limit foreign imports. The republics placed heavy emphasis on public enterprises, on average outstripping other developing countries with respect to the percentage of manufacturing value added produced by state-owned firms. More than generating profits, state promotion of SOEs primarily aimed to support employment and supply the local market with inexpensive basic or strategic goods.

For varying durations, all of the single-party republics adopted versions of populist, quasi-socialist strategies of legitimation at independence, including Egypt (1957–1974), Algeria (1962–1989), Tunisia (1962–1969), Syria (1963–1990s), and Iraq (1963–1990s). When these policies were initiated, many republics were allied with the Soviet Union, which helped to inspire the adoption of planning and the expansion of the public sector. The new leaders of the republics also instituted land reform policies, transferring land held by colonial authorities, settlers, and local landed elites to less privileged strata and developing or expanding public health and education systems. The most extensive entitlements were reserved for formal sector workers, who constituted a relatively small portion of the total workforce. With the wave of postcolonial nationalizations and the establishment of state-owned enterprises, civil service and parastatal workers gained job security and a range of social protections, but they were expected to be politically docile.

The republics varied in the extent to which they made populism and “Arab socialism”73 the centerpiece of their rhetoric and actually instituted populist policies. Egypt under President Gamal Abdel Nasser (1956–1970) exhibited a particularly strong commitment to populism, while Tunisia turned away from its quasi-socialist experiment earlier than the other republics. In the case of Algeria, oil wealth greatly aided populist policies, particularly during spikes in world oil prices, which helped to postpone the problems that tend to arise with ISI strategies.

As the prototypical example of Arab socialism, the case of Egypt is illustrative. When the Free Officers took over in a coup in 1952 (see chapter 10), the state instituted a major shift in economic policy. Land reform was designed to undercut the power of large landholders and spur more investment in industry as the first step, although in practice little land was actually redistributed. State relations with the private sector were antagonistic, even if Nasser never intended to eliminate private business altogether. The nationalization of major banks, insurance companies, shipping companies, and other key industries exacerbated tensions between the state and business. The economic weight of SOEs was particularly important in Egypt and constituted a critical source of employment: While SOEs accounted for about 25 to 50
percent of manufacturing value-added in many developing countries, Egypt's public enterprises accounted for about 60 percent of manufacturing added.74

By the end of Nasser's rule, economic stagnation was growing, contributing to mounting popular disaffection. ISI had not successfully bred a productive, revenue-generating manufacturing sector capable of propelling larger development. In this context, Nasser moved away from Arab socialism toward infitah, or economic opening, which involved a limited liberalization of foreign trade. In practice, the main result of infitah was the creation of a new export-import class, but the policy had little effect on stimulating private industrial development.

Paradoxically, the republics with medium levels of oil per capita (i.e., Algeria, Iraq, Syria) exhibited the lowest economic performance, even though they were believed in the past to show the greatest promise, as they could combine oil wealth with a large population to develop into industrial giants. That this simple economic intuition did not turn out into reality is a testimony of the importance of politics in shaping development paths.

The republican RRLA countries were borne out of particularly violent political processes that put at the helm groups that espoused radical departures from the past—embodied for example in Ba'th ideology in Iraq and Syria and socialism in Algeria. In these countries, oil supported a more benign form of autocratic rule in a first phase, within a modernist nationalistic phase of fast development and industrialization. The second more violent and repressive form emerged later, after the industrialization drives of the 1960s and 1970s ended in failure, which, coupled with the humiliating defeat of 1967 for the front-line states, put into question the core legitimacy of these regimes. Oil allowed these states to finance large armies and security forces, and also to remain somewhat independent of foreign patrons (see Posusney and Angrist 2005). These countries did not come to see the development of the private sector as an attractive alternative to state-led development, as it threatened regime durability at its core. In many of these countries, when the state retreated, it was replaced by a very narrow form of cronyism, closely associated with the regime, and with rising levels of repression.

In some cases, as notoriously illustrated by Iraq's invasion of Kuwait, foreign adventurism was a mean to attempt to replenish “strategic rents.” In Algeria, the attempt to reform after the first oil shock, contributed to the outbreak of the civil war, which still marks the sociopolitical scene today. Under the guise of increased repression and the fight against Islamists, army interests have come to dominate a stagnating private sector. In Syria, low oil prices (together with falling reserves) led to a rapid economic adjustment that reduced dramatically state involvement in peripheral regions from which the ongoing revolution emerged. The country’s intervention in Lebanon was largely predicated on extracting rents.

In general, across these countries, economic reforms led to the increased concentration of economic power among the elite, cousins of the president, and sons of generals. Iraq, coming out of the war with Iran with a huge foreign debt and decimated...
infrastructure, sought to invade Kuwait as a way to shore up its economy, with dramatic consequences for the Iraqi people. Iraq lost most of its oil revenues during its war with Iran, and again when it was under sanctions, and in both cases, the country had to undergo wrenching and socially calamitous adjustment periods. In Yemen, the fight over newly discovered oil fueled a civil war and the subsequent forced unification of the country.

**RPLA Monarchies.** From their establishment as independent states, Jordan and Morocco adopted liberal economic rhetoric, which privileged the private sector as the driver of development. Unlike the single-party republics, the non-oil monarchies did not emphasize populist ideologies; nor did they experience a radical transformation in the distribution of resources, whether in rhetoric or in practice. Accordingly, social contracts established between rulers and ruled were similar in Jordan and Morocco. The two non-oil monarchies adopted far less expansive social programs than the Gulf monarchies and left greater room for families, private charities, religious organizations, and other private actors to tend to the social needs of the population than found in the single-party republics. Thus, the relatively minimal state redistributive role in Jordan and Morocco partly resulted from the adoption of liberal economic policies, which left greater scope for the local private sector, and the absence of oil wealth precluded the enactment of comprehensive social benefits.

