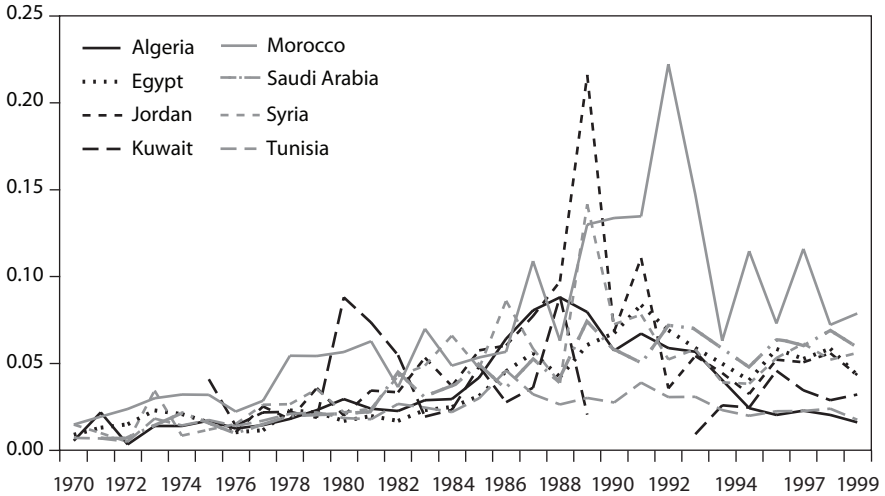

Authoritarianism, Uncertainty, and Prospects for Change

The Arab world is unique in the prevalence of long-lived, undemocratic regimes consisting largely of monarchies exhibiting varying degrees of liberalism and authoritarian states applying repression of varying intensities. These governments face rising internal demands for political liberalization. The period 2005–06 witnessed an “Arab Spring” illustrated by general elections in Iraq, Lebanon, and the Palestinian Authority; municipal elections in Saudi Arabia; women’s candidacies in Kuwait; and the establishment of a truth and reconciliation commission in Morocco, among other developments. This flowering was followed by retrenchments in Egypt, Syria, and a number of other Arab countries. This “two steps forward, one step back” pattern is consistent with quantitative modeling of political regime scoring systems such as those of the Polity IV Project or Freedom House, which can be used to calculate the timing and magnitude of political change. As discussed in detail in appendix 10A, these models point to rising (though non-monotonic) odds on the probability of liberalizing transitions as illustrated in figure 10.1, derived from a fairly standard model from this genre.¹

1. Such episodes are typically defined as a three-point or more *positive* (though not necessarily irreversible) change in the democracy score over a period of three years or less, at any given point in time. Examples of such liberalizing episodes in the sample would include Spain’s transition from the Franco regime to parliamentary democracy in 1975, the 1985 end of military rule in Brazil, South Korea’s transition to civilian government in 1987, the 1989–90 collapse of the Ceaușescu regime and the beginning of democracy in Romania, and South Africa’s postapartheid transition during 1992–94. Among Arab countries, past examples of such episodes would include political reforms initiated in Tunisia in 1987 and in Algeria and Jordan in 1989. See Carothers (2002) for a thoughtful critique of the assumptions underlying the democratic transition literature. For expositional convenience, “liberalizing” and “democratizing” will be used interchangeably, keeping in mind Carothers’s admonition that the two are not identical.

Figure 10.1 Likelihood of liberalizing transition, 1970–99



Source: Noland (2005c, figure 3).

The statistical models, however, cannot speak to the nature of such transitions or the character of successor regimes. It is almost a truism that most of the countries in the region, including large, important nations such as Egypt and Saudi Arabia, face deep uncertainties about their political futures.

How might it matter for economic performance? Political liberalization could affect performance through multiple channels. Perhaps the most profound effect would be by empowering constituencies in favor of dismantling the rent-creating distortions that underpin many incumbent Arab governments, along the lines discussed in chapter 7. But this is not the only avenue. A more liberal polity, generating greater popular consent, even if not necessarily fully democratic, may be a requirement to make commitments to future policies more credible and to reduce political and security risk assessments.

These considerations are economically relevant. Investment by its very nature involves irreversibility, and fundamental uncertainty about the future environment impedes it. Who would invest in tourism facilities, for example, if a future government might close down the tourism sector as un-Islamic or if such assets become a primary target of opposing sides in a violent political struggle? Or given a choice between locating a multibillion-dollar computer chip fabrication plant in a politically stable country like Costa Rica or a Middle Eastern country characterized by fundamental questions about the viability of the political regime, who would choose the Middle East? In societies that do not possess technical abilities in manufac-

turing or services, a reversal of the considerable brain drain that has occurred could fill a major gap. Foreign direct investment (FDI) and foreign consultants could also supply missing skills. The presence of buyer- and seller-led international production networks can be critical components of a development strategy (Gereffi 1999). The willingness of foreign and local actors to undertake long-term commitments will be enhanced by a democratic regime that is less likely to encounter violent opposition and may be more likely to live up to its commitments, whether tariff reforms or levels of taxation. External terrorism, which has often had the backing, explicit or not, of governments as a method of defusing internal opposition in the absence of a democratic process, has had underappreciated negative effects on the perceptions of investors and potential returnees.

In this chapter we address a series of issues relating to the nature of the Middle East's political regimes and how the region's political evolution could affect its economics. We first sketch out alternative reform paths, then assess the implications for external exchange and integration, and finally confront the bottom-line question: What are the prospects for change?

Path to Political Reform

In the long run, political liberalization could contribute to a virtuous cycle of reduced subjective assessments of risk and yield globalization on improved terms. However, as documented in chapter 7, today local attitudes toward enhanced cross-border economic integration are at best ambivalent, and the legacy of Arab socialism has created an unusual situation in which the middle class may be in favor of political liberalization but skeptical about the benefits of economic reform. A minority of the respondents in Arab countries supported the closure of large inefficient factories, even if it led to improved outcomes in the future.

Sufficiently creative and entrepreneurial political regimes may initiate reforms to increase their domestic legitimacy as in the case of the Asian countries of the 1960s, China in the late 1970s, and perhaps Chile after the dictatorship established by Augusto Pinochet in 1973. Others such as India in 1991 and many of the Latin American reformers of the 1980s responded to requirements by either the international financial institutions or other creditors. In many Arab countries, the quest for greater internal support has been relatively muted, perhaps reflecting the very strength in many social indicators ranging from income distribution to life expectancy (tables 3.1 to 3.5). On the other hand, there has been considerable grumbling about unemployment (table 3.7), stagnating urban wages (table 3.8), and more recently, corruption, nepotism, and democracy.

One problem in the Arab countries is that external events and their history have not catalyzed a political agenda for improved economic policy

but are utilized precisely to offer excuses for the difficulty of reform. For decades governments have partly deflected attention from low income levels by focusing popular attention on external issues: colonialism, the Arab-Israeli conflict, the Egyptian–Saudi Arabian war in Yemen in the 1960s, pan-Arabism, the conflict in Western Sahara between Algeria and Morocco, the Iraq-Iran war of the 1980s, Libya’s war with Chad, and the Iraqi invasion of Kuwait (used by Kuwait to partly explain its declining real GDP per capita), and now the US-led invasion of Iraq.² In contrast, successful countries have often mobilized their populace around economic growth, putting adversity to good use.³ As illustrated by the cases of Eastern Europe with the breakup of the Soviet empire or Latin America with its financial crisis and “lost decade,” a decisive political break may be needed to dislodge or overwhelm the coalitions in favor of status quo protections.

