
Attitudes, Interest Groups, and Reform

In broad terms, policy reflects the accumulation of history, which conditions both elite and popular attitudes, and in all but exceptional circumstances those attitudes serve to constrain the scope of policy change in democratic and nondemocratic polities alike. Other regions abandoned inward-looking policies for several reasons. An extensive literature in the 1960s and 1970s documented the adverse effects of import-substituting industrialization. The initial success during the 1960s of several resource-poor Asian countries such as Hong Kong, Taiwan, South Korea, and Singapore, followed by a second wave of poorer Southeast Asian emulators in the 1970s, led to a reassessment of development strategies among many policymakers who were, one suspects, not devoted readers of the academic literature. In Latin America, the debt crisis of the early 1980s forced policymakers to attempt to earn more foreign exchange to enable nations to restore their international credit. In some countries, most importantly India, conditions imposed by the international financial institutions required greater openness (Krueger 2002, Joshi and Little 1996, Srinivasan and Tendulkar 2003). In the many instances of liberalization, the difficult objective conditions imposed by the hard facts of reserve positions were utilized by a substantial group of local analysts, often trained in American universities, who acted as local advocates of changes that were perceived to be long overdue. Export-oriented businesses also supported such moves. Few of the Arab economies faced the type of financial crisis encountered in Latin America in the 1980s or India in the early 1990s. Moreover, they were the beneficiaries of considerable inflows of foreign exchange that allowed a soft national budget constraint (see chapter 4).

Until now we have made little use of the former Eastern Bloc countries as comparators to the Arab countries. For most of the historical period under consideration, they operated as centrally planned economies with their own set of international institutions such as the Council for Mutual Economic Assistance and consequently were really not comparable to the Arab countries. But at least superficially they bear certain similarities—in both regions economic policy had a statist bent, accompanied by highly undemocratic and stable political regimes. However, the countries of Central Europe decisively reformed both economically and politically during the “third wave” of democratization of the late 1980s and early 1990s, while changes across the states of the former Soviet Union have been more uneven, with the Eastern European countries occupying a middle ground both geographically and politically. Comparing and contrasting the experiences of these countries with the contemporary experience of the Middle East may yield some insight into the constraints and opportunities that Arab policymakers face.

Czech novelist Milan Kundera begins an essay on Central European identity with a rumination on the following event: “In November 1956, the director of the Hungarian News Agency, shortly before his office was flattened by artillery fire, sent a telex to the entire world with a desperate message announcing that the Russian attack against Budapest had begun. The dispatch ended with these words: ‘We are going to die for Hungary and for Europe’” (Kundera 1984, 33). Kundera observes that to express willingness to die for one’s country is unremarkable; what is intriguing is the “*and for Europe*,” a phrase that Kundera asserts “could not be thought in Moscow or Leningrad; it is precisely a phrase that could be thought in Budapest or Warsaw” (Kundera 1984, 33; emphasis in the original). The Hungarian émigré economist Béla Balassa similarly observed that Hungarians took their political and cultural cues from Paris, not Moscow (Balassa 1989). More salient is Balassa’s passing mention that his first professional economics paper, written under Communist rule in Hungary, was on 19th century liberal John Stuart Mill.

These perceptions are rooted in the notion, recently popularized by Samuel P. Huntington (1996), that a civilization fault line runs through Europe, from the Finland-Russia border, south through Belarus, the Ukraine, and Romania, before turning west and separating Slovenia and Croatia from the rest of the former Yugoslavia. It is a border that separates Western Christianity circa 1500 from Eastern or Orthodox Christianity and Islam, with the relatively small Jewish population spread unevenly across it (figure 7.1). To the west, unintended consequences emanating from Roman Catholic theological innovations with respect to family law and legal institutions, followed later by the Protestant Reformation, contributed to the development of the basic institutions of modern capitalism (Kaufmann 1997, Lal 1998). To the east, the penetration of these social innovations occurred much more slowly, with equivalent local adaptations in areas such

Figure 7.1 Civilization fault line



as laws on partnerships and corporate entities not occurring until the 19th century in much of the Arab world (Kuran 2003a). If religious affiliation shares are any guide, this cultural division of Europe appears to be persistent, corresponding fairly cleanly with contemporary national borders if one simply aggregates the shares of the population professing Roman Catholicism and Protestantism (and perhaps Judaism) (table 7.1).

Despite the horrors of the 20th century, the political experience of Central Europe was modestly more liberal than the East. After lurching from monarchy to unstable populist democracies to Nazism, West Germany

Table 7.1 Religious affiliation shares, 1900 and 1990 (percent)

Region/country	1900					1990				
	Catholic	Protestant	Orthodox	Jewish	Muslim	Catholic	Protestant	Orthodox	Jewish	Muslim
Central Europe										
Czech Republic	86	6	n.a.	3	n.a.	40	3	1	n.a.	n.a.
Hungary	61	26	1	6	n.a.	62	25	1	1	1
Poland	77	3	8	9	n.a.	92	1	3	n.a.	n.a.
Slovakia	85	7	n.a.	3	n.a.	69	11	n.a.	n.a.	n.a.
Baltic Republics										
Estonia	1	54	43	1	n.a.	n.a.	15	16	n.a.	n.a.
Latvia	33	45	15	n.a.	n.a.	19	22	21	1	n.a.
Lithuania	90	1	3	n.a.	n.a.	83	1	3	n.a.	n.a.
Former Soviet Union										
Belarus	32	n.a.	61	n.a.	n.a.	12	1	46	1	n.a.
Russia	n.a.	1	77	6	9	1	1	55	1	8
Ukraine	18	2	71	3	n.a.	11	3	52	1	2
Former Yugoslavia										
Bosnia	17	n.a.	43	n.a.	40	22	n.a.	26	n.a.	46
Croatia	82	n.a.	10	n.a.	n.a.	85	1	8	n.a.	3
Macedonia	1	n.a.	86	1	8	3	n.a.	65	n.a.	22
Serbia and Montenegro	9	5	70	1	10	6	1	54	n.a.	16
Slovenia	95	n.a.	n.a.	n.a.	n.a.	83	2	1	n.a.	n.a.
Eastern Europe										
Albania	8	n.a.	20	n.a.	69	12	n.a.	11	n.a.	35
Bulgaria	1	n.a.	76	1	17	1	1	75	n.a.	12
Romania ^a	1	1	88	5	1	14	10	82	n.a.	1