Despite these ideological and policy differences, the public sector was equally important across the non-oil monarchies and single-party republics. As in Egypt and the other single-party republics, the state was the main source of investment and a major employer in the two non-oil monarchies. In Jordan, the state came to play a key role in the economy through the allocation of aid rents and ownership stakes in key industries. The domestic private sector, which is largely of Palestinian origin, was mainly involved in sectors with low barriers to entry, such as light manufacturing and exports of agricultural goods. In Morocco, SOEs, special investment agencies, and holding companies linked to the palace controlled large portions of the economy, while all major private interests enjoyed close ties with the monarchy.

The two non-oil monarchies diverge with respect to the adoption of ISI as a development strategy. Jordan’s small size and limited resource base prevented the adoption of domestically oriented trade policies, and throughout its history the country has relied heavily on external aid and other forms of assistance. The Israeli occupation of the West Bank in 1967 further limited the country’s economic base. In Morocco, which has a larger population and agricultural base, ISI was adopted wholeheartedly beginning in the 1960s. During the early 1970s, a series of investment codes and economic policies, including the “Moroccanization” laws that transferred majority ownership of domestic firms to indigenous capital, further promoted local private industry.

**RRLP Monarchies.** The oil monarchies of the Gulf pursued a different development trajectory than the non-oil monarchies and republics, largely due to structural
differences in their economies. With oil dominating their economies and minimal or no manufacturing bases beyond joint ventures with foreign companies in petrochemicals, there was little need to adopt protectionist trade regimes aimed at promoting local industry. Furthermore, with the exception of Saudi Arabia, the indigenous population was too small to warrant an ISI approach, which requires a substantial domestic consumer base and labor force.

With respect to the role of the public sector in the economy, the oil monarchies surpassed the non-oil countries in the region. Thanks to windfall oil profits after the oil price rises in the early 1970s, the share of the oil sector in the Gulf economies soared, and state coffers overflowed. This vast influx of wealth, which could not be fully absorbed by the local economies, enabled the Gulf states to launch ambitious infrastructure development programs and provide virtually guaranteed employment to nationals in the civil service. The oil monarchies also established numerous state-owned enterprises in all key sectors of their economies.75

The quadrupling of world oil prices in 1973 also provided rulers with the resources to fund generous social programs, which granted citizens free or heavily subsidized health care, schooling, housing, and other benefits, as well as preferential access to secure government employment. These comprehensive welfare benefits had political implications: By catering to and even anticipating the needs of the population, social benefits undercut the potential impetus for citizens to oppose their rulers—at least until the recessions of the mid-1980s and subsequent economic downturns forced the Gulf oil monarchies to try to scale back citizen entitlements. Furthermore, limited industrial development and, hence, the marginal role of the indigenous working class undercut an important potential site of mobilization in opposition to the authoritarian Gulf oil monarchies.

Prior to the 1979 Islamic Revolution, Iran could be classified as an oil monarchy, albeit one with a far higher population than those of the Gulf oil monarchies. After 1941, when the Allied Powers helped install Mohammad Reza Shah Pahlavi on the Iranian throne, Iran's economic strategy gradually evolved to rely on oil exports and an ISI development strategy. In the 1960s and 1970s, the shah exercised increasingly tight authority over Iranian society. This control was reflected in patterns of state intervention in the economy and growing tensions between the monarchy and elements of the private sector. While the state maintained control over heavy industry, the private sector focused on lighter manufacturing and other specialized industries, at times in cooperation with foreign capital.76

In the post–World War II period, Middle Eastern countries established distinct political economies, which varied according to the structural features of their economies and patterns of state-society relations institutionalized in different political regime types. In all countries, the state's role in the economy ballooned, as manifested in the creation of state-owned enterprises, public investment, and the growth of government bureaucracies. The non-oil monarchies and republics, which generally aimed to develop domestic industry to fuel growth, instituted ISI policies, including
protectionist trade barriers and elaborate licensing and quota systems for production and trade. The Gulf oil monarchies, however, had less need for ISI policies, given the dominant role of oil in their economies and their minimal industrial bases.

To some degree, these different political economies are associated with distinct types of social contracts between rulers and ruled. Oil and other economic endowments, which supply the resources needed for public social provision, and varied state economic ideologies shaped the nature of these arrangements. The RPLA republics adopted populist rhetoric and quasi-socialist principles for organizing the economy, including tight regulation of the private sector. Accordingly, these states expressed a higher commitment to provide for citizens; much of the population was effectively excluded because most entitlements were linked to formal sector employment. The RPLA monarchies, however, were guided by a more liberal economic ideology in which private business was expected to play an important role in the economy, and private actors, such as families, religious groups, nongovernmental organizations, and the private sector, were expected to play a significant role in social provision.

Notwithstanding differences in their official economic ideologies and the composition of their ruling coalitions, most governments in the region invested significantly in social services after independence. When fiscal crises hit countries across the region in the 1980s and 1990s, however, not all countries were able to sustain these investments. Table 3.4 depicts the share of government expenditures devoted to health and education for MENA countries in the three different political economy types at peak and bottom levels of government spending, which vary by country.

In general, as resources contracted, government spending on health and education has been less affected in the region as a whole than expenditures on other areas, falling from about 8 percent to 6 percent of GDP. In the RRLA countries, however, it fell the most precipitously from 6.5 percent to 3.8 percent, an extraordinarily low level. The freeze in budgets for health and education led to less progress in human development and a decline in the quality of services, especially those going to the poor who cannot afford to purchase medical care and schooling in the burgeoning private sector. A recent UNDP study confirms this in dramatic ways. The study traces the evolution of the Human Development Index (HDI) and measures the performance of the health and education systems in all global regions during 1990 to 2010 and compares these measures to the period from 1970 to 2010. All countries experienced a slowdown, but it is particularly marked in the Arab region. After taking off in the 1970s, the rate of increase in the HDI in the Arab region slowed markedly. As elsewhere, initial improvements were easier to achieve coming from a low base and were boosted by the high expenditures on social sectors in the earlier postindependence period, which was characterized by the rise of the state and the first oil boom.