How moderate Islamist political parties and movements fit in is a matter of considerable controversy (Hamzawy 2005). Incumbent governments in the region may attempt to forestall the development of democratic, liberal, or secular alternatives, so that their publics face a “binary solution” in which the only choices are the relatively soft authoritarianism of the incumbent regimes or an Islamist opposition, betting that when confronted with such a choice, the majority, with resignation, will back the devil they know. Such a gambit may work. Or it may not, and given the possibility of abrupt transition and the pervasive restrictions on free expression that exist in the region, it is no mean task to infer the economic policies of potential successor regimes.

2. Gause (1995, 286) is representative of scholarly observers: “Wars tend to concentrate power in the hands of the executive, a power most leaders are loath to give up. Wars make it easier to stigmatize as treasonous, and then suppress, opposition forces. War preparation leads to greater state control over the economy, limiting the power and autonomy of private sector economic actors who might press for democratic reform. War preparation requires building coercive apparatus that then can be used internally. . . .” Eva Bellin (2004, 157) writes, “Besides providing rhetorical legitimization for coercive regimes, persistent conflict has rationalized the prolonged states of emergency that stifle civil liberties in many MENA countries.” With respect to the Arab-Israeli conflict, Lisa Anderson (2001, 56) observes, “It may be no coincidence that the prospects for democracy seem to increase in direct proportion to the distance of a country from the Arab-Israeli and Persian Gulf arenas.” The last statement has perhaps not aged well: Among Arab polities, Lebanon and Jordan have exhibited some of the greatest progress in political liberalization in recent years.

3. Japan after 1865 consciously tried to emulate and borrow from the West, particularly Prussia. Roughly a century later, South Korea set its sights on catching up with its former imperial master instead of bemoaning its fate under Japanese colonialism. Despite obvious threats from their neighbors, South Korean and Taiwanese leaders emphasized the importance of domestic economic growth as one response and systematically pursued good economic policies (Li 1988, Mason et al. 1980). Singapore under Lee Kuan Yew exceeded the income per capita of its former colonizer, Britain.

In an odd sense these observations echo the concerns expressed in the 1990s with regard to the transition from central planning to the market in Eastern Europe. The two regions exhibit some important similarities such as the existence of inefficient state-owned enterprises, the political dangers of privatization, and the need to introduce a regulatory environment if privatization takes place. There are significant differences as well, particularly that in the Arab countries a substantial percentage of productive assets are privately owned so that less attention has to be given to breaking up state-owned land or factories. Lessons derived from the now large literature on “transition” could be applied to the Middle East. What may be the single most salient lesson from the Eastern European experience is the sheer diversity of post-Communist outcomes: Some countries—the Central Europeans, the Baltics, and parts of Eastern Europe—have made relatively smooth transitions to market economics and democratic politics, while others—most obviously Belarus and parts of Central Asia—remain mired in populism, authoritarianism, and dysfunctional economics. There is nothing to say that the future economic and political trajectories of Arab countries might not be equally diverse.

For heuristic purposes, it might be useful to think about the political economy of reform as occurring through two paths, neither exhaustive nor mutually exclusive. One would be essentially an incremental reform model—essentially the continuation on the path that most of the countries have adopted with varying degrees of enthusiasm and success. Another path is the assumption of power by Islamists, though whether closer to the Turkish or Iranian model is an obviously critical distinction.

In the former case, one is essentially in a familiar pluralistic world where change is a function of the strength of contending forces, mediated by existing institutions. In this context it has been observed that there was a political bias toward maintenance of the status quo—because of the costliness of change and the uncertainty of benefits, even risk-neutral actors would forgo reversible policy changes under certain conditions (Roland 2000). This reluctance to change intensifies if outcomes are uncertain (Fernandez and Rodrik 1991) or obviously if decision making reflects aversion to risk.

Beyond the narrow economic aspects of globalization, however, the Pew data cited in chapter 7 depict societies that on a deeper level are discomfited by the cultural implications of globalization, and herein may lie the biggest differences with the Eastern European experience. One gets the sense that in the case of Eastern Europe, the Western model was attractive in both its political and economic dimensions, and in the realm of economic policy there was no real disagreement about the fundamental value of efficiency but rather a concern about the magnitude and distribution of the payoffs to reform. In the Arab world, the stakes may be higher.

For both the society and the state, aspects of opening could be threatening. Historically, the attitudes of governments in the region might be

described as “information averse.” Clement M. Henry and Robert Springborg (2001), for example, document the widespread abuse of journalists by governments in the region. This aversion extends beyond the human “software” to the hardware itself. The case of Syria is emblematic, if extreme: All typewriters had to be registered with the government and a sample of their typeface provided until the early 1990s, fax machines were prohibited until the latter part of that decade, and the Internet only became available in the country just before the death of strongman Hafez al-Assad in 2000.⁴

Better communications and greater access to the Internet, now part of the conventional wisdom about deficiencies that require improvement (UNDP 2002), also may threaten governments’ ability to control the flow of information while increasing the possibility of coordination among opponents.⁵ Well-trained software programmers are likely to be able to outwit government efforts to monitor or control e-mail or access to specific Web sites. There are widespread journalistic accounts of the unease with which governments view even the noninteractive availability of al-Jazeera. Satellite television, cellphones, and the Internet have replaced the 19th century’s fear of the mimeograph machine as preferred methods of subversion.

Moreover, the history of aborted reform attempts in the Arab countries suggests that given the relative absence of civil society institutions through which to mobilize support, it would be difficult for would-be reformers from within the governing elite to gain backing for their reforms.⁶ Instead, the repression of civil society and emasculation of the private sector have left religious institutions and underground groups as among the societal institutions with greatest autonomy from the state. Under such circumstances, it is perhaps not surprising that Islamists have emerged as

4. See Kalathil and Boas (2003) on the different responses exhibited by the governments of the United Arab Emirates, Saudi Arabia, and Egypt to the Internet. Daniel Lerner (1958) recounts the responses of Middle Eastern governments to the earlier technology of the newspaper.

5. This is true in democracies as well. The 2003 primary campaign of Democratic presidential contender Howard Dean was financed in large part by contributions solicited over the Internet and bypassed traditional sources of leverage of the Democratic National Committee.

6. For instance, both Algeria and Jordan experienced liberalizing episodes in the context of the worldwide democracy wave of 1989–90. In Algeria, reformers had “global institutional and juridical vision” to move to “contractual relationships between the administration and production of goods and services . . . and to a transparent ‘commercializing’ of economic transactions” in the public sector (Henry and Springborg 2001, 113). Constitutional changes, which involved a reduction in the dominance of the National Liberation Front and the introduction of multiparty elections, were subsequently reversed, however. Another move toward more representative government began in 1995, following a period marked by extra-constitutional government and widespread political violence. In recent years there has been continued political liberalization, though the armed forces maintain a dominant role in politics, which have arguably not lost their authoritarian character.

the primary locus of opposition to the status quo and the primary beneficiaries of electoral opening.⁷ Antigovernment sentiment may have crystallized around the Islamists almost by default given the paucity of secular alternatives, or it may be that clericalism reflects the underlying preferences of the population as some polling data suggest or that in the absence of secular alternatives, the Islamists have succeeded in nurturing proclerical views among the public (Gause 2005).⁸

So while attention often focuses on the effects of reform on different income groups, between workers and owners or rural and city dwellers, and across different regions, in the Middle East political liberalization may raise more profound challenges to the interests of the dominant political, social, and religious institutions. We are not suggesting these are decisive, but surely they are as important as the purely economic issue as usually narrowly construed. The implication of these observations is that reform may be even more difficult in the Middle East than it has been in other countries or regions.