n.a. = not available

a. 1990 figures for Romania reflect deliberate double counting of Catholics and Protestants claimed by the Romanian Orthodox Church.

Source: Barrett, Kurian, and Johnson (2001).

and Austria established stable liberal democracies post-1945, and East Germany adopted democracy and then merged into the larger democratic West German state once it had the opportunity in 1989. After the collapse of the Hapsburg monarchy, Czechoslovakia emerged as a liberal democracy only to be overwhelmed by Nazi Germany; democracy was briefly reestablished only to be once again subdued, this time by a Soviet-backed coup that installed a Communist regime. Poland and Hungary were less liberal, maintaining relatively soft authoritarian regimes during the inter-war years.

Except West Germany and Austria, these Central European states were incorporated into the Soviet-led Eastern Bloc following World War II. And despite the prewar existence in these countries of indigenous Communist parties, significant parts of the population regarded the Soviet-installed regimes as alien transplants. The Soviet Union's status as a colonial power, paradoxically, gave statism a bad name, and the poor economic performance of these nations under Communism generated widespread sympathy for a more liberal economic order.

Ironically, Communism's success at creating literate urban populations contributed to its eventual downfall. In contrast to China with its vast reservoirs of politically docile peasants with whom to fill the ranks of the army, the militaries of Central Europe were unreliable politically as tools of internal coercion. Once it became apparent under Mikhail Gorbachev that the Soviets would not back their satellites militarily, the game was up.

As the Communist dominoes fell, the newly empowered democratic regimes of Central Europe looked west to the economic, political, and cultural pull of Western Europe and to European institutions such as the European Union and the North Atlantic Treaty Organization (NATO), which could serve as precommitment mechanisms and lock in the political and economic regime changes that had occurred. After some time the Central Europeans were followed by the newly freed Baltic nations and Eastern European states of Romania and Bulgaria, which also saw their future as part of an integrated Europe characterized by democratic politics and relatively liberal economic regimes. In the context of the multiethnic, multi-religious, and arguably multicivilizational state of Yugoslavia, the moves by Slovenia and Croatia in essence to rejoin the West arguably set off the conflagration that subsequently swept the Balkans.

The Arab world, in contrast, has a very different cultural and political history. Apart from the direct impact of European imperialism, prewar European political influence mainly took the form of the illiberal corporatist fascism of Southern Europe manifested in local political organizations such as the Phalangist and Ba'athist parties. During World War II these illiberal tendencies were reinforced to an unknown degree by the Nazi attempts to recruit local Arab leaders into alliances of convenience against the British and their Western allies, particularly in the French-mandated region of Syria-Lebanon following the French surrender in 1940 and the es-

establishment in the French colonies of North Africa of regimes sympathetic to the Vichy government in France.¹ Following the war, these illiberal tendencies were reinforced by the Soviets and in the Mahgreb by the French Communist Party.

The collapse of the Ottoman Empire at the end of World War I, and British and French imperialism following World War II, led to the emergence of weak states with arbitrary borders. In such conditions, political leaders will emphasize nation, or at least political regime, building. This means strengthening the state, and dirigiste economic policies are one way of generating rents through which political coalitions can be built. (In this respect the resource-rich countries have an advantage—one does not need to introduce distortions to generate the rents.)

Ideology reinforced these political incentives. Ironically while economically more liberal policies were eventually adopted in the Southern European fascist countries, assisted by US tutelage in the case of postwar Italy and through the process of EU integration in the case of post-Franco Spain and post-Salazar Portugal, in the Middle East the illiberal economic outlook of prewar corporatist-fascist ideas from Southern Europe was actually reinforced during the Cold War period through the influence of the Soviet Union. In both its political and ideological manifestations, a statist, bureaucratic approach to economic development would appear indigenously, nationalist, and politically legitimate.

This experience can be contrasted with that of Central Europe, where significant sections of the populace—in some sense more secure in their national identities—regarded the Soviet-installed governments as illegitimate, quasi-colonial regimes, something to revolt against rather than to support. In 1989, when the Eastern Bloc was pushed to the wall, it collapsed from the torque of the centrifugal push of the evidently failed statist policies of Communism meeting the centripetal pull of Western Europe with its liberal political institutions and economic policies. And while there were political liberalizations in the Arab world at this time, the Middle East did not make a decisive break.²

1. According to Ladan Boroumand and Roya Boroumand (2002, 7), “by the late 1930s, Nazi Germany had established contacts with revolutionary junior officers in the Egyptian army, including many who were close to the Muslim Brothers . . . whose slogan ‘action, obedience, silence’ echoed the ‘believe, obey, fight’ motto of the Italian Fascists.” Bernard Lewis (2005) writes that although the Ba’ath Party was not officially founded until 1947, “memoirs of the time and other sources show that the Nazi interlude is where it began. From Syria, the Germans and the proto-Baathists also set up a pro-Nazi regime in Iraq.” After the overthrow of this regime, its leader Rashid Ali al-Gailani spent the remainder of the war in Berlin with the mufti of Jerusalem, Haj Amin al-Husseini, as guests of Hitler. Also see Lee (2002).