Cross-national variation in development patterns and spending levels are shaped by oil and population endowments but also reflect the historical specificities of distinct political economies, including the priorities of nationalist and postindependence
leaders as well as levels of conflict and, thus, military spending. While the data presented above are illustrative of differences in government commitments to social spending, quantitative measurement of the distinct types of social contracts in the Middle Eastern political economies remains difficult. Data on expenditures do not yield a reliable picture of the welfare system, in part because of notorious problems with statistical data collected in the Middle East and in many other countries. Furthermore, measures of government health spending do not indicate how social provision actually occurs. For example, the Lebanese government has high social expenditures, but the state has limited regulatory capacity, and therefore the health and education sectors are characterized by excessive waste and inefficiencies.

1980s–Present: Economic Liberalization and Increased Integration in the Global Economy in the RPLA Countries

By the late 1970s and early 1980s, the golden age of growth had stalled in the Middle East. Most countries in the region began to feel the limits of ISI, which failed to generate
sufficient foreign exchange and foster competitive industries. Many non-oil economies in the region found themselves in a balance-of-payments crisis, which compelled them to sign on to stabilization and structural adjustment programs (SAPs) with international financial institutions (IFIs), including the International Monetary Fund (IMF) and the World Bank (see Box 3.1).

Economic crisis does not fully explain the turn to IFI assistance. Some countries such as Tunisia initiated partial liberalizations of their economies well before experiencing a crisis. Furthermore, the region as a whole earned more revenues, thanks to oil and regional labor remittances, than other developing regions, such as Latin America and sub-Saharan Africa. These sources of wealth might have enabled many Middle Eastern countries to stave off painful economic reforms for a longer period. Furthermore, important domestic constituents, including factions of government officials and elements of the business community, were key proponents of structural adjustment, and both invoked and benefited from perceived IFI pressure to orchestrate shifts in the economic orientations of their countries. By the mid-1980s, however, adjustment became urgent as deficits were high while the failure of ISI and the drop in oil prices put pressure on many MENA economies, especially those with higher citizen populations.

International trade agreements also played a role in compelling Middle Eastern countries to open their economies. Beginning in the mid-1990s, the European Union initiated a series of bilateral free trade agreements with countries throughout the region, committing the signatories to the phased elimination of trade barriers within a circumscribed period. For countries with extensive trade relations with European Union (EU) countries, such as Morocco and Tunisia, this was tantamount to a radical opening of their economies to international competition.

In tracing the record of economic liberalization in the Middle East from the 1980s to the present, it is necessary to distinguish between the resource-rich and resource-poor economies of the region, which experienced the economic crises of the 1980s onward in varied ways. Although they had large public sectors, the oil economies had never instituted protectionist trade regimes to the same degree as the non-oil economies. Furthermore, although the oil price slumps of the mid-1980s compelled some RRLP monarchies in the Gulf to institute austerity programs, these low-population oil exporters did not experience debt crises with the same severity as other Middle Eastern economies. Economic downturns compelled the Gulf countries to institute programs to diversify their economies and efforts to “indigenize” their workforces by replacing foreign labor with citizens, but renewed oil-price hikes and financial reserves have slowed progress in these efforts. Given the substantial resources of the RRLP countries and even of the RRLA countries, economic liberalization programs were largely implemented by the resource-poor economies in the Middle East, including single-party republics, non-oil monarchies, and democracies.
In the 1980s and 1990s, the IFIs—and particularly the World Bank, International Monetary Fund (IMF) and US Treasury Department—reached a consensus on the appropriate policy prescriptions for reforming and reviving economies throughout the developing world. These policies, often referred to as the “Washington Consensus,” were designed to decrease the state’s role in the economy, promote private sector-led development strategies, and reduce “distortions” in the economy created by government interventions in fiscal and monetary policy. Countries with large macroeconomic imbalances, in part resulting from their ISI experiences, were encouraged and even pressured to adopt stabilization followed by structural adjustment policies.

- Stabilization aims to restore macroeconomic balance by stemming inflation and reducing government deficits through higher taxes and reduced spending, in some cases involving cuts of consumer subsidies.
- Structural adjustment focuses on long-term, more microeconomic change in the economy. Structural adjustment programs (SAPs) intend to make as many goods and services available for sale through the market as possible, rather than through government allocation, subsidies, import licensing, output quotas, ration shops, government agencies, and public enterprises. Structural adjustment is sometimes referred to as “liberalization” or “deregulation.”

By the late 1990s, the results of stabilization and SAPs were disappointing, at best, and harmful, at worst. Although countries that had undergone stabilization programs grew faster after the “lost decade” from the mid-1980s to the mid-1990s, growth was not inclusive and the chasm between large, politically connected firms and the growing informal market expanded. Some countries experienced painful contractions in their economies with dire consequences for the population, particularly after the reduction or elimination of consumer subsidies and social programs. As a result, the IFIs incorporated greater emphasis on social safety nets and targeted antipoverty programs, although critics claimed that these revisions were little more than window dressing. The new thinking also singled out corruption, which was increasingly associated with economic decline and blamed for sluggish private investment.

Leaving aside the question of whether stabilization and SAPs actually work, the implementation of all elements of these programs is virtually impossible because political leaders would face overwhelming opposition from almost all societal groups, including elites who have long profited from cozy capitalist ties to the state and have served as the main social support for most Middle Eastern rulers.

