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Globalization, International Finance, and Political Islam in the Arab World

Hamed El-Said and Jane Harrigan

This article looks at one important aspect of globalization in the Arab World, namely the provision of international finance by the US, the International Monetary Fund (IMF), and the World Bank in support of economic liberalization programs. This flow of international finance has been partly determined by geopolitical factors and in some countries has resulted in a decline in state provision of social welfare, increased poverty, and increased inequality. Not only has this form of globalization been increasingly challenged by Islamist groups, but many such groups have moved in to provide social capital and fill the welfare gap created by the gradual withdrawal of the state from socio-economic affairs. Globalization has thus strengthened the hand of political Islam and undermined the political legitimacy of incumbent regimes.

Globalization has become a buzzword today, but it is one of the driving forces behind international economic relations. Although its reach so far has been uneven, it continues its “encroachment” across developing regions, including “the Arab World.”¹ While the globalization process, or *al-awlamah* as it is referred to in Arabic, has been much debated and analyzed, the analysis remains less global than it is thought to be, and limited in its focus to the wealthy sectors of the globe. As Mittelman puts it: “Globalization studies are not really global. Rather globalization research mainly centers on, and emanates from, the OECD countries... from Western intellectual tra-

Dr. Hamed El-Said is a former researcher at the Centre for International Studies, Royal Scientific Society, then the research arm of the office of His Royal Highness Prince Hassan Bin Talal. He is the co-editor of *Management and International Business Issues in Jordan* (The International Business Press, 2002). His forthcoming work includes *Jordan: The Dilemma of Reform in a Rentier Economy* (2007) and *Globalisation, International Finance and Political Islam in the Arab World* (2007) the latter of which will be co-authored with Dr. Jane Harrigan. Dr. El-Said is currently a Senior Lecturer in International Business Relations at the Manchester Metropolitan University Business School. Dr. Jane Harrigan is a former consultant to the Malawian government. She is the author of *From Dictatorship to Democracy: Economic Policy in Malawi 1964-2000* (Ashgate, 2001), and co-author of *Aid and Power* (Routledge, 1995). She is currently a reader in economics, and the Head of the Department of Economics at the School of Oriental and African Studies (SOAS), University of London. The UK Department for International Development (DFID) supports policies, programs, and projects to promote international development. DFID provided funds for this study as part of that objective but the views and opinions expressed are those of the authors alone.

1. N. Ayubi, *Over-Stating the Arab State* (London: I.B. Tauris, 1995), pp. 329 and 337.

ditions and practices.”² Only the Asian continent has recently received sufficient attention in this regard, thanks to the financial crisis that hit the region in 1997-1998 and attracted worldwide attention to the possible negative socio-economic impact of premature globalization.³ Globalization studies emanating from and centering on the Arab world remain limited, carried out mostly by officials from the International Monetary Fund (IMF), World Bank, or other “members of an elite — a minister of finance or the head of the central bank — with whom the Fund [World Bank or World Trade Organization] might have a meaningful dialogue.”⁴ Therefore, these studies appeared blindly pro-globalization, a fact which led them to overstate the benefits and understate the costs, including the political costs, of globalization.⁵ As such, they are largely devoid of any political analysis, suffering from what Cook and Minogue describe as “politics-blindness.”⁶

This article aims at addressing this gap in the literature by focusing on one channel through which globalization has been introduced into the Arab world, namely, the provision of international finance that is contingent upon economic reform conditions entailing liberalization and “opening” of the recipient economies. The authors are fully aware of the immense current debate over the controversial and contested concept of globalization. This paper does not concern itself with this debate, but refers interested readers to some of its main literature.⁷ Globalization is simply used here to refer to increased economic “openness” and intensification of international

2. J. Mittelman, “Globalisation: Captors and Captives,” *Third World Quarterly*, Vol. 12, No. 6 (2000), p. 917.

3. See, for example, *Third World Quarterly*, which devoted its 2000 edition to the discussion of the social impact of globalization in Asian countries that were most severely affected by the 1997-98 financial crisis.

4. J. Stiglitz, *Globalization and Its Discontents* (London: Penguin Books, 2002), p. 41.

5. See, for example, M. Halaqah, *Jordan’s Accession to the World Trade Organisation: Challenges and Perspectives*, Working Paper, (Amman: Sindebad Publishing House, 2000); P. Alonao-Gamo, S. Fennell, and K. Saker, *Adjusting to New Realities: MENA, The Uruguay Round and the European Union Mediterranean Initiative*, IMF Working Paper (Washington: IMF, 1997); N. Shafiq, ed., *Prospects for Middle Eastern and North African Economies: From Boom to Bust and Back?* (London: McMillan, 1998); D. Vandewalle, ed., *North Africa: Development and Reform* (New York: St. Martin’s Press, 1996).

6. P. Cook and M. Minogue, “Waiting for Privatisation in Developing Countries: Towards the Integration of Economic and non-Economic Explanations,” *Public Administration and Development*, Vol. 10 (1990), p. 400.

7. There is a heated debate going on between what has come to be known as “hyper-globalists” and “critics” over the concept and definition of globalization, when it really started, its extent and scope, and whether globalization is a completely new phenomenon or a continuation of long historical developments. For more details, see P. Dicken, *Global Shift: Reshaping the Global Economic Map in the 21st Century*, (London: Sage, 2003) chapter one; D. Held, *A Globalising World? Culture, Economics, Politics* (London: Routledge, 2000); World Bank, *On The Threshold of the Third Globalisation: Why Liberal Capitalism Might Fail?* (Washington DC: Research Department, December 1999); P. McMichael, “Globalisation: Myths and Realities” in Roberts & Hite, *From Modernisation to Globalisation* (2000); R. Wade, “US Hegemony and the World Bank: the fight over people and ideas,” in *Review of International Political Economy*, Vol. 9, No. 2 (Summer 2002).

integration of Arab economies over the past two decades. This process is usually associated with key reform policies such as privatization, trade liberalization, and capital market and financial deregulation promoted, in most cases, by international multilateral institutions, particularly the IMF, World Bank, and more recently the World Trade Organization (WTO). The former two institutions and their ideology, along with the US Treasury, are usually referred to in the literature as the “Washington Consensus,” while the latter (WTO) is sometimes referred to as the “Geneva Consensus.” The IMF, World Bank, and WTO are also viewed by most observers as the main ambassadors and “important vehicle” for globalization.⁸

It is also important to bear in mind here that we believe that globalization can, and indeed has, delivered large benefits in certain circumstances, particularly when implemented gradually and properly in terms of pace and sequence, as in China over the past two decades, for instance.⁹ It is only when globalization is implemented prematurely, as has sometimes been the case under the auspices of the IMF, World Bank, and WTO, that it has been associated with negative social and economic consequences. Therefore, the aim of this article is not really to question the rationale behind globalization, which has been extensively researched and debated elsewhere.¹⁰ Nor does this article attempt to provide a blueprint for what globalizing and liberalizing Arab states should or should not do. Rather, the article hopes to fill an important gap in the literature by shedding some light on the process of globalization in the Arab World from a political economy perspective. It focuses on the question of what has really been happening, rather than on what ought to be happening.