2. Algeria and Jordan experienced modest political liberalizations at this time (Tunisia’s had come a couple of years earlier). The constitutional changes in Algeria, which involved a reduction in the dominance of the National Liberation Front and the introduction of multiparty elections, were subsequently reversed. Another move toward more representative govern-

Popular Attitudes

Globalization

Polling data reveal the gulf in attitudes between the publics of the two regions. In 2002 the Pew Global Attitudes Project surveyed more than 38,000 respondents in 44 countries on their attitudes toward globalization (see appendix 7A for details on the Pew survey). A number of these survey questions, phrased in agreement/disagreement form, related directly to economic life, while other questions explored related aspects of globalization. For analytical purposes these questions could be thought of as falling into three categories: attitudes toward markets, economic manifestations of globalization, and broader social or cultural attitudes (Noland 2005b).³

There is considerable regional variation in the pattern of responses, with Western Europe generally exhibiting the most “proglobalization” attitudes, and the Middle East and South and West Asia harboring the greatest reservations. Among the primarily non-OECD regions the populations of East Asia tend to be the most enthusiastic; Africans tend to be supportive of globalization in its economic manifestations though they are more negative on the cultural issues, particularly homosexuality (table 7.2). The country-specific responses for the Middle East and Eastern European countries are reported in table 7.3.⁴ On the first two questions relating to basic attitudes toward the market and efficiency, there is considerable variation within each region, with the Lebanese being the most liberal of the three Arab countries surveyed. On the whole, the responses of the Arab countries do not look much different from the Eastern Europeans.

The cultural tolerance indicator, acceptance of homosexuality, may provide an important economically relevant clue not to sexual mores per se but with respect to eliciting attitudes toward indifference or tolerance more generally. Richard Florida (2002) has found that the homosexual

ment began in 1995, following a period marked by extraconstitutional government and widespread political violence. In recent years there has been continued political liberalization, though the armed forces maintain a dominant role in politics. In Jordan the period 1989–92 witnessed the lifting of martial law restrictions on political activity, the integration of previously excluded groups into the political process, and the first national elections in 22 years in the context of monarchical rule.

3. One might question how accurately the Pew survey captured public attitudes. The wording of the questions on foreign multinational corporations and another question relating to trust in the United Nations are similar to questions posed by two GlobeScan surveys (GlobeScan 2003, 2004). The cross-country correlations between the Pew and GlobeScan responses are quite strong. A distinct issue is “preference falsification” or deliberately lying to pollsters, as will be discussed below.

4. Both positive and negative responses to questions are generally correlated with economic performance. In the interests of parsimony, only the more highly correlated response is reported.

Table 7.2 Regional Pew survey responses (percent deviations from global mean)

Question	Global average	North America	Western Europe	Eastern Europe	Latin America	Africa	East Asia	South and West Asia	Middle East
Markets									
Close factories	36.9	n.a.	n.a.	5.3	-8.8	5.2	9.9	-8.9	-2.6
Support free markets	59.1	7.4	7.7	-9.6	-10.1	8.2	10.1	-9.5	-0.8
Globalization									
Growing business ties, good for family	79.6	3.4	5.6	-4.4	0.0	3.0	5.6	-3.2	-16.6
Faster communication and travel, good	88.3	0.2	4.7	2.7	-2.9	4.6	3.7	-6.3	-16.6
Foreign media, good for family	74.7	15.8	14.8	6.6	1.7	1.5	12.5	-17.9	-12.0
Foreign products, good	79.0	8.0	8.3	-6.0	-3.7	7.3	3.9	-9.2	-11.6
Connected world, good	85.3	4.8	5.5	2.1	-0.4	1.3	5.4	-7.3	-16.6
Globalization, good	57.8	7.7	3.7	-11.3	-1.2	10.4	14.5	-15.6	-21.8
Multinational corporations, good	61.8	-9.3	-7.0	-7.3	-1.8	13.6	10.4	-13.8	-12.3
International organizations, good	59.9	2.1	4.4	-2.2	-5.6	11.8	6.6	-15.1	-21.9
Antiglobalization protesters, bad	34.4	15.1	16.6	3.3	-3.5	-1.7	-5.4	-14.8	14.1
Tolerance									
Superior culture, disagree	28.4	14.1	27.1	7.4	-2.6	-1.7	-11.4	-18.6	2.6
Do not protect against foreign influence	23.7	13.8	18.6	4.8	1.7	-6.7	-1.5	-14.7	1.0
Accept homosexuality	35.2	24.8	41.3	9.3	15.4	-24.5	-3.0	-24.2	-18.7

n.a. = not available

Source: Pew Global Attitudes Project (2003).