The main resource-poor Middle Eastern countries to sign on to economic reform programs with the support of the IFIs were Egypt, Jordan, Morocco, and Tunisia. All four countries experienced mounting debt burdens, albeit to varying degrees, in the lead-up to the adoption of economic liberalization programs. Figure 3.14 shows total debt as a percentage of GDP in the four countries in the 1980s and 1990s, when these countries began to implement structural adjustment programs.
As the figure shows, Tunisia experienced the lowest debt burden of all countries and, therefore, undertook economic reform from a position of relative strength. Jordan faced a particularly high debt burden, which spiked as a result of the first Gulf war when Jordan’s perceived support for Iraq compelled some of its regional and global allies to reduce external assistance.

In all cases, trade liberalization, including reductions in trade taxes and tariff barriers, the gradual elimination of quotas and import licenses, and overall deregulation of the economy and privatization were central goals. Yet the actual record of economic reform has varied from country to country. In general, the IFIs regard Morocco, Jordan, and especially Tunisia as more successful cases of economic reform, and Egypt is seen in more qualified terms. Furthermore, economic restructuring has generally come with enormous social costs.

Tunisia has exhibited stronger economic performance than other non-oil countries in the region. Several factors account for the country’s relative economic success. First, it initiated partial liberalization of the economy and, especially,
trade liberalization earlier than other Middle Eastern countries with the creation of its offshore sector in 1972. Second, the competence of the Tunisian civil service contributed to the state’s bureaucratic capacity to implement reform. Finally, Tunisia’s postindependence investments in public health and education created a relatively well-trained workforce that was more capable of sustaining foreign competition. Beginning in 1986, Tunisia adopted an economic restructuring program with assistance from the IMF. Support from the European Union for industrial restructuring also aided firms in adapting to the increased competition accompanying the transition to export-oriented industrialization. Although financial liberalization and privatization have proceeded slowly, Tunisia went far in liberalizing its economy and enjoyed a strong average growth rate of 5.2 percent in the first five years after implementing the reforms.83

Morocco is also cited as a successful case of economic liberalization, yet it has had little to show for its efforts in terms of growth, employment creation, or improvement in living conditions. In 1983, Morocco initiated economic reform programs with support from the IFIs. Trade liberalization made significant advances, with average tariff levels dropping from 400 percent in 1980 to 35 percent in 1993, although the retention of nontariff barriers has limited the extent of actual trade reforms. The government also implemented new investment codes, carried out several currency devaluations, and reduced budget deficits substantially. Nonetheless, exports have not grown as much as expected, limiting overall economic growth. Relatively high poverty rates and underdeveloped public welfare functions have made economic adjustment especially difficult for the poor and have limited human capital development, undercutting Moroccan competitiveness in world markets.

The Jordanian economy differs significantly from those of Morocco and Tunisia. With its historically narrow productive base, Jordan is heavily reliant on foreign aid and remittances. In the 1980s, Jordan faced serious economic challenges as falling oil prices in the Gulf states led to the decline of these revenues. In 1989, Jordan signed on to a stabilization agreement with the IMF in order to reduce budget deficits. As in many other countries in the region, including Egypt, Morocco, and Tunisia, cuts in consumer subsidies stipulated by IMF agreements led to riots, and the government was forced to limit price rises. The Gulf War of 1990–1992 dealt a severe blow to the Jordanian economy, which was damaged by the severing of trade with Iraq, the decline in remittances from returning Jordanians and Palestinians who lost their jobs in the Gulf, and cuts in Western aid as a result of Jordan’s refusal to join the US-led coalition against Iraq.84 In 1994, Jordan signed a peace treaty with Israel, paving the way for closer economic ties with and increased aid from the United States. Despite improved growth rates in recent years, Jordan’s dependence on external rents and a limited industrial base have hindered sustained economic improvement.

By the mid-1980s, Egypt faced a serious economic crisis with a large trade deficit, high debt servicing, and declining economic growth, yet the country’s efforts to restructure its economy experienced multiple delays. In 1987, the Egyptian government initiated negotiations with the IMF, which subsequently cancelled the agreement because of
Egypt's violations of conditions imposed as part of the agreements. In 1991, Egypt again embarked on negotiations with the IMF and received a standby loan and debt forgiveness from its Western and Gulf Arab creditors. In return, the Egyptian government was required to increase energy prices, reduce subsidies, liberalize trade, and privatize some state-owned companies. Egypt committed to another round of economic reforms in 1996, when it signed a new agreement with the IMF, further liberalized trade, and deregulated part of the investment code. During the tenure of Prime Minister Ahmed Nazif (2004–2011), Egypt deepened its commitment to economic opening. Nazif’s government streamlined some restrictions on trade, privatized more state-owned enterprises, reformed the tax system, and promoted the domestic financial sector.

As was true for many countries implementing structural adjustment programs, the Egyptian economic reforms disproportionately hurt the poor. Given Egypt’s inadequate public welfare programs and limited social safety net, reductions in consumer subsidies and other elements of economic austerity were particularly severe for ordinary citizens. Furthermore, economic liberalization did not stimulate export-led growth, as the IFIs had hoped.

Economic liberalization has had a mixed record at best in the Middle East. In general, growth varied across the different types of political economies in the region. In Figure 3.15, we can see that economic performance varied quite a lot among the three types of political economies. If we focus on GDP growth, it is apparent that the RRLP group did best, growing at 5.6 percent a year; this is a remarkable average over such a long stretch of time, and the fastest growth rate for any single region besides East Asia. (GDP per capita is low in the RRLP group because the huge influx of foreign workers distorts the “per capita” aspect.) Given the huge contribution of oil wealth to this growth, this performance is not too surprising, but it does stand in sharp contrast with the notion of a “resource curse,” which we discuss below. More surprisingly, it is the RPLR group that comes in second: Its 5.26 percent growth is good performance by global standards, and its per capita performance of only 2.76 percent, while weaker, nevertheless remains around the middle-income average.