This article is based on four main arguments: 1) The flow of international finance from official organizations, particularly those based in Washington, to the Arab region has been partly determined by geo-political factors, namely Washington’s desire to support pro-Western regimes; 2) The economic reform conditions attached to this finance have often resulted in a decline in state provision of social welfare, increased poverty, and increased inequality; 3) This form of globalization has been increasingly challenged by Islamist groups that have moved in to provide social capital and fill the welfare gap created by the gradual withdrawal of the state from economic affairs; 4) Globalization, by restricting the ability of the state to protect the poor, has strengthened the hand of political Islam¹¹ and undermined the political

8. Wade, “US Hegemony,” p. 216. Also see G. Dunkley, *The Free Trade Adventure: The WTO, the Uruguay Round and Globalism – A Critique* (London: Zed Books, 1997).

9. See Stiglitz, *Globalization* and S. Wang, “The Social and Political Implications of China’s WTO Membership” *Journal of Contemporary China*, Vol. 9, No. 25, (2000).

10. J. Toye, *Dilemmas of Development* (Oxford: Blackwell, 1987) and Dunkley, *The Free Trade Adventure* provide a comprehensive discussion and critique for free trade arguments. Also see M. Florio, “Economists, Privatisation in Russia and the Waning of the Washington Consensus,” *Review of International Political Economy*, Vol. 9, No. 2 (Summer 2002), pp. 374-415, Wayne Ellwood, *No Non-Sense Guide to Globalisation* (London: Verso, 2004).

11. R. Woltering in his paper “The Roots of Islamist Popularity” *Third World Quarterly*, Vol. 23, No. 6 (2002), pp. 1133-1143, defines political Islam as the desire for the Islamization of society, which requires replacing the existing political system with a usually — undefined — Islamic one. The imple-

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legitimacy of the very same incumbent regimes Washington sought to support, forcing these regimes to become increasingly authoritarian.

The article proceeds as follows: section two looks at the evidence in support of our first argument, namely, that geo-politics has exerted influence over financial flows to the Middle East and North Africa (MENA). Section three examines the view that economic reform conditionalities attached to such finance have resulted in declining social welfare in the region. Section four examines the hypothesis that the resulting decline in state welfare provision has created a space for Islamic groups with political aspirations to attract support by providing welfare and various forms of social capital. Section five examines the reaction of incumbent regimes to the growth of anti-globalization and political Islam, while section six summarizes and concludes with some remarks regarding policy implications.

INTERNATIONAL FINANCE, GLOBALIZATION, AND GEO-POLITICS

An important route through which aspects of globalization have been introduced throughout the developing world over the past two decades is the provision of international finance with attached economic reform and liberalization conditionalities. The IMF and the World Bank are the two principal multilateral institutions involved, with their provision of finance in support of stabilization and structural adjustment programs.¹² Stabilization programs usually involve expenditure reduction through cuts in government expenditure, tight monetary policy, and devaluation. Structural adjustment programs (SAPs) typically involve switching production towards the tradable goods sector of the economy as well as liberalization measures to enhance economic efficiency such as trade liberalization, removal of price distortions, rolling back the state, and privatization programs. In addition to financial support from the two Washington multilaterals, finance for the reform programs is often provided by other multilaterals such as the European Union (EU), as well as by bilaterals such as the United States Agency for International Development (USAID). In addition, programs are often supported by substantial debt rescheduling or write-off by both official and private creditors.

During the 1980s many developing countries, facing economic distress caused by a combination of weak domestic policy and exogenous shocks signaled by large

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mentation of *shari'a* is a common goal although this term is more of a collective noun than a reference to a specific body or system of law. He contrasts political Islam with Christian-Democratic parties in Western Europe, Hindu parties in East Africa, and the Jewish Shas Party in Israel since the latter aim to work within the given political system they operate under whereas political Islam aims to overthrow the existing system in favor of "something Islamic."

12. Stabilization programs have been extensively analyzed. See for example T. Killick, *IMF Programmes in Developing Countries: Design and Impact* (London: Routledge, 1995) and G. Bird, *IMF Lending to Developing Countries: Issues and Evidence* (London: Routledge, 1995). For an analysis of World Bank structural adjustment lending see P. Mosley, J. Harrigan and J. Toye, *Aid and Power: The World Bank and Policy Based Lending*, Vols. I and II, (London: Routledge, 1995).

balance of payments and public sector deficits, were forced to turn to the IMF and World Bank for financial support in return for economic reform programs. The Arab world was no exception.

It is usually argued that the 1980s was a lost decade for Latin America, which achieved an average annual growth rate of around 1%. But the performance of Arab economies was even more disappointing. During 1981-1990, the Arab world stagnated, achieving almost zero growth. Even in terms of debt, the Arab world's performance was also disappointing. While the region accumulated less external debt than other developing regions in the 1980s, the Arab world, with a weak and largely undiversified industrial base, emerged in the 1980s as the second largest indebted developing region, after Latin America.

A combination of internal and external factors explain the disappointing economic performance of Arab economies since the early 1980s. The former include poor economic management, corruption, and high and prolonged periods of heavy protection that led to large waste and inefficiencies. External factors include deterioration in terms of trade and collapse in international oil prices, a fact which drastically reduced revenues of Arab oil-rich states and, in turn, diminished their ability to continue their large official assistance to other Arab oil-poor countries. The latter states were also hit by the decline in demand for their workers in the Gulf, thus lowering the volumes of one of their most important sources of foreign exchange, namely, remittances from workers abroad. Global economic slow down, which reduced demand for the region's main exports, did not help either, while higher global interest rates triggered a debt crisis in several Arab states. The outbreak of financial crisis in the 1980s gave international financial institutions (IFIs) the opportunity to effect change in the direction of unfettered free market economy. Sudan in 1979/1980, Morocco in 1983, Tunisia and Egypt in 1987, and Jordan in 1989 all turned to the IMF and World Bank for financial and technical assistance. Algeria, Yemen, and Lebanon followed suit during the 1990s.