Table 7.3 Pew responses by country and regional average (percent)

Region/ country	Markets		Globalization								Tolerance			
	Close large, inefficient factories	Support free markets	Growing business ties, good for family	Faster communi- cation and travel, good	Foreign media, good for family	Foreign products, good	Connected world, good	Globali- zation, good	Multi- nationals, good	Inter- national organi- zations, good	Anti- globali- zation protesters, bad	Our culture is superior (disagree)	Foreign influence (do not protect)	Accept homo- sexuality
Middle East	34	58	63	72	63	67	69	36	50	38	49	31	25	17
Egypt	34	52	59	69	55	60	66	37	n.a.	n.a.	n.a.	18	11	n.p.
Jordan	27	47	53	54	50	60	57	27	42	32	57	54	43	12
Lebanon	42	76	77	92	83	82	83	44	57	44	40	21	20	21
Morocco	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	63	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Kuwait	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	87	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Eastern Europe	42	50	75	91	81	73	87	47	55	58	38	36	29	45
Bulgaria	38	31	67	90	83	81	79	33	55	48	15	13	23	37
Czech Republic	63	62	83	95	92	88	96	69	60	70	72	45	32	83
Poland	37	44	72	90	84	70	79	38	44	50	34	35	30	40
Russia	27	45	69	85	59	77	89	31	42	42	24	31	19	22
Slovakia	50	51	82	94	90	65	94	65	71	74	58	47	33	68
Ukraine	38	64	78	92	80	57	87	43	55	62	23	44	34	17
<i>Memorandum:</i>														
Central Europe	50	52	79	93	89	77	90	57	58	65	55	42	32	64

n.a. = not available

n.p. = question was not permitted

Note: Central Europe includes Czech Republic, Poland, and Slovakia.

Source: Pew Global Attitudes Project (2003).

population share is highly correlated with high-technology industry activity across US metropolitan areas. In turn, the highest demographic correlate with the gay population share was the foreign-born share, which could be interpreted as an indicator of acceptance of nontraditional cultural influences. Communities that accept social variety including foreign cultures may have low entry barriers to human capital, which is important to spurring creativity and prosperity (Florida 2002). Florida's conjecture is supported by other empirical evidence (Glaeser 2004, Glaeser and Saiz 2004, Berry and Glaeser 2005) about the role of tolerance, acceptance of foreign immigrants, and human capital formation in explaining the varied experiences of US cities in surmounting negative shocks. Presumably one aspect of this tolerance is relative freedom from discrimination, fear of harassment, or attack. There are many accounts of the critical role of immigrants from East Asia and India in Silicon Valley (Saxenian 2001, 2002), and accounts of expatriates returning to countries such as India and Taiwan who assume major roles in new sectors describe the need for the receiving country to be accepting of the cultural differences acquired after long residence abroad.

However, on the next nine questions relating to globalization in various manifestations, the average of the Arab countries is consistently lower than the average for Eastern Europe and well below the Central European average, sometimes by very large margins. Among the Arab countries, Lebanon is distinct, with its responses generally similar to those of the Eastern Europeans. Similarly, on the three "tolerance" questions, the Arab countries generally score lower than the Eastern European comparators.⁵ This impression is reinforced by subsequent polling: Among the overwhelming majorities of Muslims who believe that their nations should be more prosperous, most identified Western policies as the primary impediment (including 59 percent of Egyptians and 66 percent of Jordanians), while government corruption was the second most widely cited response, topping other alternatives such as lack of education (Pew Global Attitudes Project 2006a). The same survey documented pervasive anti-Western attitudes among Muslims—largely unreciprocated by anti-Muslim attitudes among Westerners.

In sum, the polling data do not point to large differences in attitudes toward the market. However, it does reveal less support for globalization in parts of the Arab world and a higher incidence of chauvinism, xenophobia, or intolerance.

5. The difference is most stark for the question on homosexuality: The question was not permitted in Egypt, while the Czech Republic exhibited the most accepting attitudes of any country in the entire sample. The score for the most tolerant of the Arab countries, Lebanon (21), is roughly half the Eastern European average (45) and one-third that for the Central Europe subset (64). That said there is considerable variation within Eastern Europe: The scores of the Ukraine (17) and Russia (22) are in the MENA league.

Islam and Politics

What are the sources of this discomfiture? One early analysis located the sources in the effects of colonization on the individual psyche (Memmi 1965). This work is remarkably prescient, foreseeing a retreat into chauvinistic tribalism, nationalism, religion, and a rejection of science and other cultural innovations from abroad as at least a transitory outcome of the process of decolonization of the Arab world.⁶ Yet, while offering undeniable insight, the level of broad generality in this psychological analysis militates against its applicability to specific situations today.

The 2003 Pew survey also examined attitudes toward Islam and political life in a number of predominantly Muslim countries around the world, as well as several such as Nigeria and Tanzania with large Muslim minorities. The poll revealed ubiquitous feelings of solidarity with coreligionists in the *umma* and widespread support among Muslims surveyed for the notion that Islam was under threat, though the perceived sources of threat were multiple and predominantly reflected local concerns. However, subsequent polling by the same organization revealed growing distrust of the West; for example, huge majorities of Muslims, including 87 percent in Egypt and 90 percent in Jordan, ascribed the Danish cartoon controversy to Western disrespect for Islam (Pew Global Attitudes Project 2006a).⁷

In this regard, concerns manifested through Islam may simply be one symptom of more complex social processes. Islam may matter—not in the simple sense that belief in Allah dooms one to a low personal saving rate or that Islamic banking systems handicap financial efficiency—but rather in a more subtle way. Today Muslim communities in the Middle East are relatively discomfited by aspects of ongoing social change. To the extent that adherence to Islam is a significant component of personal and communal identity, Islamic teachings will be one prism through which these developments are assessed. This pattern of apprehension may be reinforced if Islam itself is regarded as being part of this contested terrain.