The RRLA region, which is rich in both oil and people, comes in a distant third place at 4.4 percent average growth per year (and at only 1.3 percent on a per capita basis). This indicates that this group of countries seems to have been hit the hardest by the oil curse. Indeed, the countries exhibiting the lowest performance are those that were once believed to show the greatest promise, as they could combine oil wealth with a large population to develop into industrial giants. Iraq, Iran, and Algeria all had such promise and plans, but they all got mired in internal and external conflicts that ended up undermining their economic potential. Syria has now entered just such a destructive phase.

This brings us to our third point about the variability of growth over time. This variability is partly a result of the dependence of the region on oil revenues—oil prices are determined by international markets and have themselves shown a great deal of variability over time. It is therefore no surprise that the very large variability of growth across periods, especially in the resource-rich countries, is a defining dimension of
growth in the region, especially as compared to the rest of the world. We can see this in the coefficients of variation of the growth rate, which are also depicted in Figure 3.15. The standard deviation of growth over the fifty years is about equal in RRLA and RRLP countries, at around 4 percent, and also about equal to East Asia, which, as we have seen, had much larger growth rates. The standard deviation of growth is 3.35 in RPLA countries, which is also larger than the various global averages, with the exception of East Asia and the region comprising Europe and Central Asia.

One can also see this more directly by looking at the growth rates of our three groups over time in Figure 3.15. Each of these rates varies much more than the rates
of the other middle-income countries of the world, and they have a greater tendency to oscillate, more so during some periods (the 1970s and mid-1990s) and less so during others (the 1980s and after 2005). The RRLP countries in particular show an extremely variable growth rate—on a per capita basis, for instance, Saudi Arabia grew at extraordinary rates of around 8 percent a year during the 1970s, shrank to rates of somewhat more than 5 percent a year during the 1980s, and had an essentially flat GDP per capita in the 1990s and 2000s.

Among the RPLA countries, which were compelled to adopt structural adjustment programs due to their lack of resource wealth, growth trajectories varied. Figure 3.16 depicts GDP growth rates in Egypt, Jordan, Morocco, and Tunisia. The figure shows that growth rates have been erratic, particularly in Jordan, which is especially vulnerable to regional conflict given its dependence on external rents, and Morocco, which is highly sensitive to drought, among other factors. In the 2000s, growth rates steadily increased in Egypt, reaching a high point in 2008. Although the Arab Spring temporarily brought greater political freedoms, protracted instability has caused growth and investment rates to plunge. As Figure 3.16 shows, the decline in economic growth following the uprisings has been particularly acute in Tunisia and Egypt, which experienced dramatic political shifts after longtime dictators were ousted from these countries. Political instability and the spike in political violence and terrorist attacks complicate efforts to promote investment in the wake of the comparatively successful political transition in Tunisia.

Economic liberalization has also failed to bring benefits to the most needy segments of the population. Political and economic elites, who enjoy close ties to rulers—whether presidents or monarchs—have benefited disproportionately from the new opportunities generated by greater global economic integration and increased emphasis on private sector-led development. By the 1990s, a consensus had emerged that economic adjustment programs had disproportionately harmed the poor and, therefore, required greater sensitivity to questions of redistribution. Persistent poverty and inequality constitute an important backdrop to uprisings across the region. At the same time, moderate growth in the years leading up to the uprisings raised expectations and aspirations—and not just grievances—particularly among the middle class.

**Development Challenges in the Middle East**

Middle Eastern countries face persistent challenges to growth and development. Despite strong economic growth during the 1960s and 1970s, the region experienced slow growth in the 1980s and 1990s, and moderate but not inclusive growth in the 2000s. In the past thirty years, the Middle East has had lower growth rates than East and South Asia and, for certain periods, exhibited lower and more volatile growth rates than Latin America and sub-Saharan Africa. In the 1980s and 1990s, GDP growth per worker was less than 1 percent per year, while total factor productivity, a measure of the efficiency of inputs in a production process, declined. Although most Middle Eastern economies reduced their budget deficits and curbed inflation significantly in the 1990s, they
remained vulnerable to fluctuations in oil prices and growth rates stagnated. To be fair, growth rates in the Middle East have been superior to other regions, even during periods of low performance, but low and volatile growth rates are particularly disappointing given the rich natural resource endowments and high levels of foreign aid and remittances in the region. Volatile growth rates and, more importantly, perceptions of growing inequality may have contributed to the Arab uprisings, even if growth rates were rising in the 2000s. Indeed, in the decade leading up to the uprisings, the RPLA countries experienced the highest per capita growth rates of all three political economy types in the region, although the benefits of growth clearly did not trickle down equitably (see Cammett, Diwan, Richards, and Waterbury, 2015, figure 7.1).

In the past decade, international organizations have issued a number of reports documenting and attempting to explain the failure of growth and development in the

Source: *World Development Indicators* (various years).
Middle East. In 2003 and 2004, the World Bank issued several reports highlighting major social and economic problems in the Middle East, such as high unemployment, gender discrimination, and poor governance, which it claims have hindered economic development in the region. For example, the World Bank’s 2004 MENA Development Report argues that failure to generate sufficient employment opportunities throughout the region limits long-term growth prospects.90

The Arab Human Development Report (AHDR), first published by the UN Development Program’s Arab Fund for Economic and Social Development in 2002, also points to protracted development failures in the Middle East and has generated much controversy within the region. Written by Arab scholars and practitioners, the AHDR adopts a multidimensional understanding of development, emphasizing not only the low levels of per capita income in the region relative to its wealth, but also declining productivity, underdeveloped research capabilities, high levels of illiteracy, and poor health and educational outcomes in comparison with countries of comparable income levels, gender inequality, and persistent authoritarianism. Critics point to the AHDR’s apparent adoption of a Western democratization agenda, reluctance to blame external intervention for negative socioeconomic outcomes in the region, and neglect of the vested interests within states that perpetuate the status quo.91 Nonetheless, there is broad consensus both within and beyond the region that the well-being and socioeconomic opportunities of citizens of Middle Eastern countries have declined in recent decades.