The prescriptions of the IMF and World Bank, in the form of stabilization and SAPs, in the Arab world were typical of these institutions, embracing policies not much different from the those prescribed to developing countries in other regions, such as Latin America, Sub-Saharan Africa, or recently in Southeast Asia. As one observer of reform in the Arab world put it: the Washington "institutions duly came to the rescue, with their never-changing diagnosis and the set formula that accompanies it: suppressing demand, encouraging exports, and reducing the weight of the state."¹³ In order to "roll the state back" in the region, the "Washington Consensus" institutions demanded large cuts in government spending, the imposition of new taxes, immediate trade liberalization combined with large currency devaluations, a massive reduction in tariffs and elimination of non-tariff barriers, privatization of state owned enterprises, and price and financial deregulation. All of these policies figured prominently

13. Ayubi, *Over-Stating*, p. 332.

in SAP packages signed with every local government in the Arab world.¹⁴

On the political front, things were also evolving. New regimes emerged in several Arab states, including first in Egypt (1981), Algeria (1981 and later), and Tunisia (1987). Then within the span of two years, between 1998 and 2000, the Arab world witnessed the departure of some of its longest standing rulers, first in Jordan then in Bahrain, Syria, and Morocco, respectively. The departure of old rulers marked the end of one era and the beginning of a new one. The new and younger rulers differed in many ways, including their experience, academic qualifications, and their understanding for and faith in the free market and democratization. They all turned out to be more economically and, at least initially, politically liberalizing than their predecessors. With varying degrees, each regime embraced some form of economic and political reform and *infatih* (opening); with regimes in Jordan, Morocco, and Tunisia generally perceived as the “most advanced” and “successful reformers” in the region,¹⁵ “good pupils of the IMF” who followed its “commandments religiously.”¹⁶

Despite the obvious economic need for external finance and reform in many countries in the region, the flow of international finance has been determined as much by geo-political factors as by economic need. International developments have intertwined with regional ones to produce a mix of factors that have exerted a strong pull on financial flows. The collapse of Communism in the late 1980s and early 1990s not only ended the Cold War between the two major superpowers, but also the conflict between the two major ideologies, capitalism and Communism. The former US policy of “containment” of the communist threat in the region, which authorized large and unconditional financial and military backing for conservative Arab regimes, was rendered irrelevant, and the environment of the “new world order” (NWO) seemed to be pushing in the direction of economic (and to some extent political) liberalization.

But the military establishment of the West, particularly in the US, was preparing itself to nominate a new rival to guarantee its survival, largely undermined by the end of the Cold War. Even before the collapse of Communism in the late 1980s and early 1990s, a new theory was emerging to the effect that “Islam [is] the new Communism and” that it therefore represents “a grave threat to Western civilization.”¹⁷ “Rogue

14. R. Dhumale, “Public Investment in the Middle East and North Africa: Towards Fiscal Efficiency,” *Development Policy Review*, Vol. 18 (2000); I. Harik and D. Sullivan, eds., *Privatisation and Liberalisation in the Middle East*, (Bloomington and Indianapolis: Indiana University Press, 1992); T. Niblock and E. Murphy, eds., *Economic and Political Liberalisation in the Middle East* (London: British Academy Press, 1993); Shafiq, *Prospects*; Vandewalle, *North Africa*; IMF, *Building on Progress: Reform and Growth in the Middle East and North Africa* (Washington: Middle East Department, 1996); M. El-Erian, S. Eken, S. Fennell, J. P. Chauffour, *Growth and Stability in the Middle East and North Africa* (Washington: IMF, 1996).

15. Shafiq, *Prospects*, p. 8.

16. K. Pfeifer, “Between Hard Rocks and Hard Choices: International Finance and Economic Adjustment in North Africa” in D. Vandewalle, ed., *North Africa: Development and Reform* (New York: St. Martin’s Press, 1996), p. 40.

17. S. Niva, “Between Clash and Cooptation: US Foreign Policy and the Spectre of Islam,” *Middle East Report*, Vol. 28, No. 208 (Fall 1998), p. 27.

States,” mainly characterized by a strong Islamic slant and/or dissent from the “Washington Consensus” and order, were to be disciplined and contained: “states that resist the Pax-Americana face economic and political isolation and no longer have a super-power sponsor to turn to for support,” and, if they persist in their challenge, “can expect to feel the sting of American military might.”¹⁸ Obedient conservative regimes or allies, on the other hand, threatened by Islamists, were to be rewarded for serving Western interests, and “supported... in their brutal repression of all shades of Islamist activism in the name of eradicating terrorism.”¹⁹ The upshot was a subversion and arrest of the region’s nascent process of political liberalization. The end of the Cold War not only gave the US government the chance to dictate its will in the region, but also divided the Arab world into “friends or allies, or good or bad” regimes.²⁰

There is ample anecdotal evidence to support the view that the above types of geo-political factors have had a strong influence on the flow of international finance to the Arab region. Collaborating with the IMF, World Bank, and the US, or even joining the WTO, carried the potential of keeping aid, albeit with more economic conditions attached to it than ever before, flowing into regional allies.²¹ While the “bad” or “rogue states” of Syria, Iran, Sudan after 1981, Algeria until 1994, and Iraq until the fall of Saddam Husayn in 2003 prevented officials from the IMF and World Bank from setting foot in their territories, the “good” and friendly states of Tunisia, Morocco, Egypt, and Jordan were among the first to cooperate with these institutions. They were also the first to join the WTO, after meeting its mammoth entry requirements in record time. Washington not only used its influence inside IFIs to soften IMF and World Bank conditionality as well as the WTO’s entry requirements, but also, along with the EU and Japan, “repeatedly and generously lubricated” their reform efforts by “financial assistance to ease the pain and political costs to the regime of early austerity phases of SAPs.”²² US officials hoped to stabilize and support the regimes of their Arab allies by providing friendly regimes with financial and military support, and by developing them into “regional showpiece[s] of globalization.”²³

Jordan, Morocco, Tunisia, and Egypt, viewed by Bretton Woods institutions as successful examples of globalization and the most advanced reformers in the region, have all received politically motivated and favored access to international finance in the form of multilateral and bilateral grants, debt rescheduling and write offs, as well

18. S. Hubbell, “The Containment Myth: US Middle East Policy in Theory and Practice,” *Middle East Report*, Vol. 28, No. 208 (Fall 1998), p. 9.

19. Niva, “Between Clash,” p. 27.

20. V. Perthes, “Points of Differences and Cases for Cooperation: European Critique of US Middle East Policy,” *Middle East Report* (Fall 1998), p. 30.

21. When asked about the expected benefits from joining the WTO, for example, the main benefit highlighted by Jordanian officials at the Ministry of Planning was the “massive aid that Jordan will be receiving from her accession into the WTO” (Interviews with the authors, Amman, July 2003).

22. K. Pfeifer, “How Tunisia, Morocco, Jordan and Even Egypt Became IMF Success Stories,” *The Middle East Report*, Vol. 29, No. 210 (1999), pp. 23 and 26.

