THE MIDDLE EAST AND NORTH AFRICA

IN THE ERA OF GLOBALIZATION, 1980-2000

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This paper will examine the economic performance of the Middle East and North Africa (MENA) region during the last two decades of the twentieth century. This economic performance will be compared with trends in other developing regions of the world and also with trends during the post World War II era from 1950 to 1973 or 1980.

The MENA region consists of a diverse group of countries, large and small. Of the 19 countries in the region as it is defined in this paper, the largest three in terms of population and total GDP, namely Egypt, Iran and Turkey accounted for 53 percent of the total population of 378 million of the region in the year 2000. Another important economic axis of differentiation within the region is between exporters of oil, on the one hand, and those "non-oil" countries which according to the definition of most observers, either import oil or, as in the case of Egypt, export only a limited amount in relation to the size of their economies.

Non-oil Countries of MENA in order of descending population : Egypt, Turkey, Morocco, Syria, Yemen, Tunisia, Israel, Jordan, Lebanon and the Occupied Territories. (Total population in 2000 : 227.4 million)

Oil exporting countries of MENA in order of descending population : Iran, Algeria, Iraq, Saudi Arabia, Oman, Qatar, United Arab Emirates, Kuwait and Bahrain. (Total population in 2000 : 148.8 million) Libya was excluded from the study because of the limited availability of the relevant data.

THE MIDDLE EAST AS AN ECONOMIC REGION

One important trend of the world economy during the second half of the twentieth century has been the emergence of regional trading blocs. There have been two waves of regional trading arrangements since the early 1960s. The first wave developed under the impetus of the European common market and spread throughout Africa, Latin America, the Middle East, and other parts of the developing world. Regionalism then came to a halt during much of the 1970s. The second wave began in the middle of the 1980s. In North America, NAFTA has since been expanding towards the southern hemisphere. Another bloc may soon emerge in East Asia with or without the eastern rim of the Pacific. Similarly, throughout the developing world old arrangements are being revived and new ones created.

Because preferences are extended only to partners under regionalism, it can lead to the exclusion of the outsiders. For this reason, it remains to be seen whether the recent wave of regionalism is an intermediate stage towards greater multilateralism, as represented by the GATT until recently, or whether it will replace multilateralism. If each of these blocs begins to favor greater economic, political, and even military linkages within, at the expense of ties with the rest of the world, regionalism will certainly come into conflict with multilateralism or globalization. Before we examine the implications of the recent wave for the Middle East, however, it might be useful to assess the extent to which the Middle East has been an economic region during the twentieth century.

The incorporation of much of the Middle East into the Ottoman Empire in the sixteenth century had created a zone of relatively free trade with regular flows between its component parts. This trade was further encouraged during the nineteenth century by better security, the progressive abolition of internal customs duties, and improvements in the transportation system. At the same time, however, it came to be surpassed by the growing trade with Europe in which the region's agricultural goods were exchanged for imported manufactures.

One immediate consequence of the break-up of the Ottoman Empire and the emergence of national economies after the First World War was the rise of tariff barriers to intra-regional trade which were raised further in the early 1930s as governments began to protect their economies against the impact of the Depression. The trend toward reduced intra-regional trade was briefly reversed during the Second World War. For the duration of the war, the Anglo-American Middle East Supply Centre promoted a new division of labor in which countries like Egypt and Palestine were encouraged to become manufacturing centers for the rest of the region and others, like Syria and Transjordan, to develop as its main source of cereals.

The efforts at promoting regional economic cooperation during the 1950s and 1960s emphasized the need to reduce tariffs and facilitate the free movement of goods and labor. Various forms of trading arrangements, blocs, or common markets were envisaged during this period, not only between the Arab countries but also within other sub-regional groupings involving Turkey and Iran. This new phase did not help intra-regional economic flows, however. Countries in the region maintained high levels of tariffs and continued to develop separate commercial and financial linkages with the industrialized countries including the East European bloc.

Many observers are inclined to explain the failure of these efforts in terms of political rivalries, and more generally, by the failure of the political leaders to embrace the goal of unity. One also needs to pay attention, however, to the role of economic factors in this outcome. During the 1960s there were many attempts to create regional trading arrangements between the developing countries. Within the general framework of Import Substituting Industrialization (ISI), however, such strategies of integration amongst the developing countries did not enjoy much success. Governments preferred to continue protecting their own industry rather than open it up to competition from neighbors with similar industrial structures.