Economists generally agree on the proximate causes of underdevelopment in the Middle East—weak integration in the global economy, low levels of investment, lack of technology transfer, industrial noncompetitiveness, high levels of government ownership and investment, the low quality of education, and the high costs of doing business.92 But these factors are symptoms of deeper causes. Competing explanations for persistent underdevelopment in the Middle East range from innate and relatively fixed cultural characteristics to the nature of resource endowments in the region and the role of political institutions. This section briefly highlights the strengths and weaknesses of diverse perspectives on the persistent obstacles to growth and development in the Middle East.

Islam and Economic Development

In searching for features specific to the Middle East to explain persistent underdevelopment in the region, some point to the predominance of Islam. Different alleged features of Islamic societies are blamed for inhibiting economic growth and development. Some argue that Islam leads to unresponsive authoritarian governments, obstacles to independent reasoning, and the absence of a rational secular mindset, which impede capitalist economic development.93 Others point to particular institutions in Islamic economics such as the prohibition against *riba*, or interest, and *zakat*, or almsgiving, as religious obligations that could limit capital accumulation. In this vein, Timur Kuran argues that inheritance laws and regulations governing trusts and contracts historically inhibited capital accumulation by channeling resources into social services rather than productive investment, dividing...
up inheritance among family members, and, more generally, deterring the development of commercial institutions needed for longer-term growth.94 Arguments linking Islamic beliefs and traditions with underdevelopment can be critiqued on both theoretical and empirical lines. Economic growth is variable over time, and culture and religion, which evolve very slowly, are unlikely to account for this variation. As seen above, predominantly Muslim countries such as Egypt and Jordan have experienced shifting growth rates in a relatively short time frame. Furthermore, countries such as Indonesia and Malaysia, which are also predominantly Muslim, have enjoyed sustained periods of high growth.

Cross-national statistical analyses show that countries with predominantly Muslim populations are not associated with poor growth and in some instances exhibit higher growth rates.95 Other research shows that the share of zakat in income and the share of Islamic financial institutions in the financial sectors of the Middle East as a whole are small and, therefore, unlikely to hurt economic performance in the aggregate.96 It is conceivable that Islamic institutions have negative effects on development that are erased by the positive effects of other Islamic or non-Islamic institutions in Middle Eastern countries or that there has been sufficient convergence in institutions and policies in recent years, so the negative effects of Islamic institutions have diminished. Indeed, Kuran himself argues that the same Islamic institutions and practices that he blames for economic decline in the long run were sources of innovation and order in earlier centuries, enabling the Islamic world to flourish while the West was still languishing in the Dark Ages. Economic historians, however, argue that alternative factors explain the relative decline of the Ottoman Empire from the sixteenth century onward. In particular, the strong and highly centralized Ottoman state deterred the rise of an independent civil society and private sector and prioritized welfare over economic growth and capital accumulation.97

For centuries the Islamic world outperformed the non-Islamic world, indicating that there is nothing about Islam per se that renders it incompatible with growth. A more nuanced argument centered on Islamic institutions rather than religion also faces theoretical and empirical contradictions. Rather than focusing on Islam or features of Islamic societies, scholars have emphasized other explanations for underdevelopment in the Middle East.

Oil and the “Resource Curse”

A prominent explanation for the relative underdevelopment of Middle Eastern countries focuses on the “curse” of oil wealth. This argument refers to the fact that resource abundance is correlated with poor economic performance, unbalanced growth, as well as weak state institutions and authoritarianism, among other ills. In its economic dimensions, the resource curse centers on the concept of the “Dutch Disease,” or the theory that an increase in revenues from natural resources will lead to a decline in a country’s industrial sector by raising the exchange rate, which makes the manufacturing sector
less competitive. Similarly, states that rely on oil or other forms of windfall profits for a large portion of their revenues are deemed “rentier states,” which derive their income from nonproductive enterprise. These states concentrate their efforts on distributing wealth to the population, often to buy social peace and preempt greater societal demands for accountability, rather than fostering the conditions for the productive generation of wealth in their societies.98

The resource curse provides a theoretically compelling explanation for underdevelopment in the Middle East, particularly in the oil-exporting countries. Yet, when viewed from a larger historical and comparative perspective, there are strong reasons to be skeptical of this argument. Most studies of the so-called resource curse adopt a relatively short-term perspective. Oil-rich countries experience more volatile growth rates and underperform with respect to their own wealth endowments, but their long-term growth rates are no slower than those of non-oil economies.99 Furthermore, resource inflows do not necessarily hinder development. Other oil-rich countries such as Norway have managed to escape the alleged inevitability of the resource curse. In the developing world, resource-rich countries such as Indonesia, a major oil exporter, and Botswana, which has vast mineral deposits, have also managed to attain sustained records of economic growth.