The Arab world as a whole has embraced the market less decisively than the more successful Central and Eastern European countries. The weakness of the domestic civil society institutions, including the media and private business, may inhibit their ability to identify and seize emerging opportunities made possible by reform. The response is likely to be weak, absent a willingness to accept the disruption to well-established networks to extract and allocate rents, foreign collaboration, or both. In a number of the countries, the former importantly rests on political arrangements involving minority groups, which may feel very threatened by alterations in the status quo. Foreign collaboration may be viewed as threatening socially, religiously, and politically. Some Muslim-majority countries in Asia have done very well, particularly Indonesia and Malaysia. Both considerably relied on Chinese entrepreneurs and their substantial international marketing and financial networks. But despite considerable success, un-

7. Gause (2005) catalogues recent Islamist electoral triumphs: Morocco (2002), Bahrain (2002), Yemen (2003), and Saudi Arabia (2005). Kuwait (2006) could be added to this list. One observer writing in 2006, argues, "Now, the most vocal supporters of democratization are conservative Islamist politicians, the very people the United States most opposes. The detractors of democratization are liberal voices, the very people the United States most supports" (Alterman 2006, 2).

8. A 2006 poll conducted by the Ibn Khaldun Center of Cairo asked 1,700 Egyptians to identify the most important regional figures (Saad Eddin Ibrahim, "The 'New Middle East' Bush Is Resisting," *Washington Post*, August 23, 2006). No Arab head of government made the list. Islamists occupied the top five places. In rank order they were Hasan Nasrallah, the leader of Hezbollah; Iranian President Mahmoud Ahmadinejad; Khaled Meshal of Hamas; Osama bin Laden of al Qaeda; and Mohammed Mahdi Akef of Egypt's Muslim Brotherhood. The two secular figures to make the top ten, Palestinian Marwan Barghouti of the Al Aasa Martyrs Brigade and Egyptian politician Ayman Nour.

ease with the Chinese minority is still great, and government policies are undertaken to placate the majority.

The economic implications of xenophobia—in the absence or presence of reform—should not be ignored. Increased foreign interaction is almost surely a necessary condition for generating rapid employment and output growth in the industrial sector, and the global environment in which the Middle East is operating is an increasingly competitive one. The great strides that China has made, and now India, suggest that firms considering FDI, joint ventures, or licensing have a safe, historically tested alternative that benefits from large agglomeration economies (Harrigan and Venables 2004). The special economic zones (SEZs) in China have a quarter century of history, and India is a stable democracy that now provides an inviting climate. Moreover, both countries offer the attraction not only of an export platform, given their relatively low wages, but also huge domestic markets as well, something that Arab countries, even Egypt with the largest population (roughly 65 million), notably do not have. Thus these countries not only are late to globalization but also may suffer disadvantages that are not easily overcome even if there are comprehensive reforms and the anti-Western views can be attenuated or mollified.

The Eastern Europeans were obviously drawn by the cultural, political, and economic centripetal pull of Western Europe. But more broadly, one of the characteristics of reforms in other regions has been the demonstration effect exerted by regional champions. Having noted the success of Japan, South Korea, and Taiwan followed many of its policies once they were independent. In turn, Indonesia, Malaysia, and Thailand followed many of the Korean and Taiwanese policies along with emulation of Singapore's efforts to recruit FDI. Arguably China learned from its Asian neighbors—SEZs, for example, were close replicas of the export processing zones established in South Korea and Taiwan in the 1950s and 1960s. In Latin America, while many reforms were forced by the debt crisis of the early 1980s, the relative success of Chile's liberalization may have played a role in strengthening internal support for reform. From this perspective the Middle East faces the unenviable situation in which its arguably most progressive country and potential model for emulation, Israel, is widely regarded as a pariah, and the natural leader of the Arab world, Egypt, is actually a reform laggard in comparison to some of the smaller Arab states.

In sum, the constraints facing Arab reformers, while more severe, are not that much different from the problems faced in Europe in which reformers have to worry about resurgent Communist or neofascist parties. If much of the support of these extremist groups stems from dissatisfaction with economic outcomes, then they can be kept marginalized by the maintenance of acceptable economic performance. The increasingly religious coloration of opposition in the Middle East, and the centrality of cultural or social issues in the political discourse, suggests that one might imagine heated politics even if economic performance is satisfactory, and

especially if that economic success is perceived to be heavily dependent on foreigners or contributing to the erosion of traditional values. Both Malaysia and Indonesia continue to have significant Islamist opposition despite their impressive growth, though this opposition has been expressed overwhelmingly through peaceful and legal channels.

This is the key difference with the Middle East. In Southeast Asia, there is a broad internal consensus about these countries' openness and role in the world—measured by the share of trade in national income, Malaysia is one of the world's most open economies, and when Abdurrahman Wahid (Gus Dur), the leader of the 45-million-member Nahdlatul Ulama, was elected president of Indonesia, he did not engage in radical social engineering. Across the Middle East both the degree of effective pluralism and the legal tolerance of the Islamist opposition vary—sometimes inversely, as in the case of Morocco—as does the zealotry of the Islamist opposition. As a consequence, one can envision much more abrupt transitions, as one of several possible trajectories, and in all likelihood not all countries in the region will follow the same path. Intriguingly, Jordan's Islamic Action Front, the political arm of the Muslim Brotherhood, has cited Malaysia as a model for emulation.⁹

Suppose such an abrupt transition were to occur. Is there anything that can be said about the character of economic policy or outcomes that would be associated with such a transition? There are two ways to go about answering this question. One is to examine the public statements of opposition groups. The other is to derive these prospective policies inductively, under the assumption that their policies would reflect the interests of their core political base.

One possibility is that a newly installed regime would have a fair amount of latitude to change policy, which, if used wisely, could significantly advance reforms. Given what appear to be fairly pervasive attitudes supporting a central role for religion in education among the general public (Zogby International 2005), political opening could empower groups favoring greater reliance on religious education and memorization and less on the cultivation of a questioning mode of thought. Yet a greater emphasis on high-quality technical education, the type needed for absorption of new technology and advocated by the recent *Arab Human Development Reports*, presupposes improved earlier training.