There is no doubt that the period from 1973 to 1990 was exceptional in this respect. While oil revenues increased economic diversity and disparity within the region, they also facilitated greater economic integration. Migration, remittances, and cultural exchange also unleashed powerful forces toward economic and social integration not only within the Arab East but beyond, from Iran and Turkey to the Maghreb. This period also saw the attempt to organize various sub-regional economic groupings of which the longest lasting has been the Gulf Cooperation Council created in 1981. However, progress towards the harmonization of its members' tariff structures has been slow. Only when this has been achieved, will the European Union agree to begin discussions concerning access to its market for cheap Gulf petrochemical products.

It is also worth noting that, for a variety of reasons, economic, social, and political, this recent process was based on migration and the related flows of remittances. In contrast, trade flows and direct investment played a much more limited role except for trade associated with the remittances. It is also the case that none of these flows were underpinned by the institutional mechanisms required to encourage their orderly circulation and to protect them from sudden policy changes in one country or another. The Arab oil states, in particular, remained resolutely opposed to treaties or other obligations which might bind their hand as far as policies toward foreign labor and the direction of their investments were concerned.

Progress towards creating institutionalized relationships between Israel and its Arab neighbors has stopped since 1996 following the election of the Netanyahu government. The impasse created an opening for a purely Arab economic arrangement as sponsored by Egypt and Syria but various initiatives around this proposal failed to produce concrete proposals for enhanced cooperation. At the moment, prospects for increased economic cooperation and integration within the region, especially between Israel and its Arab neighbors appear bleak.

GROWTH PERFORMANCE : THE LONG-TERM VIEW

The economic performance of the MENA region was not very strong during the first half of the twentieth century. A rough comparison with other regions of the world from 1913 to 1950 indicates that Western Europe, North America, Japan, Australia, and Latin America all fared better, achieving annual rates of increase in per capita GDP of 1 percent or better. The growth performance of MENA was roughly comparable to those of Eastern and Southern Europe where long term rates of annual change in per capita GDP varied between 0 and 1 percent per annum. In contrast, East Asia and India excluding Japan had actually showed a downward trend in GDP per capita until 1950. It is difficult to be more precise about the growth performance of the region before 1950 because of the quality of available data. (1)

One important reason for the less than stellar performance of the Middle East during the first half of the century was the political changes it experienced. The end of the Ottoman Empire, the incorporation of large parts of the region into the British and French colonial empires, and the subsequent creation of new nation states led to the erection of tariff barriers and a variety of other obstacles to the largely free movement of goods and labor which had been a prominent feature of the region during the nineteenth century and before. The political regimes probably contributed to the relatively weak economic performance as well. Angus Maddison and Alejandro Diaz, amongst others, have argued that developing economies which adopted protectionism and inward—looking policies generally fared better during the Great Depression of the 1930s than those that adhered to the earlier strategy based on primary exports. (2) But the combination of colonial or mandate regimes with the continued power of large agrarian interests in many parts of the Middle East made it very difficult to abandon the earlier formula. The significant exception is Turkey where a political configuration consisting of bureaucratic middle class government elites and mostly small and medium sized agricultural producers facilitated the shift to protectionism in 1929 and the adoption of etatism a few years later. Turkey and Mandate Palestine’s growth performance were strongest in the region during the Interwar period.

As was the case in many other parts of the developing world, demographic and economic change accelerated in the region considerably during the second half of the century. Annual growth rate of the population jumped from 1.3 percent in the earlier period to 2.6 percent. Total population of MENA thus increased almost 3 fold, from 102.5 million in 1950 to 378.7 million in 2000. Rural-to-urban migration also accelerated, reducing the share of the rural population from about 70 percent in 1950 to less than 40 percent by 2000. This shift was accompanied by the decline in the share of agriculture in overall employment and the rise in the share of the urban economy including the informal sector. Nonetheless, the poor performance of agriculture continued to be an important problem for the region, often due to the increasing scarcity of land in the face of population growth and the continued tendency of governments to view the agricultural sector primarily as the source of resources for urban development. As a result, self sufficiency in food became increasingly difficult to attain for most countries.