Yet the centrality of religious belief in this formative process should not be overstated. As revealed in the Zogby poll, religious orientation is generally only a secondary or tertiary source of personal identity in most Arab countries in the Middle East—rather, Arab ethnicity is the primary identifier (Zogby 2002). It is almost surely the case that feelings toward

6. Albert Memmi's work was originally published in French in 1957. Similar analyses were produced by the Martinique-born psychiatrist Franz Fanon (1967, 1968, originally published in French in 1952 and 1961, respectively), who became politicized while treating mental disorders in colonial Algeria. Fanon's work partly inspired Gillo Pontecorvo's film *The Battle of Algiers*, which was revived in the wake of the US-led invasion of Iraq.

7. However, the same poll found that Europe's Muslims have significantly more positive views of the West and Westerners than their coreligionists in non-Western countries. We return to this issue in chapter 9.

“the other” are derived from some admixture of religious teachings and prevailing cultural norms. Religious beliefs are but one input in a complex reaction to globalization. And while secular liberals may be an important source of dissent in Arab polities, much of the popular dissatisfaction with governance is expressed in terms of Islam, and self-identified Islamic organizations are among the primary sources of internal concerns about political stability.

Elite Attitudes

If this is the situation at the grass roots, what about attitudes among the elite? What is striking in this regard is the relative absence of Arab voices in contemporary intellectual discourse on issues of development strategy. This absence of discussion parallels absence of earlier participation in either the standard mainstream literature on economic development or the highly charged polemics of “dependency theory” that offered a compelling (to some) account of the failure of postcolonial countries to benefit from sustained economic growth.⁸ This analysis originated in Latin America but became an internationally articulated explanation of the adverse effects of the international economy on poorer countries, the periphery, much of it anticipating some of the current opposition to “globalization.” Exporting and importing could only harm individual countries, foreign direct investment (FDI) had no benefits, and international commerce worsened poverty. Yet contributions from residents of the Arab countries to this literature were rare, a notable exception being Samir Amin, an Egyptian who for much of his life resided in Europe and subsequently dramatically altered his views and became a vehement proponent of the benefits of foreign investment. With some exceptions, Arab intellectuals focused on other issues, even though it might be assumed that they faced no repression or danger from participation in this discussion—after all, most of the dependency literature constituted a diatribe against the industrialized countries that were the former colonial masters and was thus presumably socially and politically acceptable.

More important than participation in polemics is the fact that throughout Latin America, India, and many parts of Africa there has been a major flowering of economic analysis and policymaking. Former devotees and major proponents of dependency theory such as Brazilian President Fernando Henrique Cardoso became adepts of some parts of the mainstream prescription, perhaps after noting the success of regional champions such as South Korea and Chile. Policymakers and analysts in the transition economies of Eastern Europe and China debated major issues such as “big

8. Lall (1975) contains a good account of its premises and factual validity. The canonical version for its adherents is Cardoso and Faletto (1979)—the first author went on to become the president of Brazil and once in office (or perhaps before) radically transformed his thinking.

bang” versus gradualism, as well as many questions of how best to privatize the huge state-owned enterprise system or communal farms. Arab analysts and policymakers have not been notably active in these discussions until very recently, and most have done so under the aegis of the Economic Research Forum for the Arab Countries, Iran, and Turkey—a network of researchers based in the Middle East, funded largely by the World Bank. This phenomenon is important as in most countries that have undergone significant economic reform, a relatively small group of local proponents has been instrumental in setting out the agenda and implementing it, albeit with considerable support from the international community.

While the increasing discussion of intrinsically complicated problems and the adoption of some of the policies of the Washington Consensus in other regions have by no means guaranteed success, good policymaking being the art of combining correct economic analysis within political constraints, the shift in discussion in both policy analysis and public policy has been notable. The publication by the United Nations Development Program of the *Arab Human Development Report 2002* (and its successor volumes) occasioned a burst of often breathless enthusiasm, at least among Western journalists, although the analysis presented was quite conventional to professional development analysts. Yet the mere fact that it was written by solely Arab academics in 2002 was viewed as a turning point. It is surprising to anyone versed in the more general literature on developing countries how little this document refers to the specific historical experience of other nations (rather than regional averages) and the potential transferability of some of the knowledge. Nor is there much awareness of the close parallels between the evolution of individual countries in the Arab world and those in other regions, as shown in chapter 2. Yet these other experiences suggest not only parallels but also, more importantly, the means of reversing the sometimes disappointing results of the last decades.

Many reasons can be adduced for the failure of either Arab intellectuals or policymakers to systematically address, until very recently, the problems of accelerating economic development. The first generation of post-World War II leaders, especially Gamal Abdel Nasser of Egypt, were more concerned with establishing their place in the nonaligned or third world movement. In this Nasser was not alone. Jawaharlal Nehru of India, Sukarno of Indonesia, Kwame Nkrumah of Ghana, and Jomo Kenyatta of Kenya, all major figures in their countries’ move toward independence, or in the case of Nasser overthrowing King Farouk, did not bequeath to their citizens a legacy of sustained growth. The charismatic Nasser was not only dedicated to general “third world” issues but also was much taken with pan-Arabism, including an ill-fated union with Syria and an attempt to undermine the Saudi government through a war in Yemen in the 1960s (Lacoutre 1973). Like Nehru, his country followed many of the economic paths of his main ally, the Soviet Union—not an unmitigated blessing.