23. *Economist*, “Murder, and its Consequences: How Safe an Anti-Iraq Ally is Jordan?” (October 31, 2002).

as IMF and World Bank-brokered concessionary loans. Although it has been the main Arab beneficiary of American aid and concessional loans since signing the 1979 Camp David Accord with Israel, Egypt was rewarded during the 1990-1991 Gulf crisis with more than \$15 billion in debt write off for supporting the US led-coalition against Iraq. Similarly, Jordan, after turning against Iraq and signing the *Wadi Araba* Agreement with Israel in 1994, not only secured for itself special treatment from the IMF and World Bank, but was also rewarded with around \$1 billion in debt forgiveness, mostly from the US government, and more than \$250 million of annual economic and military aid from Washington alone.²⁴

Both Morocco and Tunisia's favorable treatment by the EU is well documented, a practice which was later extended by the IMF, World Bank, and Washington itself. During 1982-1992 alone, Morocco had six debt rescheduling agreements with the Paris Club and three with private international banks, received several World Bank sectoral loans, and nine stand-by and extended facilities from the IMF. In addition to historically receiving large American military support, Morocco's support for the US position during the first Gulf War in 1991 yielded more than \$5 billion in debt write off. Over the same period, Tunisia received more than six World Bank sectoral loans in addition to five years of continuous IMF financial support.²⁵

The financial support to the above regimes compares very favorably with their less America-friendly neighbors, such as Algeria. Although the influence of domestic political factors should not be underestimated in aggravating poverty, unemployment, and inequality in Algeria, the causes of political turmoil over the past two decades should be clearly understood in terms of the disappointing and less favorable treatment Algeria received from the West, particularly the IFIs and the EU. Having realized internal contradictions in its post-independence import-substitution industrialization strategy, Algeria embarked on an extensive reform program in 1980 to liberalize its economy. Although the program in many ways resembled that which is usually promoted by the IMF and World Bank in other developing countries, it still had a "uniquely Algerian character,"²⁶ a phenomenon fiercely rejected by the IMF, which is often criticized for operating as if it has a monopoly over knowledge of how reforms should be designed and implemented and of how development and prosperity can be achieved. Algeria had to resort to external borrowing to finance its reform program but unlike Morocco and Tunisia, it was given no leeway in repayment and was forced to borrow at market rate. While Morocco and Tunisia had more than a

24. Between 1992-2002, Jordan also received at least five IMF stand-by and extended facility arrangements, several World Bank sectoral loans, and at least five debt reschedulings by the Paris Club in addition to several reschedulings by international private banks. See F. Al-Fanik, ed., *Jordan Economic Monitor*, Monthly Newsletter, several issues; H. El-Said, "The Political Economy of Reform in Jordan: Breaking Resistance to Reform?" In G. Joffe, *Jordan in Transition 1990-2000* (London: Hurst, 2002).

25. K. Pfeifer, "How Tunisia," pp. 25-26.

26. W. Swearingen, "Agricultural Reform in North Africa: Economic Necessity and Environmental Dilemmas" in De Vandewalle, ed., *North Africa: Development and Reform* (New York: St. Martin's Press, 1996), p. 79.

third of their annual external debt on concessional terms (more than two-thirds in Jordan), only 3% of Algeria's external debt was concessional.²⁷

We have attempted to back up the above anecdotal evidence, which suggests that the flow of funds from the IMF and World Bank to countries in the MENA region is geo-politically motivated, with a more formal quantitative analysis.²⁸ The extent of the economic crisis can be seen when we look at key macroeconomic indicators for countries in the region who were to become major recipients of IMF and World Bank program loans, namely, Egypt, Jordan, Morocco, Tunisia, and Algeria. However, a more nuanced analysis, which looks at the specific timing of loans and the corresponding macroeconomic indicators of each recipient, suggests that the determinants of lending often do not reflect recipient economic need. Table 1 below provides macroeconomic data for each of the five countries for the year in which each received its first IMF loan and for the previous five years (Egypt received two distinct phases of loans and so is represented twice).²⁹ By looking at the macroeconomic variables for the year in which each country received the first of its series of IMF loans and comparing them with the previous period we can see if there is evidence that the granting of the first loan coincided with severe macroeconomic distress.

Table 1 indicates that there is only limited evidence that economic need, as illustrated by key macroeconomic variables, was a determinant of IMF loans. In only a handful of cases does Table 1 show that the timing of each country's first IMF loan coincided with a year in which the key macroeconomic variables which the IMF normally responds to (inflation, current account balance, debt indicators) deteriorated compared to previous years. Although it seems that Egypt's loan of 1976 and Jordan's loan of 1989 were a response to clear macroeconomic difficulties, the evidence for Algeria, Morocco, and Tunisia as well as Egypt's 1987 loan is much less clear cut. Indeed, if anything, in Morocco, Egypt, and Tunisia it seems that the IMF was responding to the growth rate variable, which was not one of the standard macroeco-

27. Algeria still managed to reduce its internal debt, keep current account in surplus and even developed the largest liquefied natural gas facility in the world. Rarely has the Arab world in recent decades witnessed a leadership that was so committed to development and industrialization. For more details, see Swearingen, "Agricultural Reform;" Pfeifer, "Between Hard Rocks;" A. Layachi, "The Domestic and International Constraints of Economic Adjustment in Algeria" in D. Vandewalle, ed., *North Africa: Development and Reform* (New York: St. Martin's Press, 1996), pp. 129-152; D. Harrold, "Economic Discourse in Algeria: Economists Circle the State" in D. Vandewalle, ed., *North Africa*, pp. 153-176.

28. J. Harrigan, C. Wang and H. El-Said, "The Economic and Political Determinants of IMF and World Bank Lending in the Middle East and North Africa," *World Development*, Vol. 34, No. 2 (February 2006), p. 247. Also see J. Harrigan, C. Wang and H. El-Said, "The Politics of IMF and World Bank Lending: will it backfire in the Middle East and North Africa?" in A. Paloni and M. Zanardi, *The IMF, World Bank and Policy Reform* (London: Routledge, 2006), pp. 64-99.

29. We look at IMF loans rather than World Bank program loans because the former are almost always a prerequisite for the latter.

conomic variables one usually associates with IMF programs in the 1980s.³⁰ This would suggest that in many instances other factors, such as the geo-political factors discussed above, might well have influenced the decision as to when a country was eligible to commence receiving a series of IMF and World Bank loans.

Table 1
Macroeconomic Indicators for Selected Countries

Algeria	1984	1985	1986	1987	1988	1989
Inflation, consumer prices	8.1	10.5	12.4	7.4	5.9	9.3
Current account balance	0.1	1.8	-3.5	0.2	-3.5	-1.9
Central government debt	N/A	N/A	N/A	N/A	N/A	N/A
Total debt service	36.8	35.6	56.4	53.4	76.6	66.8
Gross capital formation	35.2	34.6	33.6	27.6	27.6	30.1
GDP per capita growth	2.2	0.5	-2.4	-3.5	-3.6	1.8
Egypt	1971	1972	1973	1974	1975	1976
Inflation, consumer prices	3.1	2.1	5.1	10.0	9.7	10.3
Current account balance	-5.7	-5.3	-5.8	-17.7	-21.2	-10.2
Central government debt	N/A	N/A	N/A	N/A	N/A	N/A
Total debt service	21.8	32.5	31.1	11.9	10.3	6.4
Gross capital formation	13.2	12.3	13.1	22.5	33.4	28.4
GDP per capita growth	1.6	0.2	-1.1	0.5	6.8	12.2
Egypt	1982	1983	1984	1985	1986	1987
Inflation, consumer prices	14.8	16.1	17.0	12.1	23.9	19.7
Current account balance	-9.9	-5.4	-8.2	-9.3	-9.4	-2.3
Central government debt	N/A	N/A	N/A	N/A	N/A	N/A
Total debt service	19.3	20.1	21.4	25.8	27.0	17.9
Gross capital formation	30.1	28.7	27.5	26.7	23.7	26.1
GDP per capita growth	7.1	4.6	3.4	3.9	0.1	0.0

30. The traditional division of labor in the 1980s was that the IMF would take care of balance of payments problems while medium-term growth would be the concern of the World Bank (Mosley, Harrigan and Toye, *Aid and Power: The World Bank and Policy-Based Lending*, Vol. 1 (London: Routledge, 1995), pp. 51-56.

