



## Rebuilding Devastated Economies in the Middle East

*Author: Leonard Binder (ed.)*

*Publisher: Palgrave Macmillan, 2007*

---

Reviewed by Eckart Woertz  
Program Manager Economics, Gulf Research Center

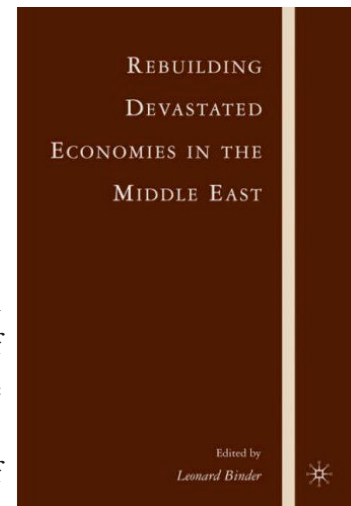
---

This edited volume deals with Middle Eastern economies that have suffered from economic devastations caused by war and civil war, namely Algeria, Sudan, Lebanon, Yemen, the Palestinian Territories, Iraq and Afghanistan. Against the backdrop of the changing power politics in the region since the end of the Cold War and the country-specific characteristics of the political economies of the respective states and their heavy reliance on external rents, the authors explore how ways of economic recovery could be developed.

In his introduction Leonard Binder adopts the stance that economic recovery and development is possible if a course of market liberalization and democratization is followed. A necessary precondition would be that the remnants of the old Kemalist-Nasserist development models in the region and unproductive redistribution modes of local rentier states are overcome. However, he pleads for a pragmatic approach: “The key to rebuilding devastated economies is not the effective elimination of all partisan rent seeking. It is rather the strategic manipulation of the allocation of rents to

balance the expansion of participation with the growth of the economy and the gradual enhancement of the role of private capital.”

The end of the Cold War and the Kuwait War of 1990 are regarded as the beginning of a regional transformation. The US policy switched from containment of the Soviet Union to prevention of regional hegemony like Saddam Hussein. Binder acknowledges that “there is little evidence that (the US Greater Middle East Initiative/GMEI) was ever considered a serious instrument for achieving a major foreign policy goal,” and that the US rather aimed at international and regional power politics to maintain its influence. Nevertheless, Binder endorses the basic focus of the GMEI towards political and economic liberalization and explores how the Middle Eastern states of war-devastated countries have reacted to external and internal pressures to reform and the role they have



to play in the respective reform processes. He gives three major characteristics of the political economies of war-torn states in the Middle East: Ethnic conflict and resistance to appropriation of rents along ethnic fault lines (Afghanistan, Iraq, Sudan, Lebanon) has led to economic decline and limited sovereignty of the respective states over their territory. The petroleum-exporting economies in the group (Algeria, Iraq, Sudan) command populations in excess of 30 million people which has rendered an equitable distribution of the oil rents over the whole society difficult and in conjunction with other factors has often encouraged the reliance on narrow-based regimes (more than a clan, less than an ethnic group: Yemen, Saddam's Iraq, Sudan, Afghanistan) at the expense of broader-based inclusive solutions.

Some authors in the book are less optimistic than Binder about potential success stories. They regard violent conflict more as an outcome than as a cause of economic devastation and see economic devastation not necessarily confined to war torn countries. Kiren Aziz Chaudry sees the Arab world in a "state of long-term crisis" with growing poverty and rising inequality since the 1980s. Extreme levels of economic instability in the region since 1973 have deeply affected the social political and psychological fabric of the region, prevented long term planning and transparent institutional arrangements on every level and consequently benefited the occurrence of corruption and nepotism. Lack of water and food security and a high share of largely uneducated youth further add to a structural problem. Overt reliance on volatile resource markets and associated erratic boom bust cycles make Chaudry much less enthusiastic about market forces and neo-liberal reform measures. She discusses the viability of official data and launches a scathing attack on predominant views among international institutions like the IMF and the Arab Human Development Report that liberalization, democratization and education could form a panacea to Arab economic woes. According to her, neo-liberal

reforms instead added to the growing poverty and inequality in the region as much as sanction regimes (e.g. Libya, Iraq) and violent conflict.

Bradford Dillman deals with the effects of illicit international transactions on economic recovery, such as wealth flight out of a country, erosion of trust and discouraged foreign investment. Rather than identifying criminal mafia gangs and terrorists as likely suspects, he sees the most frequent occurrence of such illicit transactions originating from members of the state apparatus itself and their allies in the private sector. He cites examples of misappropriation and embezzlement of government funds by high ranking government officials in Iraq, Palestine and Algeria. Economic liberalization according to the Washington consensus has thus often led to undesired results like the creation of shadow networks and a dubious "privatization" of the state. International resource inflows were used by elites to "bolster extra-budgetary funds, consolidate patronage and re-regulate the economy." Greater budgetary transparency is certainly needed, but like the re-establishing of the government's monopoly on the legitimate use of force it has to rely on the very culprits in power who have engaged in illicit activities in the first place. Thus, such a process can actually lead to more corruption if not accountable to an electorate. Therefore Dillman pleads for a pragmatic approach that may involve the partial legalization of illicitly appropriated wealth in order to reinstate a functioning government. As the state is the cause of as well as the remedy for illicit transactions in this line of argument, the reader is left with a typical Catch-22 situation.