One important trend that began in the inter-war period, gained momentum in the 1950s and lasted through the take-over of the oil companies in the 1970s was the nationalization and the transfer of the productive assets from foreigners to states and residents of the region. This shift was accompanied by the rising importance of the public sector. Even though public sector-led ISI performed reasonably well in the early stages, the problems became increasingly apparent in the 1970s. The infant industries had difficulties growing up. They experienced significant problems of stagnation, inefficiency, inability to compete in the export markets, and inability to expand employment. International comparative advantage was often ignored. Heavy industry was favored while agriculture and light industry was neglected.

Since the middle of the 1970s the international agencies have also been pressing for the implementation of a long-term package designed to promote greater reliance on market forces, increased emphasis on the private sector, and greater orientation towards international markets. As a result, most countries of the region have been forced to come to terms with the problems of the inward-looking strategy and to re-orient their economies outward in response to the international forces.

The pace and content of efforts for economic reform showed large variations from one country to another. The uneven progress of structural adjustment programs can best be understood in terms of the interaction of domestic and external forces. While the benefits of reform are always uncertain, various groups easily identify themselves as the losers, at least in the short term. For this reason, those that stand to lose have often been in a better position to act collectively than those that may gain in the longer term. Overcoming the political opposition of the former has depended in most cases on the availability of external resources to support the transition, the strength of the domestic coalition in favor of the reforms as well as the ability and skill of the governments in charge of the design and implementation of the programs

In addition, many parts of the region have been recovering from the impact of the Gulf War since 1990. Some economies were particularly hard hit by the war and its aftermath. Iraqi income declined precipitously as a result of the sanctions imposed by the United Nations while Kuwait had to spend huge sums of money, perhaps as much as *$65* billion, on reconstruction before economic activity could return to its pre-war levels. The economies of the Gulf also continued to suffer from the fact that oil prices remained fiat while a number of them felt obliged to spend between *5* and 10 percent of their GDP on imports of military equipment. The new Yemeni economy formed from the union of North and South in 1990 was also hurt severely by the expulsion of some one million Yemeni workers from Saudi Arabia ~at the start of the Gulf War. The Palestinian economy in the West Bank and Gaza remained a victim of the ups and downs of the peace process and the frequent border closures which prevent workers from crossing into Israel. The three largest non—oil economies of the region, Turkey, Israel, and

Egypt, were also affected by the war but not as severely.

With the exception of Turkey -which had begun its process of structural adjustment in the early 1980s, the Gulf War also provided the fillip to the first serious efforts made by the governments of the region to privatize, to deregulate, and to open up their economies to foreign trade and investment. Progress was most obvious in Egypt and Israel although, in each case, there were difficult technical problems involved in preparing state companies for sale, as well as much opposition from vested interests and a general fear of going too fast and so exacerbating existing social problems such as high levels of unemployment. Elsewhere, in Jordan, Yemen, and a number of Gulf states, the economic reform process was characterized by reduced tariffs and the introduction of new investment laws. Successive governments in Turkey, however, found it politically difficult to sell off state assets to foreigners. They also had little success in controlling public expenditures and inflation rates hovered around 100 percent per year as a result. Syria too made hardly any progress toward reducing the power and importance of the public sector except in the case of new investment where the private sector's share expanded considerably.

In the eyes of many international observers, it was the failure of most governments of the region to grasp the nettle of economic reform which was responsible for the region's poor economic performance during the last two decades. (3) Another shortcoming influencing the economic performance in recent decades is the region's poor record in attracting foreign investment especially after the Gulf War. According to IMF figures, the economies of the Middle East and North Africa (Turkey, Israel, and the Arab countries along the Mediterranean littoral) received only 1 percent of the total foreign direct investment in the world during the 1990s, amounting to a little less than 1 percent of the GDP of the region. However, other factors were obviously important, notably the continued political tensions throughout the region and the fact that so many of the economies depended very largely on an uncertain income from oil. There were, however, some encouraging signs: even though many aspects of the structural adjustment process moved slowly, macroeconomic conditions in terms of the maintenance of tight fiscal and monetary policies were beginning to compare favorably with those in other regions of the world, giving hope that the Middle East would not be subject to those sudden reversals of capital flows experienced by the economies of East and Southeast Asia in 1997.