Jordan	1984	1985	1986	1987	1988	1989
Inflation, consumer prices	3.8	3.0	0.0	-0.2	6.6	25.7
Current account balance	-5.3	-4.9	-0.7	-5.4	-4.6	4.4
Central government debt	49.6	56.4	59.0	70.1	100.1	126.1
Total debt service	13.0	17.2	19.7	24.0	30.9	19
Gross capital formation	28.8	20.5	20.5	23.3	23.5	23.7
GDP per capita growth	4.6	-0.2	3.1	-0.8	-5.2	-16.5
Morocco	1978	1979	1980	1981	1982	1983
Inflation, consumer prices	9.7	8.3	9.4	12.5	10.5	6.2
Current account balance	-9.9	-9.4	-7.5	-12.0	-12.1	-6.4
Central government debt	38.2	39.8	41.7	53.4	58.4	73.2
Total debt service	22.9	26.6	33.4	38.4	45.4	40.3
Gross capital formation	25.4	24.5	24.2	26.1	28.2	24.0
GDP per capita growth	0.0	2.5	1.3	-4.9	7.2	-2.7
Tunisia	1981	1982	1983	1984	1985	1986
Inflation, consumer prices				8.9	7.3	6.2
Current account balance	-5.4	-8.1	-6.8	-9.3	-6.9	-6.7
Central government debt	35.1	38.2	41.5	42.3	45.5	56.5
Total debt service	15.2	16.2	19.3	22.7	25.0	28.4
Gross capital formation	32.3	31.7	33.5	35.9	30.2	26.6
GDP per capita growth	2.8	-3.1	2.0	3.7	2.5	-4.5

Data Source: *World Development Indicators 2002*, The World Bank.

Note: Inflation, consumer prices (annual %); Current account balance (% of GDP); Central government debt, total (% of GDP); Total debt service (% of exports of goods and service); Gross capital formation(% of GDP); GDP per capita growth (annual %).

We have tried to add more rigor to the above qualitative analysis by using an econometric Probit model to predict the signing of IMF loans in 11 MENA countries over the period 1975-2000.³¹ First we ran a purely economic model where loan signing was hypothesized as being a function of variables representing economic need: GDP per capita, GDP growth rate, debt service ratio, short term debt as percentage of total debt, balance of payments, and changes in national reserves. This model did not

31. A Probit model is a model where the dependent variable we are trying to explain takes the value of zero or one. In our case zero if the country did not receive an IMF loan in a given year, and one if it did. We then use a series of explanatory variables to try to explain and predict the value of the dependent variable via regression analysis.

perform particularly well. Although MENA countries with low GDP per capita, high debt service ratio, and a sharp decline in reserves were found to be likely to receive IMF assistance, out of the 23 loans received by MENA countries, the model only correctly predicted five of these. It would seem therefore that we have omitted some important variables from the model. In order to try and improve the model, two sets of political variables are added into the regression: US influence (captured by the dummy variable PEACE, which indicates whether a country signed a peace treaty with Israel or not) and domestic political factors (a democracy index and a variable to capture the legislative election year).

The new model clearly shows that in trying to predict when the IMF will sign a loan agreement with a MENA country the model which incorporates both political and economic variables is superior to a purely economic model. Our supplemented model indicates that whether a country receives an IMF program is influenced by both economic and political factors, particularly the latter. Signing a peace treaty with Israel and improving democracy was found to increase the likelihood of reaching an agreement with the IMF. The existence of a political business cycle also plays its part in that we have found that MENA governments are more likely to enter into an agreement with the IMF in the year after a legislative election. This political-economic model correctly predicted 16 out of the 23 IMF loans signed with MENA countries, a much better prediction rate than the purely economic model. Hence the formal results from the Probit model lend support to our more qualitative analysis. They show that economic need alone does not really explain the timing of IMF loans. However, political liberalization, which often sees the incumbent regimes challenged by Islamic opposition, seems to have an influence as shown by the significance of the democracy and election variables. Likewise a change in foreign policy stance represented by signing a peace treaty with Israel is a good predictor of IMF loans.

The geo-political motivation for the flow of funds is also backed by strong economic interest. Globalization of the region either in the form of IMF and World Bank SAPs, WTO membership, or even in the form of many of the bilateral agreements that were recently signed between several Arab states and either the US (Jordan, Morocco, Qatar, and Bahrain) or the EU under the Association Agreements (including Morocco, Tunisia, Jordan, and Egypt) of the 1995 Barcelona Initiative represent important instruments to facilitate globalization and economic liberalization. An important, publicly undeclared objective of this process is “to secure the maximum possible advantages for American capital as it seeks access to markets and resources abroad” in addition to protecting the flow of oil from the region at favorable prices to the US market.³²

INTERNATIONAL FINANCE, POVERTY, AND INEQUALITY

The second argument that we wish to present here relates to the fact that the economic reform programs which recipients in the region have undertaken in return

32. Hubbell, “The Containment Myth,” p. 9.

for international financial flows have had an adverse effect on social welfare. Here we hope to fill another important gap in the literature. Compared to other regions, there has been a dearth of work on the impact of stabilization and structural adjustment programs in the MENA region. Particularly, the social impact of reform in the region has not received the attention it deserves.³³

The impact of Washington-guided reforms on social welfare, particularly when implemented suddenly and prematurely, have already been extensively discussed in the context of other developing regions. Theory and evidence show that when these policies are implemented in association with, and on the terms of, the IMF and World Bank the outcome is often an increase in poverty, unemployment, and inequality.³⁴ In the Arab world, the outcome of Washington-guided reforms has been no different.

The available evidence suggests that IMF and World Bank-sponsored reform in the MENA region has not been the total success claimed by these organizations. Even the countries which the IMF and World Bank described as “advanced” and “successful reformers,” namely, Jordan, Tunisia, Morocco, and Egypt, succeeded in some dimensions only, particularly in reducing inflation, budget deficits, and debt service. But they failed in other dimensions, which are more essential for sustainable development, including improvement in the rate of savings, investment, and growth.³⁵ Two of the countries we have studied in detail, namely Egypt and Jordan,³⁶ have achieved spurts of economic growth in the mid-1990s and again in the beginning of this decade, but this growth has been extensive (i.e., due to increased factor inputs) rather than intensive (i.e., due to productivity gains). Hence, it has not been sustained and so has failed to address the pressing unemployment problem of each country, which is a root cause of increasing poverty.