Mary Ann Tétreault sees oil wealth as an unlikely ally in any reconstruction effort as "it tempts governments to engage in corruption and militarization and, paradoxically, to accumulate foreign debt." Additionally, it can easily expose a country to counterproductive intervention by great powers. She illustrates how the dependence on volatile oil markets has negatively affected oil exporters in the

past and how the oil wealth only accrued to a small minority, while its potential for employment creation is miniscule as oil production is highly capital intensive. She thus seems to agree with Dillman who regards oil “still the only game in town when it comes to grand corruption.” Like Chaudry, she emphasizes negative outcomes of unregulated market forces and recommends effective democratic checks and balances in order to alleviate the worst imbalances of oil-based economies, discussing Kuwait as a positive example, though with some caveats. She furthermore raises the question whether strategies of partial self-sufficiency and Keynesian economic stimulation may be not as bad as the neo-liberal mainstream suggests. While this appears laudable given the current massive occurrence of market failure in the wake of the subprime crisis, it must be questioned whether the state has the same regulatory capacities like in the heyday of these strategies in the 1950s and 1960s. When Tétreault complains that the “global economy (...) has plundered households, socializing too many of the costs of production and privatizing too many of the benefits,” one is tempted to ask whether this isn’t what capitalism has been about all the way, as any medieval peasant facing enclosures could attest. The regulating moves of the state to tame and nourish the erratic market in an often paradoxical relationship have been aptly described by Karl Polanyi whom Chaudry quotes in her article, but Tétreault seems to take insufficient stock of the structural crises that led to the failure of her aspired development models in the first place and she does not acknowledge the severe limitations of state intervention in a globalized environment, especially if it is supposed to come from weakened, overtly indebted and privatized states.

Lebanon, Algeria, Yemen, Afghanistan, Sudan and Iraq are discussed in specific articles. Samir Makdisi stresses the importance of the state and improved governance in rebuilding the Lebanese economy. At the same time he sees weakened capacities to govern in the Lebanese political sys-

tem, caused by a widespread hijacking of the state by private and sectarian interests. Miriam R. Lowi dates the occurrence of economic devastation in Algeria to the civil war in the 1990s and attributes it to a “patrimonial system of clan politics elaborated by a military-bureaucratic oligarchy, which, along with its clients, are the principal beneficiaries.” Like Tétreault she pleads for less reliance on oil rents but like Binder she is more favorable to a considerate market oriented approach that establishes the rule of law and effective institutions as a necessary prerequisite - after an indispensable period of national reconciliation.

The case of Yemen is portrayed by Sheila Carapico as a textbook example of reliance on external rents and the havoc that can be wreaked if they suddenly cease to flow. Cases in points are the decline of foreign aid from the Eastern and Western patrons of the two Yemens after the end of the Cold War or the fall in workers’ remittances after 750,000-800,000 Yemenis were expelled from Saudi Arabia as the government of the unified Yemen sided with Iraq during the Kuwaiti occupation. Poverty rates in Yemen doubled in the 1990s and real GDP per capita declined from \$600 to \$300, exacerbated by a looming water shortage and rapid population growth. Together with depressed oil prices and declining public services in the 1990s this led to the civil war of 1994 – once again the author sees war as the consequence rather than the cause of economic devastation. More convincing examples for the opposite are Sudan and Afghanistan, where war has been the rule not the exception over the last decades. Ibrahim Ahmed Elbadawi and Marvin G. Weinbaum, respectively, deal with these two countries.

Elbadawi sees an “underdevelopment trap” in Sudan at work caused by poverty and conflict, both of which he traces back to the colonial period and the corresponding cotton based economy, that developed institutions, which were not suitable for broad based development and led to a development gap between the cotton growing

North and the South. With the peace agreement of 2005 he sees a real chance of alleviating poverty and achieving the UN's Millennium Development Goals (MDG). Against the backdrop of 3 percent population growth this would require, however, average real growth rates of 8 percent and the necessary investments would need to come partially from foreign aid and FDI in non-oil sectors. Especially the underdeveloped South would require above average investment rates. The Afghan case as well requires international assistance, resolution of center-periphery differences, institution building and improved governance, according to Weintraub. Necessary prerequisites for this to happen are an improved security environment and a corresponding reduction of the drug trade, which equals about 50 percent of the licit GDP. His demand for economic liberalization appears slightly odd, however, as by his account the Afghan economy is largely unregulated and informal – there does not seem to be much left that could be liberalized or privatized in the failed state of Afghanistan.

Bassam Yousif deems the “brusque liberalization and rushed privatization” of the Iraqi economy by the occupying American regime a failure, that was unable to establish legitimacy for a necessary reform process among the population. Large parts of the Iraqi state owned companies are uncompetitive by international standards and the dissolution of the army led to increase unemployment, while

investments by the US regime were largely not geared towards the civilian economy and predominantly employed foreign companies and contractors. Instead, he argues for a gradual approach and a public investment program aimed at lifting living standards of the poor by guaranteed public employment in labor intensive reconstruction work.

To sum up, the volume provides very interesting case studies, but the various articles are only scantily held together by the overarching theme – rebuilding war torn economies. Many authors see economic devastation rather as a cause than as a consequence of war and views about possible remedies vary considerably ranging from Washington consensus like measures to partial self-reliance. Thus the book reflects a certain perplexity about development strategies and considerable differences between the war-torn countries in question. One can hardly derive ‘one size fits all’ solution from the different analyses, though consensus exists that reestablishing the power of the state and improving security is a necessary precondition of any development. Even authors who aim at market liberalization find themselves talking mainly about the state. It would have been helpful to discuss these marked divergences between the authors in a clearer cut fashion and provide an annex with biographical notes about the authors in order to learn more about their previous work and understand from which academic approach they come.