In light of these long term developments, we will now try to assess the economic growth record of the region since 1950. Even though the quality of national income accounts in many countries of the region was not very good until the 1960s and GDP estimates for some countries have not been available in recent decades, it is possible to offer estimates for annual rates of per capita GDP for most of the individual countries and for the region as a whole. The following points are all based on Table 1 where more detailed evidence is available. During the second half of the twentieth century, GDP per capita increased at an annual rate of 2.2 percent per annum. GDP per capita for the region approximately tripled from around 1500 dollars in 1950 to 4400 dollars in 2000, both in 1990 PPP adjusted dollars. The long term rate of change of per capita GDP for the region was roughly equal to that of the United States (2.2 percent per annum) during the same period but lagged behind that of Western Europe (2.7 percent) and Japan (4.9 percent). As a result, the gap in per capita incomes between the region as a whole and high income countries or regions of the world did not decrease, it actually increased during the second half of the twentieth century for all except the United States. Within the developing world, the MENA region as a whole did better than Latin America (1.2 percent) and Africa (1.0 percent) but lagged well behind East Asia excluding Japan (4.2 percent) during the second half of the century. The growth performance of India (2.2 percent per annum) was approximately equal to that of the MENA region during the same period.

A more detailed analysis of the available evidence on per capita GDP and its rates of change actually reveals a good deal more about sources and consequences of long term economic change in the region. (based on Table 1)

1- For the MENA region as a whole, the economic performance was much stronger in the period 1950 to 1980 when GDP per capita increased at 3.4 percent per annum than in 1980 to 2000 when GDP per capita increased at only 0.3 percent per annum. The region's growth performance during 1950-1980 had equaled that of East Asia excluding Japan (3.4 percent per annum) and had exceeded those of the United States (2.2 percent), India (1.4 percent), Latin America (1.7 percent, Africa (1.9 percent). In sharp contrast, per capita incomes for the region as a whole increased at a very slow pace during 1980-2000 (0.3 percent) and the region lagged well behind East Asia excluding Japan (5.4 percent) and India (3.6 percent) as well as the United States (2.2 percent) ad Western Europe (1.6 percent). The region's growth performance since 1980 was comparable to that of Latin America (0.4 percent) and Africa (0.1 percent).

2- Within the region, the long term performance of the oil-exporters and non-oil countries appear to be similar at first glance. For the second half of the twentieth century, rate of growth of per capita GDP was 1.9 percent per annum for oil exporters. This annual rate was actually higher at 2.3 percent per annum for the non-oil countries. Strikingly, oil appears not to have had a positive impact on economic performance in the long run. One can certainly argue that for many countries of the region the long term impact of oil was negative. At the very least, it is clear that oil is, at best, a mixed blessing.

3- For the oil exporting countries of the region, the contrasts between the period before and after 1980 is dramatic. For these countries, the period of rapid growth was before 1980 at 5.0 percent per annum for 1950-80. Actually, most rapid growth was experienced during 1960 to 1973 at 5.8 percent per annum for GDP per capita. Due to the decline in the relative price of oil as well as the wars that these countries were engaged in, GDP per capita actually fell by one-fourth between 1980 and 2000.

4- In comparison to the oil exporting countries, the growth performance of the non-oil countries of the region was more steady. GDP per capita increased at 2.9 percent per annum during 1950-80 and at 1.5 percent per annum during 1980-2000. The decline in the rate of growth after 1980 was due both to the slowdown of the world economy and the decline in the per capita incomes of the oil exporting countries of the region since there existed strong economic linkages between these two groups of countries in the form of trade, capital flows and equally importantly, labor and remittance flows.

At the same time, there is no doubt that indicators for human development such as life expectancy, infant mortality, and literacy showed significant improvements since the 1950s and the 1960s when they began to be measured on a regular basis. A good part of this improvement was due to the strong correlation between these indices and per capita incomes as well as the fact that, by international standards, income distribution was less unequal in the Middle East than in other regions of the developing world. There is no doubt that that progress in this area would have been much greater if the governments had been willing to allocate a larger share of their budgets to health and education. In fact, the region's economic growth performance during the second half of the twentieth century has been better that its human development performance. The region as a whole as well as the majority of the individual countries rank higher in international rankings in terms of per capita GDP than in terms of human development indices.