Because of the unusually long-standing stable nature of Arab political regimes (figure 1.5 in chapter 1), this legacy appears to have persisted considerably longer in the region than equivalent tendencies did in other regions. Today, Nehru's India, Sukarno's Indonesia, Nkrumah's Ghana, and Kenyatta's Kenya have all evolved into functioning democracies, while Nasser's Egypt remains mired in authoritarianism, still led by the National Democratic Party machine that Nasser helped create. Only in the late 1990s did a younger generation of more open technocrats begin assuming leadership in countries such as Egypt, Jordan, and Morocco, many of whom were educated in the West and/or have considerable professional experience working in the private sector, unusual for the machine politicians of earlier generations. In other countries such as Saudi Arabia and Kuwait, a certain degree of political opening is occurring, though it does not appear to be accompanied by the programmatic changes of the degree exhibited in some of the less resource-endowed countries. Other countries, notably Syria, continue to lag in both political opening and policy reform. And then there are special cases like Iraq and the Palestinian Authority territories.

Yet even where reformist technocrats have reached the cabinet, they face a number of profound internal obstacles. Elite opinion is split with the dominant voices opposing globalization, which is often equated with Americanization (Najjar 2005), and as the Pew survey results document, while popular attitudes in the Middle East do not appear to be "antimarket," they are not particularly supportive of globalization, at least on existing terms. As noted in chapter 5, poll data indicate widespread support for subjecting business to *sharia* law, tempered with the recognition that further interpretation is necessary to facilitate the entry of businesses from the Muslim into the global economy. Such views could be interpreted as forming a coherent basis for adapting the demands of globalization to local values. The construction of such practices and institutions would require some economic engineering and might encounter varying degrees of acceptance or resistance by non-Muslim counterparties. It would not be the Washington Consensus off-the-shelf and not what a newly appointed World Bank resident representative would be trained for or prepared to deal with, but it would not be impossible either.

Moreover, decades of state-centered development have created large educated and urban constituencies for its perpetuation. The government share of civilian employment in MENA is twice the world average, and relatively educated middle-class employees in make-work jobs would be disproportionate losers, at least initially, in any broad reform (Hoekman and Messerlin 2002).⁹ One normally associates the rise of the middle class with increasing demands for democratization, and as will be discussed in greater detail in chapter 9, there is no reason to believe that this pattern

9. For example, the Libyan government's decision in January 2007 to fire 400,000 employees (Turkish Press, January 2007), roughly a fifth of the nation's total labor force.

will not hold in the Middle East. But while a rising middle class may demand greater political openness, ironically, this mass middle class in some sense owes its existence to Arab socialism and in programmatic terms may actually exert a conservative or reactionary stance with respect to economic policy, in contradistinction to its support for political opening.¹⁰ There is a two-way relationship between individual attitudes or preferences and local policies and institutions (Alesina and Fuchs-Schuendeln 2005). Local practices influence individual's perceptions of the world, and individual beliefs condition the politically acceptable bounds of policy. Because of the self-reinforcing nature of this feedback loop, change tends to come only slowly. Once established, it can take generations for local beliefs to converge toward broader international norms.

Moreover, given the authoritarian nature of the local political regimes, people have an incentive to engage in what social scientists call "preference falsification," or colloquially "keeping one's head down" on a massive scale. Under these conditions, accurately gauging the collective psyche of the masses is difficult, if not impossible—a situation well understood by Middle Eastern leaders, hence their enormous investment in internal intelligence apparatus. The implication is that abrupt, unpredictable change is a constant possibility since people will only reveal their true preferences once the expectation of punishment falls below a particular threshold, which itself is a tipping-point function of how many others have "stuck their heads above the parapet" and signaled a decline in the likelihood that the regime will be able to punish dissenters (Kuran 1995). This simply means that under the current circumstances in the Middle East, it is very hard to predict the directions in which popular attitudes might push policy in more liberalized political systems.

Impediments to Reform

Two forces may obstruct reform. First, reforms may be regarded as potentially politically destabilizing. Beyond popular attitudes, specific groups may view their interests threatened by reform. When reforms have significant distributional implications, the potential losers will resist, further impeding the introduction of reform. Alberto Alesina and Allan Drazen (1991) model a "war of attrition" in which potential beneficiaries repeat-

10. This supposition would run counter to the experience of Central Europe documented by Jan Fidrmuc (2000a, 2000b), who found that in elections in the Czech Republic, Slovakia, Poland, and Hungary, support for reformist political parties was negatively affected by unemployment and the shares of retirees, blue-collar workers, and agricultural workers in the electorate but was positively affected by the existing size of the private sector, the shares of white-collar workers, and people with university education. In essence, the Central European urban middle class saw itself as constrained by the status quo. The issue with respect to the Middle East is whether the middle class regards itself as constrained by the existing system or its net beneficiary.

edly attempt to introduce reforms before finally overwhelming their opponents politically, who then bear a disproportionate burden of the costs.

For example, trade restrictions (at least of the formal sort) typically have implications for the distribution of income within a country, improving those in protected sectors while harming those who are implicitly taxed including persons employed in the nontraded-goods sector. The beneficiaries in large-scale manufacturing (often in the publicly owned sector) are loath to see their positions weakened by trade reform, and their political influence typically exceeds that of small farmers and those in the informal sector. The interests of state monopoly port service providers are equally straightforward. Privatization of state-owned enterprises, including ones in nontraded sectors such as electricity generation and telecommunications as well as those producing traded goods, is likely to run into severe opposition. The restructuring that often follows decreases employment while increasing the price of final goods to allow the firms to be self-sustaining. To cite another example, to improve the financial system many countries have loosened their restrictions on participation of foreign financial institutions in the domestic economy. This is often an unpopular move: The sector is viewed as the heart of the economy, occupying a “commanding height,” and has been the subject of intense negotiations in the ongoing talks to expand the purview of the World Trade Organization (WTO). In addition to the problems encountered in other countries, the possibility of violating the strictures of Islamic banking is likely to give pause to governments considering this action. Governments already on the defensive, religiously and politically, are likely to be particularly cautious in pursuing policies that lead to these outcomes. Alan Richards (2001) identifies the principal losers from reforms attempted in Egypt in the 1990s as organized labor and managers of state-owned enterprises, government bureaucrats, holders of import licenses, and other rent seekers—all key constituencies of the incumbent regime.