Recent studies hold that the timing of the discovery and exploitation of oil in relation to state-building processes shapes how resource wealth affects political and economic development. When oil is exploited in conjunction with the construction of state institutions, it may obviate the need to establish efficient tax bureaucracies because rulers have so much income at their disposal.100 In the literature on the political economy of development, it has become virtually axiomatic that weak state institutions limit the prospects for economic development because state agencies direct resources to productive sectors and facilitate a climate conducive to investment.101 Other research suggests that ownership structure is a critical factor mediating the effects of oil resources on economic development. Under private domestic ownership rather than state control, oil wealth is less likely to weaken state institutions.102 Yet recent research questions the alleged negative repercussions of oil wealth on state institutional quality: Oil wealth does not diminish state strength but rather requires governments to perform exceptionally well in order to manage windfall profits effectively.103

These critiques of the resource curse argument suggest that oil wealth in and of itself does not explain economic decline in the Middle East. Furthermore, although oil revenues have enabled capital and labor flows to circulate throughout the Middle East, not all countries in the region are oil rich and, therefore, resource wealth cannot provide a uniform explanation for economic decline. Even among resource-rich countries, economic and social outcomes vary substantially across high- and low-population oil exporters. As noted above, within the Middle East, the resource curse has really afflicted the RRLA countries, which experienced significantly lower growth rates than the low-population RPLA oil exporters (whether measured on aggregate or on a per capita basis). The higher population oil-rich countries lack the per capita resources to spread wealth among their citizens and to invest in growth-promoting ventures (see Cammett et al., 2015, ch. 2).
Beyond the challenges posed by natural resource wealth for some countries in the Middle East, oil endowments may have contributed to poor economic performance in less direct ways. Oil wealth, which has spread indirectly throughout the region through foreign aid and remittance earnings, facilitated the establishment of an "interventionist-redistributive" development model. This model is characterized by redistribution and equity in economic and social policy, precedence for state-planning over market-based allocation, protectionism, a comprehensive state role in the provision of welfare and social services, and the suppression of contestation in the political arena. Aided by resource wealth, then, rulers established bargains or social contracts with their citizens that entailed generous state social programs for citizens in exchange for political acquiescence. The nature of these social contracts, however, varies across the distinct types of political economies. For example, higher resource endowments and lower citizens populations facilitated the establishment of more generous and sustained social benefits in the RRLP countries than in other Middle Eastern countries.

More broadly, variation in social contracts reflects distinct patterns of governance across the different types of MENA political economies. Increasingly, explanations for poor economic performance in the Middle East—and in other developing regions—focus on governance. As the World Bank holds, "public governance is good when this process is inclusive of everyone and when the people can hold accountable those who make and implement the rules." Inclusive and accountable governance is assumed to produce positive developmental outcomes by increasing popular participation and influence on policymaking, thereby increasing the probability that policies serving the welfare of the people will be enacted. With growing emphasis on private sector-led development, good governance has attained increased importance. Respect for the rule of law is critical for firms, which require assurances that their assets will not be expropriated and have a chance of reaping good returns before they will invest. Arbitrary enforcement of laws and regulations, then, is a deterrent to private investment.

Numerous studies point to the alleged "governance gap," or the mismatch between governance and income levels, in the Middle East, although corruption is innately difficult to "prove." In reality, on many dimensions the Middle East as a whole is not characterized by low levels of governance. As Figure 3.9 shows, the RRLP group with the striking exception of Libya performs exceptionally well on measures of the rule of law. Even the poorer RPLA countries, apart from Lebanon, exceed the average for middle-income countries, in some cases by a wide margin. The RRLA group, however, stands out for their poor respect for the rule of law, with all countries exhibiting measures well below the average for middle-income countries. Again, Figure 3.10 confirms this pattern across MENA political economy types for the level of repression used by rulers against their populations.

As discussed in chapter 3, the major source of the governance gap between the Middle East and other regions is the lack of public accountability to the population and citizen access to political and civic rights. Figure 3.17 shows that the Middle
East’s respectable performance vis-à-vis other regions on a variety of governance indicators, including the rule of law, government effectiveness, and control of corruption, disappears with respect to the indicator for “voice and accountability,” which measures the extent to which a country’s citizens can freely select their government as well as freedom of expression, freedom of association, and a free media.\textsuperscript{109}

Within the region, the oil-rich RPLA countries of the Gulf no longer perform relatively well vis-à-vis the other groups of MENA countries. (Figure 3.11, which shows levels of political and civil rights within the region, confirms this point.) In the case of the oil-dependent economies, governments compensate for limited accountability by providing public goods to maintain citizen satisfaction, although the RRLP countries have far more resources to spread around for these purposes than the more budget-constrained RPLA countries. In the poorer, non-oil economies, elites with close ties to rulers profit from limited accountability in the system to maintain their privileged access to economic opportunities.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure3.17.png}
\caption{GOVERNANCE INDICATORS IN DIFFERENT GLOBAL REGIONS (AVERAGE PERCENTILE RANK), 2010}
\end{figure}

\textit{Source: Kaufmann et al. (2011)}

\copyright\textsuperscript{2017} by SAGE Publications, Inc.
This work may not be reproduced or distributed in any form or by any means without express written permission of the publisher.
The World Bank is not alone in linking the quality of political institutions to relative underdevelopment in the Middle East. The AHDR reports (2002, 2003, and 2004) condemn low levels of freedom and tie them to poor economic outcomes, such as the failure to create the human capital needed to compete effectively in globalized markets. The 2002 report notes,

Human development is inextricably linked with human freedom. Human development emphasizes enhancement of human capabilities, which reflects the freedom to achieve different things that people value. . . . This freedom, the ability to achieve things that people value, cannot be used if opportunities to exercise this freedom do not exist. (18)

Political, economic, and social rights are integral to achieving human development, yet according to the report, the Arab world is particularly deficient in political freedom. As Figure 3.18 shows, even after the Arab uprisings, the Middle East hosts the fewest “free” countries and the largest number of “not free” countries, as

**FIGURE 3.18**

**POLITICAL REGIME CLASSIFICATIONS BY REGION**

measured by Freedom House’s index of political and civil rights, in comparison with other global regions.