As one might expect, economic policy does not figure prominently in the manifestos of Islamist groups that tend to be more concerned with religious and social policies. Economic positions range from the relatively soft (supporting the development of Islamic financial institutions while grandfathering existing non-Islamic institutions and practices) to the relatively hard (closure of tourism, at least of the non-Islamic sort). Contem-

9. Sharmila Devi, "Jordan Turns Its Sights on Muslim Brotherhood," *Financial Times*, June 23, 2006.

porary Iran could probably be taken as a reasonably good approximation of the “hard” position.¹⁰

Support for this opposition appears to be disproportionately young and urban. As discussed previously, this group has borne the brunt of these countries’ inability to generate employment opportunities to match the rapidly growing labor forces. Also, this group does not pay many taxes. Under these circumstances, an Islamist opposition coming to power in one of the relatively resource-scarce Arab economies might well pursue Keynesian-cum-populist fiscal policies to generate a rapid increase in employment, a pattern that would be familiar to students of Latin America or France during the early days of the François Mitterrand presidency. Such initiatives might include both public works projects as well as an expansion of employment in state-owned enterprises or quasi-public religiously controlled conglomerates (*bonyad*) as has occurred in Iran. Such policies could provoke balance-of-payments problems or a collapse of the exchange rate, necessitating an appeal to the International Monetary Fund (IMF), putting into political play domestically the issue of globalization and these newly emergent regimes’ relationships to the international economic institutions.

Presumably, these economic developments would be paralleled by discord over domestic social issues. The combination of macroeconomic instability and social unrest would presumably deter new foreign investors from committing and might even spur some incumbents to divest. These actions might be accompanied by capital flight and, in the extreme case, emigration by the elites of the *ancien régime*. Beyond specific issues such as cross-border migration, which could affect particular countries under certain scenarios (i.e., if Morocco experiences upheaval, Spain will be affected) from the standpoint of the economic, as distinct from political, interests of the rest of the world, such developments in the resource-poor

10. Iran supports some insurgent groups either out of Shia solidarity or in pursuit of regional hegemony, so the connection is not purely theoretical. Michael Slackman (“Beneath the Rage in the Middle East,” *New York Times*, February 12, 2006) provides a detailed account of the economic policies favored by Iranian President Mahmoud Ahmadinejad: “He ordered the banks, for example, to lower interest rates, and was rebuffed by the head of the central bank. He offered to give inexpensive housing loans to the poor—but with only 300,000 available, more than 2 million people applied. The program will cost the government more than \$3 billion. He has traveled around the country, promising to dole out development projects the government can hardly afford. In the last year, the cost of construction materials has jumped 30 to 50 percent, and prices of dairy products have increased by more than 15 percent. Many people are asking how this can happen when the price of oil is so high. Without a strong grasp of economics, and an economy that is almost entirely in the hands of the government, Mr. Ahmadinejad has grappled with ways to inject oil revenue into the system without causing inflation to soar. At the same time, the volatile political situation has caused capital flight and limited foreign investment as the needs of the public continue to grow alongside the president’s promises.” Thus, Ahmadinejad is pursuing a standard inward-looking policy that would have been familiar to Juan Perón in Argentina in 1946.

Arab economies would not be of great consequence—they are not quantitatively important to the world economy. The same is not true for Saudi Arabia, and arguably, Kuwait, Qatar, and the United Arab Emirates, due to the systemic implications of energy supply disruptions emanating from internal political instability.

This negative interpretation of the developments under a sudden transition from one of today's secular authoritarian regimes to an Islamist regime should not be interpreted as a wholesale indictment of Islamism as a political movement—abrupt change is disruptive, and given the political stasis of the Middle East, it would be remarkable if crockery were not broken. The primary economic shock—the fiscal shock—is directly derived from the interests of the movements' core supporters. What distinguishes the Middle Eastern case is the greater stakes invoked when political action is couched in religious terms.

Implications for International Exchange

A less repressive political environment would presumably increase the likelihood of reversing the brain drain and retaining talented people, though it is difficult to document the quantitative impact. Beyond the economic effects, there could be additional social and political effects of an influx of educated risk takers from the West. Perhaps at the most profound level some have argued that it is possible that the Muslim communities of the West could be a source of theological innovation within Islam itself that might even begin to reduce the incidence of domestic terrorism, ultimately contributing to reductions in political and security risk. The results presented earlier on FDI suggest that the impact could be nonnegligible.

Another route of prospective benefits could be through the impact on trade with the United States. As observed in chapter 9, holding fundamentals constant, the United States trades more intensively with countries with which it has greater affinity, which in turn is partly a function of democracy. In the standard gravity model of bilateral trade, where trade volume is a function of income levels and transaction costs, an increase in a trade partner's Polity IV democracy score by one standard deviation (a standardized measure of statistical dispersion) translates into a 5 to 7 percent rise in trade volume (Noland 2005d).¹¹ Presumably, this is due to the greater ability of democratic governments relative to authori-

11. However, one standard deviation in the polity score amounts to more than two successive liberalizing transitions as defined in the previous section. How would a single democratizing episode affect US public attitudes? Not much: It would imply an increase in the Chicago Council on Foreign Relations temperature of less than 2 degrees and an increase in trade of 2 to 3 percent.

tarian ones to make credible precommitments to sustain policies and institutions. It may also reflect the greater comfort level that businesses have with their peers from countries that share similar characteristics.

The good news is that the Arab countries have a lot of upside potential in this dimension. To get a sense of how big this effect might be, if Egypt or Morocco were to achieve the degree of democracy of South Korea, Taiwan, or Turkey, it would imply a sustained expansion of trade with the United States on the order of 12 to 15 percent.

Presumably, there would be additional economic payoffs to democratization, if, as would seem likely, it is associated with an increased likelihood of sanctions removal or the initiation of preferential trade relations. The latter effect could be very important—one study found that a free trade agreement (FTA) between the United States and Morocco might increase trade volumes by anywhere from 15 to 50 percent depending on specific assumptions and modeling approaches, with the possible impact of a US-Egyptian agreement being even higher (DeRosa and Gilbert 2004). And additional gains would likely be captured through investment and other channels as well.

In short, democratization might contribute to larger trade and increase the likelihood of securing preferential access, which could have even greater impact. The magnitude of such gains is highly uncertain and from the standpoint of accelerating per capita income or employment growth may not be of overwhelming significance, but neither are these gains trivial politically. Nor are they the only channel—the increase in credibility of commitment would presumably reduce risk embodied in the local business environment with implications for both domestic activity and non-trade forms of international exchange such as FDI.

Prospects for Change

The question is what stands in the way of initiating a virtuous circle of economic and political reforms? For its part, since the September 11, 2001, attacks on New York and Washington, the US government has argued that democratization is a key to eliminating terrorism and has elevated the spread of democracy, the Freedom Agenda, to a primary national goal, manifested in initiatives such as the Middle East Partnership Initiative and the Broader Middle East and North Africa Initiative (Wittes and Yerkes 2006). Yet many analysts argue that this Wilsonian commitment is quixotic.

We focus on the antinomy between democracy and authoritarianism because we associate democratic regimes with greater popular legitimacy and policy stability, recognizing that this mapping is not simple, and one can point to counterexamples. Indeed, in Tunisia, arguably the most economi-

cally successful of the Arab countries, convergence on OECD income levels has not been accompanied by convergence on their political practices.¹²

Disagreements among economists about the policies that may be necessary to accelerate growth are minor compared with attempts to understand the development of democracy. Yet the importance is not limited to internal policies of nations—evidence suggests that democracy itself affects external perceptions of the desirability of economic interaction with them. The analysis of such issues has obviously filled a library of books and journal articles. In the last 50 years there have been analyses with a sweeping historical panorama. For example, Barrington Moore (1966) in a seminal volume attempted no less than an explanation of the “social origins of dictatorship and democracy” concentrating on the historical evolution of five nations—China, Britain, France, India, and Russia. At the other end of the spectrum many recent efforts have downplayed the historical evolution and the specific conditions of individual countries and utilized a growing body of data for a large number of countries to test a variety of hypotheses. As in the case of the cross-country growth regressions discussed in chapters 5 and 6, we interpret statistical exercises summarized in appendix 10A as a kind of intellectual sieve, informing one’s prior expectations about reality. After reviewing the anecdotal and statistical evidence, persuading someone that all things being equal having a British colonial history increases the likelihood of a country being a democracy should be the intellectual equivalent of running downhill. Convincing someone that the Middle East’s democratic deficit is explicable in terms of adherence to Islam should be the opposite.