More importantly, the social and welfare implications of reform, despite the IMF and World Bank’s strong poverty focus in the 1990s, have been disappointing. While surveying eight countries that accepted cooperation with the IMF and World Bank in the 1980s (Egypt, Morocco, Tunisia, Jordan, Sudan, Turkey, Algeria, and Mauritania), El-Ghonemy concludes that, despite improvement in macroeconomic indicators, the social situation in each reforming country got “worse than before reform.” Not only did unemployment and poverty increase, inequality of income also

33. While the early work of Harik and Sullivan (*Privitisation*) and Niblock and Murphy (*Economic and Political*) focuses mainly on the political and economic impediments to reform in the region, Shafiq’s (*Prospects*) and Vandewalle’s (*North Africa*) work focuses mainly on the potential benefits from further reform in the region and hence pays little attention to the social dimension.

34. For the social impact of reform in other regions, see Stiglitz, *Globalization*; Dunkley, *The Free Trade Adventure*; M. Goldstein, “IMF Structural Conditionality: How Much is Too Much?” Paper presented at NBER Conference on Economic and Financial Crisis in Emerging Market Economies (Woodstock, Vermont, 2000); F. Stewart, “Income Distribution and Development,” *Working Paper Series #37* (Queen Elizabeth House, Oxford University, 2000); CAFOD (Catholic Aid Agency) *Taming Tigers: Social Impact of Crisis* (London, March, 1998).

35. Pfeifer, “How Tunisia.”

36. See Harrigan and El-Said, *The IMF and the World Bank in Jordan: A Case of Over Optimism and Elusive Growth*, The Review of International Organizations (forthcoming, September 2006).

worsened in all of them, except in Tunisia, which managed to reduce poverty and inequality in the mid-1990s by violating IMF conditionality and refusing to compromise on social welfare and protection of the poor.³⁷

New emerging empirical evidence also confirms that the social impact of hitherto reform in the region has been disappointing. For example, the 2002 *UN Arab Human Development Report* argued that, although the Arab world has less abject poverty (income of less than \$1 a day) than other developing regions, poverty in the region, along with unemployment and inequality have all risen rapidly in recent years: around 12 million Arab people, or 12% of the labor force, are unemployed; out of every five Arabs, one lives on less than \$2 a day; among 280 million Arabs, 65 million adults are still illiterate, two-thirds of whom are women; 10 million children have no schooling at all; and only sub-Saharan Africa registered lower annual growth in income over the past 20 years than the Arab world. Although the Arab world does not lack resources, the report added, it is “richer than it is developed.”³⁸

The results of our own more recent work on the social implications of reform in the region³⁹ are equally alarming. Poverty, unemployment, and inequities have been more severe in countries which were subject to international pressure to globalize rapidly, the “good pupils” of the IMF and the World Bank, particularly Morocco, Tunisia, Jordan, and Egypt (as well as Algeria which had been suffering from political instability). In those five states, unemployment, poverty, and inequality worsened in the late 1990s and early 21st century compared to the early and mid-1990s. They have also been worse in those five states than in other countries that either followed the commandments of the IMF and World Bank less religiously, like Yemen, for example, or did not cooperate with them at all, such as Syria.

Algeria again makes an interesting case study. After pursuing a self-styled economic reform program in the 1980s during which the country was largely excluded from favored access to western finance, Algeria was eventually forced to turn to the Washington institutions. The economic slowdown in the OECDs in the late 1980s reduced demand and hence prices for energy and at the same time increased international interest rates. Algeria turned to Europe for financial aid, debt rescheduling, and debt forgiveness. It was denied, thus forcing her to turn to the IMF and World Bank for support in 1989-90. As a precondition, the IMF demanded an immediate 30% devaluation of the local currency and reduction in food subsidies. Subsidies were cut

37. R. El-Ghonemy, *Affluence and Poverty in the Middle East* (London: Routledge, 1998), pp. 178-180.

38. *United Nations Arab Human Development Report* (New York: United Nations, 2002). Also see *Economist*, “An Unsparing New Report by Arab Scholars Explains Why Their Region Lags Behind so Much of the World,” (July 4, 2002).

39. These figures have been gathered by the authors in preparation for their research project on the region funded by the UK DIFD from the following sources: *UN Statistical Year Book* (New York, 2001), pp. 244-258; *UN Arab Human Development Report*, 2002, p. 158; International Labour Organisation, *Yearly Statistical of Employment*, Geneva, ILO, several issues; World Bank, *World Development Report 2000/01* (Oxford: Oxford University Press, 2002), and Harrigan, El-Said and Wang, “The Economic and Political,” (2006).

by 80% and devaluation led to an approximately 40% annual surge in inflation between 1990 and 1993. Immediate and premature reform led to a massive fall in Algerian real wages, the almost doubling of unemployment, and a large increase in poverty and inequality. The upshot was the beginning of long-lasting riots that devastated the economy and tarnished social cohesion and stability. Almost 12 years later, Algeria has not yet managed to restore social cohesion and political stability.⁴⁰

Algeria is not the only country to experience a sharp rolling back of state provision of social welfare. Table 2 below shows changes in food subsidies as a percentage of GDP in the five MENA countries who were the largest recipients of IMF and World Bank loans with policy reforms attached. In all cases a key policy reform has been to reduce expenditure on food and other welfare subsidies. Although there were strong arguments for cutting back on large untargeted and expensive subsidies in the region, this has often been done without the establishment of an efficient and effective targeted system, such that the poor are often harmed.

Table 2
Food subsidies as % GDP 1990-1999

	1990	1995	1999
Algeria	4.3	0.9	0.0
Egypt	4.4	1.3	0.0
Jordan	3.4	1.4	0.3
Morocco	1.3	1.7	1.7
Tunisia	2.4	2.1	1.2

The overall situation in the Arab states that are described as “successful reformers,” “good pupils” of the IMF, is indeed, puzzling for some observers. “How,” Pfeifer asks, despite the disappointing social impact of restructuring, “did Tunisia, Morocco, Jordan and even Egypt become IMF success stories in the 1990s in the first place?”⁴¹ The answer lies in Washington’s desperate desire to create showcases of successful globalization in the region in order to harness support for the much discredited policies of the so-called “Washington Consensus.” It also reflects a “new approach” in Washington which aims at forging closer ties with small, militarily weak, and more pliable Arab countries rather than relying on traditional allies and regional powers like Saudi Arabia.⁴² Thus countries like Jordan, Morocco, Tunisia, Qatar, UAE, Ku-

40. Pfeifer, “Between Hard Rocks,” p. 33; Swearingen, “Agricultural Reform,” p. 79; El-Ghonemy, *Affluence*, p. 198.

41. Pfeifer, “How Tunisia,” p. 23.

42. R. Khalaf, “Zoellick Criticism Sets Back Egypt Hopes on Free Trade Deal,” *Financial Times* (June 24, 2003), p. 3.

wait, and Bahrain are frequently praised by Washington officials as “the models of a successful start to economic reforms” and democracy, and are therefore “immediately worthy of bilateral free trade agreements with” and military support from the US.⁴³ But will the politics of the “Washington Consensus” backfire in MENA? The latest developments in the region point to an affirmative answer to this question.