Parsing the role of such policies as trade liberalization, privatization, or demilitarization on income inequality is difficult—the intensity of protection required to make local manufacturers competitive will depend in part on the natural resource base: Economies with more abundant natural resources will tend to have high wage rates and hence require more protection for the emerging manufacturing sector. As seen in table 3.4 in chapter 3, Egypt’s land distribution was relatively equal in comparison to better-endowed countries such as Brazil and Argentina that also adopted import-substituting industrialization policies. In the absence of a fully specified general equilibrium model it is difficult to decompose the jointly determined impact of variations in endowments and policies applied and hazardous to make definitive statements on these policies’ distributional effects.

Second, vested interests may hijack the reform process, ensuring a disproportionate share of the benefits at the expense of other social groups

(Hellman 1998). Richards (2001), for example, cites Jean François Seznec that in Saudi Arabia, King Fahd in essence divided the government into spheres run by the royal family (the security ministries) and the nonroyal civil service (the economic and petroleum ministries), with the latter effectively guarding the interests of the nonroyal citizenry. Liberalization could have the unintended consequence of opening the economy to the deprivations of rapacious princes and in the end be politically destabilizing.

Another, less speculative example stems from the fact that the militaries of some Arab countries own, or are directly involved in the management and operation of, productive assets that would be controlled in the civilian sectors of most economies (Richards and Waterbury 1996, Kamrava 2004). In this light, the stance of the military and the defense industrial complex can have a fundamental bearing on the nature and prospects for successful reform. The case of China is notable in this regard. A key factor behind China's ability to undertake the rapid pace of economic reforms during the first 10 to 15 years of its Open Door policy was aggressive demilitarization of its economy. The key elements of the Chinese strategy included a concerted effort to shift the output of the military-industrial complex from military to civilian production, the large-scale transfer of military manpower, industrial facilities, and infrastructure for civilian use, and a significant downsizing of the armed forces. At the same time, the political clout of the military in the political process began to steadily decline though it is still far from negligible. Without this extensive and rapid demilitarization of the economy at the outset of reforms, the pace and scale of China's economic liberalization would likely have been much slower and more limited (Cheung 2001). In contrast, Richards (2001) argues that senior officers of the Egyptian military were direct beneficiaries of privatization. And given the prominence of the military in governance in many Arab countries, such concerns are by no means limited to Egypt. This approach, essentially allowing the military-industrial complex to maintain its perquisites, would be more akin to the experiences of the Soviet Union during the 1980s than to Chinese reforms.

The absence of reform can thus be interpreted in standard political economy terms of groups protecting their interests even when this conflicts with the requisites of improved national performance. There is no need to resort to explanations relying on cultural or religious fears that may exist but are difficult to demonstrate empirically. Many astute observers argue that the fear of loss of economic position and influence, including that of government bureaucrats, is quite important and arguably sufficient to explain the observed patterns.¹¹

Of course, lurking in the background are fears of cultural or religious extremism, specifically that relaxation of political control would benefit

11. See Richards and Waterbury (1996), Henry and Springborg (2001), Richards (2001), and Kamrava (2004) for specific historical examples.

radical Islamists, who in a number of the Arab countries represent the only organized mass civil society alternative to the state. Having in essence foreclosed politics in the secular public sphere, these regimes have forced dissent into the mosque, the only institution to preserve a measure of autonomy from the state.¹² One can make an analogy, redolent in irony, to anticolonialist liberalization struggles of the past: Today the Islamists, proffering a pan-national form of identity politics, are playing the role of “nationalists” to the incumbent, undemocratic, “colonial” regimes.¹³

The configuration of political forces varies from country to country, but in general political Islam poses two challenges in terms of transition: one political, the other economic. The political challenge revolves around skepticism of the Islamists’ ideological commitment to democracy, summarized in the witticism “one man, one vote, one time.” Polling data from six Arab countries suggest that a plurality of Muslims believe that a popularly elected Islamist government would abide by the rules of democracy, though a significant minority expressed skepticism (Zogby International 2005). In Lebanon, only 20 percent of Christian respondents indicated that they believed that Islamists would follow the rules. One can point to various kinds of evidence to support both sides of this argument, and local historical idiosyncrasies and specific conditions will likely heavily influence specific outcomes.

From an economic policy standpoint, the fear is that newly empowered inexperienced groups would enact incompetent or populist economic policies. For the most part the Islamists have not evinced a great interest in economic, as opposed to cultural policies, and again one can invoke evidence to support both optimistic and pessimistic views. Few would hold up the most prominent example of an Islamic state, Iran, as a model of economic management. Indeed, the Iranian combination of theocratic governance with economic incompetence would appear to illustrate the worst-case scenario nicely.¹⁴

Yet such a result is not preordained: Clement M. Henry and Robert Springborg (2001), for example, suggest that in the early 1990s, the Islamic Salvation Front (Front Islamique du Salut) in Algeria may well have been more liberal economically than the government. Similarly, the Syrian Moslem Brotherhood counts among its supporters local Sunni capitalists

12. One should note in passing that this phenomenon is not unique to Islam or the Middle East. It can be observed in predominantly Christian areas such as Poland, El Salvador, Ghana, or the American South, where under repressive or authoritarian rule churches became a locus of political communication and organizing.