The results from these models point to a rich and complex set of possible determinants of democracy in the region and the possibility of liberalizing transitions. A number of hypotheses regarding the nature of the state as well as characteristics of the citizenry find support in the statistical modeling: Modernization, national ethnolinguistic fractionalization, polity scores of neighboring countries, average world polity score, Arab ethnicity population share, British colonial history, and share of taxes in state revenues (an inverse indicator of the presence of rents) are robust correlates with democracy.¹³ A measure of cultural comfort with hierarchy is inversely correlated with democracy in a relatively small sample of countries. Similar sorts of results are obtained with respect to the likeli-

12. Tamara Cofman Wittes and Sarah E. Yerkes (2006, 7), for example, argue that “Tunisia’s impressive economic growth and attraction of foreign investment have not loosened the grip of one of the region’s most effective police states, because of the dependence of private-sector actors on the munificence of the government.”

13. Other characteristics including the Muslim population share, oil exports per se as distinct from the broader concept of rents, and general and Israel-specific conflict variables do not appear to be strongly correlated with democracy, conditional on the variables mentioned above.

hood of a democratic transition or the waiting time for such a transition to occur. On these statistical norms, the Arab countries as a group do not appear distinct, though admittedly there is a chicken and egg problem with respect to the neighborhood effect (Noland 2005c).

To get a sense of the magnitude of these effects, one can calculate how much the democracy score would be affected if each correlate was changed by a standardized magnitude, in this case one standard deviation, a common statistical measure of dispersion. In these terms, the single most important determinant of democracy is British colonial origins, which alone is worth more than three points on the -10 to +10 Polity IV scale. The next three largest effects come from modernization, regional spillovers, and Arab ethnic share. This neighborhood effect is much more important than the impact of worldwide democracy waves—the influence of a one standard deviation change in the average level of democracy among bordering countries has more than four times the impact of a similar magnitude change in the average level of democracy worldwide. Looking forward, the advent of pan-Arab media such as the television stations Al Jazeera and Al Arabiya may magnify this regional spillover effect even further, contributing to a more genuinely pan-Arab consciousness in which developments in one country have a more immediate and profound influence on outcomes elsewhere within the region.

Some commentators have argued that Islam may confer additional legitimacy to Arab political regimes despite their questionable ability to deliver material progress or political liberty. This argument is sometimes couched in terms of an Islamic juridical tradition of quietism, though in fairness, scholars who have documented these cultural antecedents (e.g., Lewis 1993b, Crone 2004) have done so in the context of 11th century jurisprudence, not contemporary political culture, and have acknowledged the existence of activist traditions as well. Others have been less circumspect (e.g., Huntington 1984, 1996).¹⁴ M. Steven Fish (2002) makes the intriguing argument that the negative influence of Islam on democracy is due to the subjugation of women, which he implies is some innate aspect of Islam, citing Fatima Mernissi (1987), Hisham Sharabi (1988), the UN Development Program's *Arab Human Development Report 2002*, and other sources. And as documented in chapter 3, historically the status of women in the Arab world has been unenviable, though it has improved greatly over the past generation, and some of the evidence presented in chapter 9

14. For example, Samuel P. Huntington (1984, 208) writes, "Confucianism and Buddhism have been conducive to authoritarian rule. . . . Islam has not been hospitable to democracy. . . . The one Islamic country that sustained even intermittent democracy after World War II was Turkey, which had, under Mustafa Kemal, explicitly rejected its Islamic tradition and defined itself as a secular republic. The one Arab country that sustained democracy, albeit of a consociational variety, for any time was Lebanon, 40 to 50 percent of whose population was Christian and whose democratic institutions collapsed when the Moslem majority asserted itself in the 1970s."

suggests that these practices have carried over into the European Arab community. Yet the two notions—the impact of Islam and the impact of the status of women—are separable: The link between democracy and the status of women may hold whether it is related to Islam or not. One can accept one part of the argument without necessarily buying into the other. The proof of the pudding is in the eating, and Noland (2005c) fails to generate any robust support for these propositions. Contemporary Muslims do not appear to be particularly quiescent.

The most problematic result to interpret is the negative correlation between Arab ethnicity and democracy. Some scholars such as Hisham Sharabi (1988) have argued that elements of Arab culture are authoritarian, which would lend an essentialist causal interpretation to this result. There is evidence that political choices of the Arab governments are indeed distinct and nonsupportive of democracy, relative to either other former British colonies or other Muslim-majority countries. Among the 19 Muslim-majority former British colonies, the 8 non-Arab countries all joined the Commonwealth, while none of the 9 Arab countries did (Stepan and Robertson 2004). This is particularly intriguing in light of former British colonial status being among the most robust correlates with democracy. With respect to more recent behavior, Alfred Stepan and Graeme Robertson document the very different behavior of the Arab and non-Arab Muslim-majority countries with respect to the use of international technical assistance in holding elections and foreign election monitors.

The question is what explains this apparent exceptionalism. In at least one poll Arabs listed “civil rights” as their primary political concern (Zogby 2002), and data from the World Values Surveys and other sources indicate that large majorities of Arabs support democracy (Tessler and Gao 2005). It could be that the interests of the governing elites and the man on the street diverge. The observed result—ubiquitous authoritarian regimes—reflects elite preferences, which may represent particular historical circumstances and political choices and are not intrinsic characteristics of Arab culture per se. This could be related to the relatively common occurrence of governments based at least partly on narrow confessional or tribal allegiances, for which a change in regime might lead to physical danger to the members of the group or close relatives—for example, Iraq under Saddam Hussein or Syria under the Assads. Even in the relatively small, repressive security state of Libya, tribal affiliations are thought to form one basis of loyalty to the regime. Such societies may exhibit complex transitional paths, which may not be well captured by statistical models.

A third possibility is that this result is correct in a statistical sense but in a deep sense really represents a historical artifact—it is correctly capturing a particular historical moment in a geographically defined region but that moment is itself transitory and the identifier “Arab” has little long-run explanatory power.

Along with authoritarianism, another key characteristic of these regimes has been their striking longevity, which can hardly be attributed to demonstrable popular support (figure 1.5). The Arab population share is associated with lower probabilities of liberalization. Obviously this demographic variable changes slowly, and if one takes the result at face value, it suggests that Arab democrats and their supporters may have long waits, indeed. However, if the Arab population share is really a proxy for something that we cannot observe directly—such as antidemocratic preferences among the elites, reliance on narrow constituencies, and/or expenditures on internal repression—then politics in turn may exhibit more abrupt change than the slowly evolving Arab ethnic population share, and plots such as those reported in figure 10.1 may be downwardly biased indicators of the true odds on change. Only time will tell.