DIVERGING TRAJECTORIES

The second half of the twentieth century witnessed a significant widening of the differentials in per capita incomes between the countries of the region. For this reason, it has become increasingly difficult to talk about trends for the region as a whole. Below, we provide an admittedly simple, two by two scheme to take into account the diverging trajectories of the countries of the region in recent decades, based on population size (small and large) and availability of oil revenues (oil and non-oil).

Small, oil-exporting countries of the Gulf: Kuwait, Oman, United Arab Emirates, Bahrain, and Qatar

From 1945 onward, these states were transformed from a collection of small towns reliant on fishing, herding, and trade to some of the world's leading exporters of oil with high per capita incomes, an unusual level of welfare services and the beginnings of a modern petrochemical industry. With the rise of oil revenues in the early 1970s, these countries rapidly raised the level of domestic activity by accepting a growing volume of immigrant workers and the political risks associated with that strategy. By 1990 more than 40 percent of the population of these countries was made up of foreigners more than half of whom came from other Arab countries. In 1990 the small Gulf countries made up 3.4 percent of the total population of the region as defined for the purposes of this volume but accounted for more than 17 percent of its GNP.

Large oil exporters: Iran, Algeria, Iraq and Saudi Arabia

From mostly agrarian or nomadic economies, these two countries have been transformed in the postwar period into large exporters of oil. In contrast to the small states of the Gulf, their population size has given them greater capacity to absorb oil revenues in various domestic development projects ranging from irrigation and agricultural development to heavy industrialization. At the same time, however, the 'Dutch disease' effect has hurt the competitiveness of the tradables sectors, all but eliminating the possibility of exports outside oil and oil products. Saudi Arabia has relied heavily on labor imported primarily from neighboring Yemen in its development projects since the 1960s. However, political problems have prevented a more efficient use of the oil revenues based on its massive reserves. Similarly, in the case of Iraq, the large oil revenues were squandered in a prolonged war against Iran.

Small non-oil countries: Morocco, Syria, Yemen, Lebanon, Jordan, and the Occupied Territories

This has been a diverse group. The small population size and limited availability of natural resources have placed serious limitations on industrialization strategies based on the domestic market. As a result, the more successful countries in this group have chosen to keep their economies relatively open and have pursued diverse specialties based on skill in trade, finance, and industry. Jordan and Lebanon have tried to take advantage of their specialties in trade and finance subject to the political and geo— political constraints they have faced in the postwar period. Syria lagged behind in these respects, remaining more inward-looking. Despite its considerable agricultural resources, Yemen has remained the poorest country of the region and is increasingly dependent on remittances from emigrant workers.

More generally, the emergence of an oil-based growth center in the Gulf and Saudi Arabia since the 1970s attracted large numbers of workers from the Arab speaking countries of the region, especially Egypt, Jordan, and the Occupied Territories as well as Yemen. With the remittances constituting an important source of income in all these countries, the non-oil exporting Arab countries of the region, both small and large, were increasingly linked to the vicissitudes of the oil exporting economies.

Large non-oil countries: Turkey and Egypt

These two countries have had roughly equal populations since 1918, and throughout the century each has accounted for approximately 30 percent of the total population of the region under study in this volume. In both, the basic long-term trend of the century has been the shift of resources, especially labor, from agriculture to the urban economy. While domestic market oriented industry provided jobs to many of these migrants, an even greater share were employed by the informal sector in its variety of forms.

The two countries probably had comparable levels of per capita income before the First World War. Per capita incomes remained basically unchanged in Egypt until 1950. Even though Turkey was hit harder by the two world wars, its recovery during the 1920s and the 1930s was considerably stronger due to government interventionism and the emphasis on the non—agricultural sector. As a result, its per capita GDP levels exceeded those of Egypt by mid-century.

Both countries favored inward-looking industrialization strategies during the postwar era in which the public sector played an important role. In Turkey, where the private sector became increasingly important after 1950, the shift towards an external oriented strategy began in 1980. The severity of the crisis of ISI played an important role in bringing about this shift. Changes in the same direction have been more limited in Egypt where the shortcomings of the industrial sector were compensated, to some extent, by the temporary growth of the petroleum sector and the remittances from workers abroad.