13. In “Beware of ‘Contagion’ Spreading in the Middle East,” *Financial Times*, August 10, 2006, Mamoun Fandy argues that Iran deliberately supports insurgent groups as a means of weakening incumbent Arab governments and facilitating its attainment of regional hegemony.

14. See, for example, the detailed description in Michael Slackman, “Iran Chief Eclipses Clerics as He Consolidates Power,” *New York Times*, May 28, 2006.

who are more favorably disposed to policy reform than the minority Alawite regime. Others argue that at least some factions of the Muslim Brotherhood of Egypt are bourgeois in their economic orientation and with greater democratic legitimacy might actually have an easier time implementing reforms than the incumbent authoritarian regimes.

This discussion points to a unique challenge facing reformers of any stripe in the Middle East. External commitments are a proven way of providing a policy anchor for internal reforms. Yet adopting such anchors and using them to leverage domestic reforms is difficult if the citizenry regards the international economic system as unjust and is fundamentally distrustful of foreigners and their institutions. As James Piscatori has observed, "The combined challenges of globalization and radical Islamism have clearly induced many Muslims to wonder how the encompassing liberal international economic order can ever respond to Muslim needs, or how a state system dominated by the US and the UN can ever be sympathetic to Muslim claims to justice" (quoted in Perkovich 2005, 86). This observation has been accompanied by numerous calls to reorganize international relations in ways that reject the norms and values implicit in the global order and replace them with ones explicitly derived from Islam. In the economics sphere, this might involve elevating locally issued *fatwas* above WTO commitments, for example. The salience of this perception may be underappreciated in the West, insofar as the grand mufti of Egypt has observed, "In authentic Islamic perceptions, justice structures all vital spheres of human existence. Justice is an absolute concept in Islamic teachings and precedes other central notions such as freedom and solidarity" (quoted in Perkovich 2005, 83).

In this context, the (non-Muslim) counterpart may sense this reluctance, born of the perception that the dominant institutions simply reflect the interests of the powerful and do not embody a just order, additionally complicating any sort of bargain. In the next chapter we consider the potential for external agreements to act as a spur to internal reform and a mechanism to promote credibility and irreversibility. In chapter 9 we return to these themes in the context of foreign private agents' subjective assessments of risk in the context of engendering supply response.

Appendix 7A

The Pew Survey

The complete set of questions, country sample sizes, fieldwork dates, modes of collection, and other details are provided in the annexes to the Pew Global Attitudes Project (2003). Egypt, Jordan, and Lebanon were included in the original survey; respondents in Morocco and Kuwait were surveyed in May 2003 in an addendum.

Questions were phrased in agreement/disagreement form, and respondents were asked to indicate whether they strongly agreed, somewhat agreed, somewhat disagreed, strongly disagreed, did not know, or had no response.¹⁵

Two questions fall into the first, market-oriented, category:

- The closing of large inefficient factories (enterprises) is a hardship but is necessary for economic improvement,¹⁶ and
- Most people are better off in a free-market economy, even though some people are rich and some are poor.

Nine questions relate directly to the economic aspects of globalization:

- What do you think of growing business ties between [survey country] and other countries—do you think that it is a very good thing, somewhat good, neutral, somewhat bad, or very bad?
- And what about faster communication and greater travel between the people of [survey country] and people in other countries?
- What about the way movies, TV, and music from different parts of the world are now available in [survey country]?

15. There was a certain amount of repetition in the questions, generating highly collinear response patterns (for example, respondents were asked whether they regarded an expansion in cross-border exchange as good for both their family and their country), and for our purposes, some questions were poorly worded (for example, a question on immigration elicited a response toward national policy rather than the immigrants themselves), and in one set of questions it was not clear that the published results “added up.” Communication with the Pew Center was not able to satisfactorily resolve these questions.

16. This question was not asked of respondents in North America and Western Europe, and in China the statement was phrased as which was closest to their opinion: Less inefficient large enterprises are helpful to economic improvement, or less inefficient large enterprises are not helpful to economic development. (This version of the question is sufficiently unlike the others that the responses were not included in the subsequent analysis.) Question 14 on attitude toward homosexuality was not permitted in China, Egypt, and Tanzania. The response to question 13 on foreign influence is not available for Vietnam. For Morocco and Kuwait, response data are only available for the globalization question, and it is phrased differently, “All in all, how do you feel about the world becoming more connected through greater economic trade and faster communication. . . .?”

- And what about different products that are now available from different parts of the world?
- All in all, how do you feel about the world becoming more connected through greater economic trade and faster communications?
- Do you think that globalization is a very good, somewhat good, neutral, somewhat bad, or very bad thing?
- Large companies from other countries have a very good, somewhat good, neutral, somewhat bad, or a very bad influence on the way things are going in our country,
- International organizations such as the World Bank, International Monetary Fund, and World Trade Organization have a very good, somewhat good, neutral, somewhat bad, or very bad influence on the way things are going in our country, and
- Antiglobalization protesters have a very good, somewhat good, neutral, somewhat bad, or very bad influence on the way things are going in our country.

Finally, a number of questions are potentially relevant to foreign entrants into the market inasmuch as they address local attitudes on social issues and may signal tolerance:

- Our people are not perfect, but our culture is superior to others,
- Our way of life needs to be protected from foreign influence,
- Homosexuality is a way of life that should be accepted by society, or homosexuality is a way of life that should not be accepted by society.

Noland (2005b) contains a complete analysis of the relevance of public attitudes as elicited in this survey to economic outcomes.