The relative dearth of political freedom and failure to uphold the rule of law inhibit the formulation and implementation of policies that benefit the public good, rather than private interests.\textsuperscript{110} As Clement Henry and Robert Springborg argue, authoritarianism and the related lack of transparency in the political economies of the region are major obstacles to attracting foreign investment and spurring domestic capital holders to make long-term investments. Corruption and bureaucratic red tape deter the levels of private and foreign investment needed to sustain economic growth and ultimately inhibit further integration of Middle Eastern countries in the global economy.\textsuperscript{111} Furthermore, the selective incorporation of private sector elites into ruling coalitions deterred business from developing a class consciousness, which might have facilitated more organized defense of collective interests vis-à-vis predatory rulers with short time horizons.\textsuperscript{112}

Arguments linking poor governance or authoritarianism with relative underdevelopment in the Middle East are compelling. Political repression inhibits labor and other social groups from organizing in defense of their interests and makes private capital holders hesitant to initiate new projects and undertake long-term investment. Yet this perspective provokes additional questions. First, in the context of US interventionism in the region, the linkage between authoritarianism and underdevelopment raises normative issues. For example, Middle Eastern critics of the AHDR argue that these arguments are politically motivated and play into the hands of Western democracy-promotion projects and pro-market interests in the region.\textsuperscript{113} Second, just as corruption may hinder economic development, underdevelopment and weak state capacity create incentives for corruption. Thus, corruption and poor economic outcomes are mutually constitutive.\textsuperscript{114} Furthermore, divide-and-rule approaches to regime survival may result in a governance trap, in which a lack of coordination between the state, business, and labor inhibits the adoption of more effective and inclusive economic and social policies.

Beyond normative and theoretical critiques, empirical evidence from other regions suggests that corruption and authoritarian rule can be compatible with development under certain conditions, and studies of the relationship between regime type and economic development are indeterminate.\textsuperscript{115} The case of South Korea is illustrative. In the 1970s and 1980s, South Korea experienced double-digit growth rates and rapid economic development. This remarkable transition, which has served as a model for developing countries across the globe, occurred in the context of authoritarian rule, political repression, and corruption.\textsuperscript{116} “Cozy” business-government relations, a feature of most Middle Eastern political economies in various guises,\textsuperscript{117} were also characteristic of South Korea during its high-growth period.\textsuperscript{118}

Finally, even if authoritarianism and poor governance impede development, the origins of corruption, lack of transparency, and weak state institutions in Middle Eastern political economies deserve much more systematic analysis. Scholars of
development increasingly view effective extractive, regulatory, and administrative institutions as critical to development,\textsuperscript{119} and, hence, explaining the roots of effective and ineffective state institutions is paramount. Recent studies point to the historical roots of capable state and societal institutions in postcolonial countries and trace the effects of colonialism on subsequent development outcomes.\textsuperscript{120} In the Middle East, however, relatively little is known about the precise impact of Ottoman and colonial institutions on the evolution of state institutions and forms of economic management in postindependence states. These protracted colonial experiences disrupted and altered existing economic and social practices in the region and, therefore, shaped growth and development trajectories in the long run.

**Conclusion**

Regardless of the causes and nature of underdevelopment in the Middle East, the stakes are high, particularly for ordinary people throughout the region. The large-scale rollback of the state in the 1980s and 1990s has marked politics and economic change in the Middle East ever since. In order to stabilize the political situation in the face of mounting opposition, rulers liberalized their economies reluctantly and selectively. Resorting to divide and rule strategies, rulers have relied on a combination of selective subsidies and repression as well as fear mongering about political Islam, leading to an increasingly fragile and narrow governing coalition. In so doing, the old regimes reinvented themselves as market friendly, but in highly discriminatory ways, creating new rents that accrue as a result of privileges and exclusion. As a result, economic growth was far less inclusive than in the past, much of the private sector became informal, monopolies and \textit{wasta} rather than competitive markets became the rule, little trickle down occurred, and inequalities rose. Although the economies of the region began to expand again after the “lost decade” of the 1980s and 1990s, growth was neither inclusive nor sufficient to drive major economic transformation.

The uprisings and revolutions touched off in late 2010 had profound negative consequences in many countries in the Middle East. Tourism took a hit, capital flight accelerated, exports declined, and investment collapsed in Tunisia, Egypt, and Yemen. As a result, economic growth declined sharply in 2011 and only stabilized at lower levels in 2012 and 2013. A spate of terrorist attacks has once again threatened the economies of Tunisia and Egypt, while a civil war with extensive regional involvement has wracked Yemen. Output collapsed in Libya given the disruption to its oil production and, with the virtual collapse of state institutions, political violence is rising and extremist groups have established control over parts of the national territory. Syria has been devastated with a staggering death toll and millions of displaced people and refugees. The Syrian economy has taken a big hit, and the destruction of assets is already estimated in the tens of billions of dollars. The economies of Lebanon and Jordan have also been negatively affected by regional instability and the influx of refugees. Across the region, unemployment has increased.
The political and economic challenges facing these countries are compounded by high popular expectations, which are in part derived from the legacies of social contracts established in the first decades after independence. While the precise role of the state in the economy must be re-imagined, the reconstruction of state capacity and the rehabilitation of public services, especially health, education, and social protection, must stand at the center of reforms. Another central focus should be on private sector development. Improving competition and fighting monopolies, reducing politically connected privileges and democratizing access to credit are essential to reduce informality and make the private sector more dynamic. These are all complicated reforms—politically, technically, and bureaucratically—and they will shape in many ways the challenges for policymakers for years to come.

Suggested Readings