In terms of economic policy and outcomes, the impact is ambiguous. Long-lived governments could have low rates of time discount: Confident that they will remain in power for a long period, they may be willing to undertake “patient” policies, expecting that they would be in power when the benefits of a reform begin to accrue and erase from minds the initial hardship imposed by, say, a reduction in tariffs or a devaluation. In the Arab world, Tunisia might be held up as an example of this tendency.

However, in the absence of political competition, dysfunctional choices—at least from a societal standpoint—may represent a stable political equilibrium: Governments may have little to fear from a continuation of bad policies as long as these continue to benefit the groups supporting the government. So while it is logically possible that the absence of political competition could deliver long-term gains to far-sighted governments, our sense of the reality of the Arab world is closer to the case of a lack of political competition enabling substandard practices. The fundamental challenge for the Arab world today is to introduce political competition in a way consistent with the maintenance, indeed improvement, of economic policy. The current trajectory in a number of Arab countries arguably reduces the likelihood of this outcome.

Appendix 10A

Quantitative Modeling of Political Regimes

The character of political regimes is obviously less amenable to quantitative analysis than prices and quantities, which are more naturally expressed in numerical form. Nevertheless, statistical analysis can be useful in weighing the explanatory power of competing and complementary explanations. One can examine these hypotheses in light of summary indicators of regime type and assess how the Arab world stacks up. Analogous to the case of foreign direct investment (FDI) discussed in the previous chapters, one might expect that the Middle East would exhibit low levels of democracy “on the fundamentals,” or it could be that the region’s authoritarianism was truly aberrant relative to a well-conceived international norm.

A large literature on the determinants of democracy offers a number of relatively uncontroversial hypotheses such as the importance of national identity and “modernization,” as manifested in economic and/educational attainment as precursors to the establishment of stable, democratic polities (Lipset 1959, Rustow 1970).¹⁵ A second common set of explanations about democratic performance involves the historical origins of a country’s political institutions. Lipset et al. (1993), for example, have argued that democracy is associated with British colonial rule, a proposition that has generally found empirical support.¹⁶ Subsequent arguments about democratic waves (Huntington 1984, 1993) and regional spillovers or neighborhood effects (Solingen 1998, Gleditsch 2002) have generally been substantiated empirically, and one could think of these explanations—“modernization,” colonial origin, and contemporary regional and global external influences—as forming the core of an analysis of democratic attainment across countries and over time. Analyses also examine the Middle East’s democratic deficit from a regional perspective emphasizing distinctive social or economic at-

15. For a recent review of the literature, see Levine (2005).

16. See Barro (1999), Przeworski et al. (2000), Fish (2002), and Noland (2005c). Per the discussion in chapter 5, Daron Acemoglu, James A. Robinson, and Simon Johnson (2001) argue that the degree of success in transferring metropole institutions to colonies was essentially a political investment decision driven by the presence of colonial settler populations, which were significantly constrained in some locales by tropical diseases and other environmental influences. Unfortunately, their instrument for institutional development, settler death rates, is available for only a limited number of countries, and more easily available, though crude, proxies, such as tropical climate or latitude, were not significant. Other characteristics distinguishing the historical origins of contemporary polities, such as origins of their legal systems, were generally insignificant once colonial origins were taken into account. In other contexts, some have argued that the British colonial effect is derived from the inclusion of small Caribbean island democracies. This argument is not applicable to the results in Noland (2005c), where those small island democracies were not in the sample.

tributes, such as the role of oil and/or rents (e.g., Ross 2001, Herb 2005) or the impact of Islam (e.g., Fish 2002).

All of these approaches, while informative, cannot be definitive because they cannot adequately weigh competing explanations. Although we have no illusions that the examination of data can fully resolve issues that will be turned over and over for years to come, some statistical tests may help to guide thinking on the issues and suggest new possibilities.

Statistically, the only way to parse these competing explanations is to specify a general model and test the nested hypotheses, modeling some summary quantitative indicator of political liberalism such as the Polity IV scores introduced in chapter 1 or similar ratings produced by Freedom House.¹⁷ We review these hypotheses, first examining those related to the role of the state, then more fundamental cultural determinants, with the aim of identifying a synthetic model that would allow us to evaluate the region's democratic deficit. Having identified the determinants of the level of democracy, we then move on to evaluate prospects for change and how such changes could affect the extent of cross-border economic integration.

Hypotheses Relating to the Structure of the State

It has been frequently argued that the existence of large rents that can be captured by the state impedes democracy through such channels as absolving governments from taxation (and accountability), enabling patronage to relieve discontent, and financing institutions of internal repression. In the Middle East, oil production is the dominant, though not exclusive, source of such rents, which do indeed appear to be correlated with authoritarianism and extralegal internal repression. With respect to coercion, ideally one would want data on internal security services, though in real-

17. Among the variables that have been examined include ethnic fractionalization as an inverse proxy for national identity, log real per capita income, log literacy, and log urbanization, representing "modernization," average world level of democracy, average level of democracy of bordering countries (the neighborhood variable), GDP per capita, a dummy for OECD membership, literacy rate, educational attainment measured in terms of years of schooling, life expectancy, telephones and televisions per 1,000 people, college enrollment, population density, urbanization, growth rate of the urban population, international trade openness, a tropical climate dummy, latitude, area, agricultural employment as a share of the labor force, the literacy gender gap, the sex ratio, ethnolinguistic fractionalization, neighborhood and world polity scores, general conflict and Israel conflict dummies, colonial history dummies, legal origin dummies, legal transplant dummies, Hofstede and McClelland cultural indicators, religious affiliation and Arab ethnic population shares, Muslim and Arab population majority dummies, regional dummies including an Arabian peninsula dummy, tax revenue as a share of government revenue, government consumption, rents as a share of government revenue, grants as a share of government revenue, aid as a share of government revenue, a fuel exporter dummy, fuel exports as a share of GDP, an OPEC membership dummy, military expenditure as a share of GDP, and military personnel as a share of the labor force.

ity the distinction between the internal and external security services may be more theoretical than actual. And the Middle East is highly militarized: The Middle East accounted for 9 (10 if Israel is included) of the top 20 countries ranked either by military expenditures as a share of GDP or soldiers per 1,000 persons (US Department of State 2003). These indicators are weakly associated with authoritarianism. The direction of causality is debatable, however—while a history of colonialism or the presence of oil could be regarded as predetermined, whether authoritarians are the patrons or the products of the military is less obvious.

A related explanation might be called the “wag the dog” hypothesis—governments use internal and external conflict to foster undemocratic rule. In the case of the Arab countries, this argument is most often made with respect to the Arab-Israeli conflict, but one could think of it in more general terms, encompassing other conflicts such as Morocco’s fight with the Polisario or Libya’s incursions into Chad. General or Israel-specific conflict variables are occasionally statistically significant in these models but are not robust explanatory variables of the level of democracy.

In sum, the presence of rents and the maintenance of a large military apparatus appear to inhibit democracy through one or more distinct channels. The efficacy of “waving the bloody shirt” is less clear.

Cultural Explanations

One might regard the hypotheses examined thus far as being “structural” in the sense that they relate the degree of democratization to historical origins, external relations, and the structure of the state or the economy. Another class of explanations might be thought of as “internal” or cultural in nature. We start at the level of the individual psyche and then consider hypotheses relating to broader group identity.