Another important contrast between the two countries concerns the performance of agriculture. Thanks to the availability of land together with supportive government policies after the Second World War, Turkish agriculture performed strongly until the 1970s and increases in output have remained above population growth since then. In Egypt, food production lagged behind population growth due to the inability to expand land under cultivation combined with government policies that favored the urban sector. Available evidence indicates that income distribution has been more unequal in Turkey and the existing disparities increased after the late 1970s. The relatively more equal distribution in Egypt might be linked to the existence of a large public sector and greater government involvement in support of the urban poor.

Israel

Israel is probably the country most difficult to fit into our simple scheme. It has followed a state sector-led ISI strategy that emphasized its highly educated labor force to develop into the technologically most sophisticated economy of the region. Per capita incomes in Israel are now comparable to those of high income industrialized countries. For these reasons, it does not quite fit with the other small non-oil countries. Israel has also been relatively successful in the implementation of the structural adjustment programs in recent decades.

FUTURE DEVELOPMENTS-FUTURE CHALLENGES

It was the conventional wisdom of the mid-1990s just as it was in the 1890s that economic progress depends on integration with the world economy via the reduction of any and all barriers to international trade and investment. This was certainly the advice given to Middle Eastern regimes which, were constantly reminded bi- the World Bank and other organizations that world trade was estimated to rise at twice the rate of world production for the ten years, 1996—2006, just as it has done for the previous ten. As a significant corollary, World Bank officials pointed out that trade within the Middle East itself was set to grow by only a fraction of this amount, further underlining the necessity for the states of the region to look outward to exports and to the encouragement of further foreign direct investment as the primary mechanism for ensuring their economic well-being. Something of the challenge involved can be seen in the fact that, during the mid-1990s, overall investment in the MENA countries was running at just over 20 percent, well below the developing country average of 24 percent.

Beyond this there was also the question of whether states should attempt this integration on their own or by means of membership of an international forum like the World Trade Organization (WTO) or a regional grouping like the European Union (EU). By the end of 1997, Bahrain, Egypt, Israel, and the UAE had joined the WTO with many more negotiating to join. Meanwhile, Turkey had become part of a Customs Union with the EU in 1996 and Israel and Palestine had completed negotiations to enter the proposed Euro-Mediterranean Free Trade Area in which they were promised access to the European market for industrial goods in exchange for a progressive reduction in their external tariffs. Other Middle Eastern states planned to follow.

Looking ahead it is possible to see policies subject to two different types of tensions. One is the choice between bilateral arrangements with outside regional markets like that of the EU and the revival, yet again, of the plan to create a Middle Eastern Common Market, with or without Israel. The other is the problem of whether to go for a fully institutionalized type of Middle East economic cooperation or whether just to try to exploit local geographical economies of scale, for example linked electricity grids or water carriers, on a simple state to state basis.

The inevitable impact on the national systems of economic management which such obligations require cannot be overestimated. Whereas previous agreements between Middle Eastern countries and Europe had involved simply the offer of limited entry for certain goods into the European market, the new treaties committed their signatories to a progressive reduction of barriers accompanied by the creation of new legal regimes and the adoption of new standards in accountability and transparency. Ali this was in addition to the many commitments already made to the World Bank and the IMF with regard to privatization, deregulation, and the creation of open markets. The result will certainly be a revolution in the relations between the private sector and the state as well as a profound change in the economic position of most of the actors involved, whether workers, entrepreneurs, investors, or officials.

Furthermore, at least as far as the non-oil states are concerned, there is the significant challenge of finding those niches in the world market where their own comparative advantages are such that they can hope to export either goods or services in what is an increasingly competitive international context. By and large, the older option of making a start with low skill, low cost exports is no longer open and it is necessary to find alternative routes, perhaps by the development of high-tech industries, as in Israel, perhaps by the development of tourism, perhaps by finding particular luxury markets for quality goods such as Egyptian high grade textiles.

As for the oil producers, they too face serious problems in raising their incomes at a time when the international price of oil looks like remaining stagnant and when their market share is constrained by competitors in the North Sea, Central Asia, and elsewhere. For those who possess large reserves of natural gas, like Qatar, Oman, and the UAE, one answer seems to have been to be to rely on these either to replace oil for local consumption or for export to the fast-growing energy markets of Asia.

However, such developments involve very high capital costs and long gestation periods before the necessary infrastructure can be put in place. And, in most cases, this requires the assistance of foreign companies to provide the relevant technology and investment. Only Saudi Arabia has indicated that it proposes to develop *its* gas reserves on *its* own, perhaps because of a wish to make sure that the profits o to local companies, many of which have been suffering from the lack of opportunities following the end of the oil boom.