SOCIAL WELFARE, SOCIAL CAPITAL, AND POLITICAL ISLAM

The third and most original argument in our research is based on the fact that, in response to declining state provision of social welfare, Islamic groups, many with growing political aspirations, have stepped in to fill the gap by providing various forms of welfare and contributing to the development of social capital. Becker defines social capital as any social, or non-market, interaction with a continuing effect.⁴⁴ Fine argues that the World Bank regards social capital as interventions in civil society, which constitute non-market responses to market imperfections where “civil society” can be seen as the space between family and state.⁴⁵ Social capital either complements the state when the latter is performing well, or substitutes for it when it is in retreat as under austerity and liberalization programs. We will argue that the welfare activities of Islamic groups in the countries of the region can be analyzed by employing the concept of “social capital.” This seems particularly appropriate given Gamarnikow and Green’s observation that:

At the more conservative end social capital is located in commitment to traditional family structures and relationships and a collective moral order of ‘normative’ consensus around traditional values, duties and responsibilities.⁴⁶

The provision of welfare and charity by religious groups is not a new phenomenon in the region or even in other Muslim societies outside MENA. But these activities have been strengthened during the period of economic reform and liberalization. Also, political factors have become an important motivational factor, in addition to simple social and religious causes.

There is already a growing body of evidence that economic liberalization and other forms of globalization have opened up a space which is rapidly being occupied by religious groups in the Arab region, some of which are politically motivated. Globalization has been occurring at a time when international financial institutions

43. Khalaf, “Zoellick Criticism.”

44. G. Becker, *Human Capital: A Theoretical and Empirical Analysis, with Special Reference to Education* (London: University of Chicago Press, 1993).

45. B. Fine, *Social Capital versus Social Theory: Political Economy and Social Science at the Turn of the Millennium* (London and New York: Routledge, 2000), p. 153.

46. E. Gamarnikow and A. Green, “Developing Social Capital: Dilemmas, Possibilities and Limitations in Education,” in A. Hayton, ed., *Tackling Disaffection and Social Exclusion* (London: Cogan Page, 1999), pp. 58-59.

are insisting on policies that restrict the ability of the state to provide adequate social safety nets to protect the poor. The “Washington Consensus” focus on fiscal austerity and inflation control forces reforming governments to implement such policies as large cuts in public sector expenditure and more general policies “to roll back” the state. In Jordan, for example, the IMF insisted on channeling proceeds from privatization programs towards repayment of foreign debt only, therefore not allowing the government to direct such proceeds to social sectors. The IMF also insisted that any spending needed to fund the projects of the Socio-Economic Transformation Plan (SETP), which was initiated by the Jordanian government in 2002 in collaboration with the World Bank to reduce poverty in Jordan, “is conditional upon the availability of grants and additional financial assistance.”⁴⁷ As the government failed to secure a sufficient amount of grants, most of the projects designed by the SETP for the period 2002-2004 were not implemented. This raises important questions on the newly professed commitment of the IMF to poverty-reduction in MENA countries.

With the forced retreat of governments from welfare provision, the resulting increase in poverty and inequality has prompted Islamist groups with political aspirations to fill the welfare gap left by the state’s diminution. In Morocco, Tunisia, Egypt, Lebanon, Palestine, and Jordan, Islamists have become the main champions of the poor, providing them with food, clothing, and cash transfers to pay for health, education, and even marriage ceremonies. They also provide credit for businesses via their specialized Islamic banks, which have proliferated throughout the region and are more in line with local tradition and culture. Islamists have been in the forefront of defending the welfare of the poor and organizing charities to collect donations for them. As Richards and Waterbury in their extensive work on the region put it: “While government dithers, the Islamists move in and win support by providing their own assistance.”⁴⁸

In Jordan, where data on the welfare activities of the Muslim Brotherhood Movement is more readily available, the size and reach of Islamists’ social programs can hardly be overstated. Their activities extend to almost every sector of the economy. In education alone, the Brotherhood Movement, by 2003, owned and ran one community college, 24 primary and preparatory schools, and 21 kindergartens. They are also associated with the establishment of the new *al-Zarqa* Private University. These institutions, excluding the university, employed more than 1,400 staff and registered more than 14,000 students. In health, the Movement established two large Islamic hospitals in Amman and Aqaba that provide high quality medical services at cheaper rates than those provided by both public or other private hospitals in the country. They have also established 18 other health clinics operating in different parts of the country. In 2002 alone, 172,262 patients benefited from these clinics, of which 21,089 were poor and orphans who were treated for free. The direct annual spending of the Movement on the poor in the form of cash transfers and other in-kind benefits such as food, cloth-

47. J. Ghneimat, “Jordan Seeks \$250 million for SETP,” *The Jordan Times* (October 7, 2004).

48. A. Richards and J. Waterbury, *A Political Economy of the Middle East* (Colorado: Westview Press, second edition, 1996), p. 228.

ing, shoes, books, and stationary for school children exceeds JD 3 million, or US \$4.3 million.⁴⁹ Although less documented, the social welfare programs of Hamas, Hizbullah of Lebanon, and the Egyptian Brotherhood Movement are well known and are no less significant.⁵⁰ By contrast, in Morocco, the government, fearing the spread of Islamist influence, monopolizes social welfare programs in the country through the King Mohammad the Fifth Fund, and therefore prevents Islamists from implementing any large social welfare programs.

In addition to religious factors, Islamists' welfare programs also often have an important political motivation. In a more politically liberal setting characterized by semi-democratic or heavily controlled election processes, elections cannot be ignored, and become an important mechanism to gain political influence. This is particularly the case in an environment characterized by corrupt regimes, a factor which Islamists have exploited successfully. When asked about whether their social welfare programs have any political expectations, a high ranking member of the Jordanian Muslim Brotherhood Movement responded:

When the US gives financial support to any regime it is mainly doing so to serve her interests in the region. The difference between us and the US is that we do not do charity for any other reason but for God's satisfaction and worshipping. But when we do that people love us, we capture their hearts and minds and therefore it is only normal that when we call upon them they come to us and when we enter elections they elect us. We benefit the people, not corrupt regimes.⁵¹

Through their "symbolic capital," Islamists have been able to enhance their political legitimacy at the expense of incumbent regimes.⁵² A consensus is rapidly emerging among scholars and observers both inside and outside the region to the effect that "Islam has been nurtured by the failure of current, authoritarian regimes to achieve economic equality.... [and] also by the US policy of supporting corrupt, authoritarian dictatorship" combined with unconditional support to Israel.⁵³ When Hamas eventually decided to enter the Palestinian elections in early 2006, its landslide victory, ironically, stunned the Western world. From the onset, Islamists dominated the Jordanian Parliament in 1989. It was only after the Jordanian regime, with US backing, changed the electoral law in 1993 that their influence in the Jordanian Parliament was reduced, though not eliminated. Despite the fact that the Muslim Brotherhood Movement is still banned in Egypt, its individual candidates did far better than

49. These figures were taken directly by the authors from the headquarters of The Islamic Charity Centre Society in Amman, Jordan on January 2, 2004. The Centre is responsible for all investments and projects initiated by the Movement, and manages all of its social and welfare programs.