At the most basic level, some have argued that the prevalence of particular personality attributes, belief systems, or cultural tendencies make some societies more compatible with democracy than others. This line of thought goes back almost a century to Sigmund Freud’s *Civilization and Its Discontents*, which attempted to explain the origins of World War I. Other connections were made about the origins of totalitarian government by Erich Fromm (1941) and, more generally, by Harold Lasswell (1930). Harvard political scientist Samuel Huntington has forcefully applied this analysis and is a particularly visible, though not singular, contemporary advocate of the psychological view, though hardly a Freudian one. He posits that the prevalence of certain values and beliefs made some societies more compatible with democracy than others, citing David C. McClelland’s (1961) attempt to measure the “need to achieve” based on an analysis of third- and fourth-grade school readers for a sample of countries in 1950 (Huntington

1984).¹⁸ Huntington subsequently argued that the cultural origins of the democratic West lay in its globally distinct emphasis on individualism, invoking the work of Geert Hofstede (1983, 2001), who as part of an IBM management program over 1967–73 administered two rounds of survey questionnaires to 88,000 IBM employees (Huntington 1996).¹⁹ In fact, one of Hofstede’s measures is statistically correlated with democracy—not cultural individualism, the one that Huntington identified, but rather power-distance, a measure of comfort with hierarchy, which is inversely correlated with democracy in a data-constrained sample.²⁰ Such “theories” of democracy have virtually no overlap with the view of Barrington Moore (1966) that the initiation of democracy required an urban middle class that overwhelmed a landed aristocracy, a view not inconsistent with the emergence of democracy in Japan, South Korea, and Taiwan.²¹

Accepting for the sake of exposition the view that polities are individual psyches writ large, the obvious question is, Where do these politically relevant cognitive patterns and beliefs arise from? One controversial answer has been “religion” in general, and Islam in particular, and again Huntington advocates this view, arguing that specific religious or cultural traditions are good or bad for democracy—for example, Confucianism is bad, Buddhism is bad, Calvinism is good (Huntington 1984, 1996). Islam, he argues, is bad, a view that finds support in the writings of scholars such as Elie Kedourie (1992, 1)—“Democracy is alien to the mind-set of

18. Perhaps surprisingly, McClelland’s measure is in fact correlated with democracy in a sample significantly limited by data availability (Noland 2005c).

19. According to Hofstede, statistical analysis of the responses suggested that they could be characterized along four dimensions: a power-distance index (“the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is unequally distributed”); an uncertainty-avoidance index (“the extent to which the members of a culture feel threatened by uncertain or unknown situations”); an individualism-collectivism dimension (“individualism stands for a society in which the ties between individuals are loose. . . collectivism stands for a society in which people from birth onwards are integrated into strong, cohesive in-groups”); and a masculine-feminine dimension (“masculinity stands for a society in which social gender roles are clearly distinct. . . femininity stands for a society in which social gender roles overlap: Both men and women are supposed to be modest, tender, and concerned with the quality of life”). It is fair to say that this research is controversial. See McSweeney (2002) for a critique.

20. See Noland (2005c). Ironically, in earlier work Huntington correctly identified comfort with hierarchy as an antidemocratic cultural attribute: “A political culture that highly values hierarchical relationships and extreme deference to authority presumably is less fertile ground for democracy than one that does not” (Huntington 1984, 209).

21. The triumph of democracy in Japan can be partly attributed to US pressure in the post-war period while that in South Korea and Taiwan may have reflected the emergence of a middle class that increasingly demanded greater freedom, akin to Moore’s (1966) urban bourgeoisie, with this group having to force the hand of governments that were not backed by large landowners. The latter had been marginalized in the reforms of the 1950s, which were urged by the United States.

Islam”—and Stefan Voigt (2005), and the statistical analyses of Robert J. Barro (1999) and M. Steven Fish (2002, 4), who argues that his analysis provides “strong support for the hypothesis that Muslim countries are democratic underachievers.”

This argument is problematic on a variety of levels. First, if the religion hypothesis is correct, it would be helpful, though not essential, to the argument if religious affiliation were the primary characteristic of self-identity. But in general this does not appear to be the case: According to polling data, religious orientation is generally only a secondary source of personal identity in most Arab countries in the Middle East—rather, Arab ethnicity is the primary identifier, followed by religion and nationality (Zogby 2002).²² Likewise when polled, Muslims in general do not express particular hostility to democracy (Tessler 2002, 2003; Pew Global Attitudes Project 2003; Tessler and Gao 2005). Finally, as Alfred Stepan (2001) points out, a close reading of Huntington suggests that he has fallen into the common trap of conflating “Islam” and “Arab.”²³ Arabs make up a minority of Muslims globally, and depending on how one parses individual cases, perhaps 40 to 60 percent of the world’s Muslims live in at least partly democratic countries.

The direct statistical evidence on this point is ambiguous, turning on the subtle issue of who is the relevant comparator group.²⁴ Moreover, Islam, like other religions, is open-ended, subject to interpretation, and widely varying in practice across the dimensions of both time and distance, and the category “Muslim” may be too broad to be analytically meaningful (Zubaida 1995). In particular, other cultural influences in non-Arab Muslim societies, such as pre-Islamic local traditions or the influences of non-Muslim groups such as the Chinese in Southeast Asia or the French in West Africa, may attenuate the impact of Middle Eastern traditions, a proposi-

22. Zogby polled respondents on the importance of family, city/region, country, religion, ethnicity, and social background in self-identity. He did not ask about tribe or clan as such.

23. In the first paragraph of analysis on Islam in Huntington (1996, 174–75), the word “Arab” appears eight times and “tribe” nine times, but there is no mention of South or Southeast Asia.

24. When population shares ascribed to major world religions are added to the core statistical model in Noland (2005c), the coefficients on the Hindu, Buddhist, Jewish, and Protestant Christian population shares are all positive and significant. The coefficient on the Muslim share is insignificant. However, these coefficients are all significantly greater or less than zero relative to the omitted group. If the definition of the omitted group changes, then so will the estimated coefficients. If only the Muslim population share variable is included, it is estimated with a statistically significant negative coefficient—that is to say, if Muslims are compared with all non-Muslims, then they appear distinctly undemocratic. However, if Muslims are compared with a group consisting of agnostics, atheists, Confucians, animists, Shintoists, Bahais, and Rastafarians, among others, then they are not. Fish (2002) argues that what is important is not the Muslim share but whether Muslims are a majority. The results reported in Noland (2005c) do not support this distinction.

tion that finds support in the statistical modeling (Noland 2005c, de Soysa and Nordås 2006). In fact, this modeling suggests that the salient analytical category is “Arab,” not “Muslim,” in explaining the region’s democratic deficit.²⁵ James Zogby’s finding that Arab ethnicity is the primary self-identification category in most Middle Eastern countries lends some plausibility to this conclusion.²⁶

Liberalizing Episodes

The results discussed thus far pertain to the level of democracy in the Arab countries. Another characteristic has been the stability of the region’s authoritarian governments. A number of nonmutually exclusive hypotheses explain stability: relative absence of economic or social change that would generate demands for alterations in the status quo; unusual quiescence on the part of the populace; distinctively effective investment in instruments of repression by the elites; and prevalence of governments with narrow bases of support in tribal, ethnic, or religious minorities. Some of these theories are more amenable to modeling than others (in particular, theories that focus on country or regime characteristics as opposed to those that emphasize a country’s relation to the world system), and even among explanations centering on internal characteristics, there are issues of data availability, at least at the cross-national level.²⁷

25. When the Muslim population share of each country was weighted by dividing by the distance between the national capital and Mecca (i.e., the weighted Muslim share declines with distance), the distance-weighted variable had a higher statistical significance. Moreover, when the ethnic Arab population share was added to the model and estimated with a negative coefficient more than twice as large as the Muslim population share coefficient, and when entered jointly, the Muslim population share variable lost its statistical significance—suggesting that the relevant variable is “Arab,” not “Muslim.”