One inevitable consequence of the processes of economic transformation already in train will be social dislocation and, on occasions, the eruption of popular opposition to government policy. Liberalization and the creation of markets often lead to greater inequality, insecurity, and the exclusion of the weaker and less skilled members of a society, at least in the short run. One possible flash point foı~Midd1e Eastern states may be the growing problem of long-term unemployment made worse by the need to slim government bureaucracies and to lay off many more workers in loss making state enterprises. Another might be a backlash against such new measures of liberalization as the Egyptian decision to cancel all existing agricultural rent contracts as of October 1997, an initiative which will permit owners to evict tenants for the first time since the Land Reform of 1952.

In the somewhat longer term there is also the need to embark on difficult strategies to ensure that Middle Eastern economies can be made competitive enough to flourish in the global conditions. These include, among many other things, the need to redefine the relations between the public and private sectors, to reform the legal systems and, in the Arab countries at least, to address such problems as the unusually high levels of adult illiteracy and the very low levels of female participation in the non—agricultural labor force. As for the Gulf countries, they face the very special issue of the future of their large foreign workforces and the need to try to ensure that foreigners are replaced by properly trained local citizens. The renewed efforts made by some states after the Gulf War, notably Kuwait and Saudi Arabia, have not proved very successful so far, leaving Saudi Arabia, for example, with a combination of nearly 6 million migrant workers and a growing number of university graduates unable to find work. There are particular problems concerning the private sector which so resolutely prefers foreigners to locals that, in the early 1990s, only 2 percent of its employees were local nationals in the UAE, perhaps 10 percent in Qatar and Oman, and just under 20 percent in Saudi Arabia.

Lastly, there are the more basic issues arising from the further integration of any state with the world economy, such as a perceived loss of sovereignty and state power and a popular fear of foreign economic or cultural invasion. In the Arab/Muslim countries, the notion that the revival of globalization also threatens a new wave of foreign control is already widespread and has found some expression in the political programs of parties and opposition groups. In Israel and Turkey there is the growing realization that further integration with the world economy will leave them open to the possibility of externally generated shocks to the value of both their currency and the share prices on their stock exchange. Should the fears generated by economic and cultural globalization become even stronger, pressures to arrest whatever progress has been made towards greater openness to external forces in the name of protectionism and new regulation could become too powerful to ignore.

Just as important for the region's economic future are the ongoing questions of war and peace and of the balance between population and resources which have dogged many Middle Eastern states for years. What with the uncertainty attending the Arab-Israeli peace process and the economic future of Iraq, political tensions will continue to deter not only foreign investors but also the introduction of schemes to develop trans-regional systems involving water, transportation, or shared gas and electricity grids. The question of augmenting domestic water supplies will also have to be urgently addressed. It is now necessary to recognize that there are few schemes left that will substantially increase supply, except in eastern Turkey, and that what is now required is a form of demand management aimed at reallocating use away from economically inefficient practices, such as many forms of irrigated agriculture, most probably by imposing a system of tariffs and other charges.

These are daunting challenges indeed. It is more than likely that a number of Arab regimes will find them so demanding as to give up their attempts at reform, while preferring to remain within a largely protectionist cocoon, shored up where possible by access to oil revenues, either their own or from the remittances sent back by their migrant workers. Others, notably the Turkish, the Israeli, and the Egyptian, will see no choice but to continue along their present liberalizing course, backed by elites the majority of which have become convinced that there is no other way forward.

Notes

Parts of this paper are based on a volume I have co-authored with Roger Owen, History of

the Middle East Economies in the Twentieth Century, I.B. Tauris and Harvard University Press, 1998.

1 Based on Angus Maddison, The World Economy, A Millenial Perspective and Pamuk-Owen, A History of the Middle East Economies.

2 A. Maddison, Two Crises,Latin America and Asia, 1929-38 and 1973-93, ch. 2; Diaz Alejandro, 'Latin America in the 1930s.', in Rosemary Thorpe (ed.), Latin America in the 1930s.

3 For a recent and critical analysis, see Clement M. Henry and Robert Springborg, Globalization and the Politics of Development in the Middle East, Cambridge University Press, 2001.

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