26. Many Muslims and Arabs live in oil-exporting countries. As a consequence, it is important to model the potential relationships among these variables carefully; otherwise one runs the risk of misattributing the influence of one variable to the other. For example, Fish (2002, tables 2 through 5), after appearing to establish that OPEC membership is a robust negative correlate with democracy, inexplicably drops the OPEC variable when analyzing the influence Islam and the status of women have on democracy (Fish 2002, table 10). This is practically a textbook example of probable omitted variable bias. When in Noland (2005c) the Muslim population share and oil exporter variables are entered jointly, both are significant. When the Arab population share is entered jointly with the oil exporter dummy, the coefficient on the oil exporter variable becomes insignificant. When all three are entered together, only the coefficient on the Arab ethnic share is statistically significant. Indra de Soysa and Ragnhild Nordås (2006) do not do a comparable nesting, so it is impossible to know whether they would obtain the same result.

27. For example, many commentators emphasize the role of worsening income or wealth distribution or perceptions of relative deprivation in political motivation (e.g., Gurr 1970). However, historical, cross-country comparable income distribution data are not widely avail-

As in the previous section one can think of the drivers of political change as coming in the form of environmental or structural characteristics, specific country characteristics, and particular attributes that might have particular salience in the Middle Eastern milieu.²⁸

The statistical analyses suggest that the global political environment and individual countries' past political histories have a significant impact on the likelihood of political liberalization at any given point in time. With respect to the former, political liberalization comes in waves: the greater the worldwide level of democracy, the greater encouragement of and shorter waiting time for a liberalizing breakthrough in any particular country. As for the latter, the more a country has liberalized in the past, the less likely it is to experience further liberalization as it encounters a kind of democratic asymptote.

The other robust correlates are variables that relate more directly to country performance or characteristics. Since we are now considering the likelihood of change at a given point in time, drivers that vary temporally are of greater interest. It has been argued that economic crises can be destabilizing for authoritarian regimes in general (Haggard and Kaufman 1995) and Middle Eastern regimes in particular (Lust-Okar 2004). In fact, conditional on the other variables, the more rapid the growth of per capita income growth, the longer the waiting time for transition—i.e., in the short run economic performance buys a certain degree of popular acquiescence, though in the long run rising incomes augur against authoritarian rule. This effect could be particularly salient for the oil exporters, which experience substantial volatility in income growth associated with swings in the price of oil, or countries like Syria and Yemen where oil reserves are expected to be exhausted in the relatively near future. Likewise, more educated populations are more demanding. The statistical results indicate that the higher the rate of literacy, the shorter the waiting time for a democratic transition.

Surprisingly, the degree of international trade openness is associated with longer waiting times for liberalizing breakthroughs, though some might point to the history of East Asia, where countries democratized at relatively high levels of per capita income after adopting an outward-oriented development model. It would be erroneous to conclude from

able, and data on wealth distribution or subjective appraisals of relative deprivation even less so, and existing research on this fragmentary data does not yield robust conclusions. See Perotti (1996), Drazen (2000), and Przeworski et al. (2000) and sources cited therein.

28. So as a starting point, the variables employed in the previous section to predict the level of democracy were used to model its advent. Appended to this list were other variables such as prior history of liberalizing transitions, population density, growth rate of urbanization, country size, international trade openness, dependency on trade taxes, and inflation, which in previous studies had been found to be statistically associated with the likelihood of political regime change.

these results that as a policy matter one should oppose economic growth or support closure to trade as a means of encouraging democratization—we still drive cars even though they contribute to traffic accidents. Both trade and growth are themselves desirable, and in the long run, prosperity contributes to expectations of political liberalization. However, in the short run, these forces may act as a kind of safety valve for discontent.

The previous discussion of the level of democracy pointed to several hypotheses derived from Middle Eastern studies that suggested that particular characteristics associated with the region might impede democracy. In some previous research, trade taxes have been shown to be associated with political instability—imposing trade taxes and delinking from the world economy encourages lawlessness in forms such as smuggling and underinvoicing and contributes to the delegitimization of the political regime. (Though it could be argued that causality runs in the other direction: Weak regimes rely on trade taxes because they are relatively easy to collect.) And indeed there is some evidence that the imposition of trade taxes is associated with a shorter waiting time for a democratic transition. Think Boston, circa 1773.

However, paralleling the results discussed in the previous section, the Arab population share is associated with significantly longer waiting times for liberalizing transitions. Again, one can think of multiple interpretations of this statistical result: that it reflects some essential characteristic of Arab culture or that the Arab population share variable is acting as a proxy for omitted variables, such as expenditure on internal security forces, the ruthlessness of minority-based regimes, or the political economy of rent-based patronage. But in this context, the Arab population share changes only slowly—it amounts essentially to a fixed effect that reduces the probability of liberalization but does not have much of an impact on changes in its likelihood from year to year. In this sense the difference of the two interpretations of the Arab population share variable is potentially important, with the former implying a semipermanent drag on democratization, while the other indicates that the statistical models may not do a good job of predicting the timing or extent of political change looking forward. The expected likelihood of a liberalizing transition for the eight large Arab countries is plotted in figure 10.1. If it is the case that Arabs are unusually quiescent, then figure 10.1 may provide a credible indication of the level and evolution of the likelihood of a liberalizing breakthrough.

In figure 10.1 it is apparent that the likelihood of a liberalizing transition in these countries was quite low at the beginning of the sample period and generally increased to something like 5 percent in any given year for the group as a whole. However, this increase has not been monotonic. For several countries there was a noticeable spike in the probability of a liberalizing breakthrough in 1989 or 1990, during a worldwide democracy wave, a

period in which Algeria and Jordan experienced openings.²⁹ According to Thomas Carothers (2002), the relatively tentative (and possibly reversible) process of liberalization in the Arab countries may be more typical of the worldwide experience in political development over the past generation than the more well-known and decisive breakthroughs previously cited such as occurred in Spain, Brazil, South Africa, and Romania.

29. The spike for Morocco came later, primarily a product of the world conditions together with poor economic performance in Morocco during the early 1990s. In both cases the likelihood of a breakthrough in a particular year peaked at more than 20 percent, a substantial likelihood, though one well under a 50 percent probability. Morocco, which did not experience transition, adhered to the prediction of the model, whereas in some sense Jordan beat the odds. The models could be interpreted as indicating that the odds on liberalizing episodes occurring in any given year are generally low but rising, as relatively poor economic performance combined with increasing levels of education erode popular acquiescence to authoritarian governance.