50. On Hamas' social program and activities, see *Economist*, "Palestine's Elections: Hamas ahoy!" (January 19, 2006).

51. Interview with the authors, (Amman: January 1, 2004).

52. N. Ayubi, *Distant Neighbors: The Political Economy of Relations in Europe and the Middle East/North Africa* (London: Ithaca Press, 1995), p. 8.

53. Niva, "Between Clash and Cooptation," p. 28.

expected in last November's partially-free elections. Lifting the ban on the Moroccan Justice and Development Party in the late 1990s has also led to important Islamist gains in the Moroccan Parliament. In Egypt, Morocco, and Jordan, Islamists are confident of their eventual overwhelming victory within the political system.⁵⁴ Their strategy has so far not focused on dominating the political theater, knowing very well that the local authorities, backed by the US and EU, will not allow such a scenario to take hold, and that the outcome will therefore be more reminiscent of the Algerian fiasco.⁵⁵ If this is the case, then there is little doubt that Hamas's landslide victory will embolden Islamists in other Arab states and will cause a strategic change in their political thinking.

REPRESSION, AUTHORITARIANISM, AND CORRUPTION: THE PRICE OF MAINTAINING "FRIENDLY" REGIMES

Our final argument in this article is that rather than enhancing the stability of pro-Western Arab regimes, the US-led geo-politically motivated policies of globalization supported by international finance have actually undermined and destabilized the very regimes the US sought to protect. As a result of growing poverty and inequality in the region, political Islam has been gaining strength, not just in its provision of welfare, social capital, and parliamentary elections, but also as a vocal opponent to globalization and western capitalism. Most radical Islamists view globalization as a new form of imperialism, aimed at dominating Islamic countries' resources and people.⁵⁶ It is against this background that the Egyptian President, Hosni Mubarak, used the May 2006 World Economic Forum in Sharm al-Shaykh to appeal to the world community, particularly the industrialized countries, to help in creating "globalization with a human face," and to warn against the widening gap between the rich and poor within and between countries of the region and the rest of the world.⁵⁷

The importance of equality for stability, investment and, hence, for growth and development has long been stressed and emphasized by various scholars. A high level of inequality makes it difficult to reduce poverty, weakens incentives, and increases both stress among workers and market uncertainties. High levels of inequality destroy the cohesion of a society, leading to political and social instabilities that are detrimen-

54. This information is based on fieldwork, including interviews by the authors with Islamists in Egypt, Jordan, and Morocco during 2005 and early 2006.

55. It is evident that Islamists in Egypt, Morocco, and Jordan not only have been very careful not to nominate a large number of their candidates in local elections, but that most of their candidates have actually been winning elections in their designated areas. For example, the Moroccan Justice and Development Islamist Party nominated only 52 candidates in the last elections, 42 of them won their seats, and six of whom were females.

56. T. Schirato and J. Webb, *Understanding Globalisation* (London: Sage Publication, 2003).

57. Aljazeera News, <http://www.radiosawa.com/article.aspx?id=881926>, (May 20, 2006).

tal to investment, growth, and development.⁵⁸ Further economic reforms, if not accompanied by a mechanism to protect and compensate the losers from globalization, could lead to a far reaching and devastating distributive conflict in the region, not unlike the one that has plagued Indonesia since the late 1990s or has ravaged the Algerian economy and society for more than a decade. The 1990s and the early years of the 21st century have already experienced a rise in the number and forms of distributive conflicts in the Arab world, including: riots, demonstrations, strikes, violence, assassinations, clashes with labor unions and university students, in addition to an increase in crime rate and terror attacks that spared almost no Arab capital.⁵⁹

The response of incumbent Arab regimes to growing Islamic influence and opposition to the political and economic policies of the “Washington Consensus” has been a marked increase in repressive measures. Washington and the EU, not only “decided to suddenly turn a blind eye to what is going on, perhaps because of a need to clamp down on Islamists,” but also gave their tacit approval for such repressive measures.⁶⁰ Yet Prime Minister Tony Blair and President George W. Bush have publicly declared that they “share a vision of a free, peaceful, and democratic broader Middle East.”⁶¹ Such contradictory stances have led some, like Thomas Carothers, to argue that America’s foreign policy in the Arab world suffers from schizophrenia, a “split personality.” On the one hand, the US is committed to good governance and democracy abroad, while on the other, its War on Terror has increased its reliance on corrupt and authoritarian regimes.⁶² Fawaz Gerges, while working on Egypt, revealed that the stability of pro-Washington regimes “clearly overrides other consideration... in US eyes.”⁶³ In Egypt, Jordan, Morocco, Tunisia, and even Yemen and Saudi Arabia, incumbent regimes were explicitly encouraged by Washington and other European states to brutally repress all shades of anti-Western Islamist activism in return for keeping their countries allied with the West at any cost. International organizations, including Amnesty International and the International Crisis Group have repeatedly warned against increased repression in such states, which has undermined

58. A. Norton and S. Conlin. *Globalisation Process and Implications for the Development of A Global Response in the Field of Social Policy*, Report Commissioned by DFID White Paper, Eliminating World Poverty: Making Globalisation Work for the Poor (London: DFID, 2000); R. Page, *Trends in Developing Country Trade*, Paper commissioned for DFID White Paper Eliminating World Poverty: Making Globalisation Work for the Poor (London: DFID, 2000).

59. N. Ayubi, *Distant Neighbors*; Richards and Waterbury, *A Political Economy*; El-Ghonemy *Affluence*; *Economist*, “Revolution Delayed,” (September 5, 2002).

60. Gihan Shahine, “To be worse,” *Al-Ahram Weekly* on-line (November 24-30, 2005). Also see Seymour Hersh, *Chain of Command* (London: Penguin/Allen Lane, 2004), and *Economist*, “Investigative Journalism,” (October 21, 2004).

61. Full text of Bush and Blair Press Conference, *Guardian*, (November 12, 2004), on website <http://news.bbc.co.uk/go/pr/fr/1/hi/world/americas/4008071.stm>.

62. T. Carothers, “Promoting Democracy and Fighting Terror,” *Foreign Affairs*, Vol. 82, No. 8, p. 84.

63. F. Gerges, “The End of the Islamist Insurgency in Egypt?: Costs and Prospects,” *The Middle East Journal*, Vol. 54, No. 4 (Fall 2000), p. 607.

nascent domestic political reform initiated in the region in the early 1990s, in addition to putting the US-backed international financial institutions in a rather difficult and hypocritical position.⁶⁴

Since the early 1990s, international financial institutions have paid increased lip service to the concept of “good governance” in developing countries.⁶⁵ Particularly in sub-Saharan Africa the provision of finance has been made conditional on good governance, including the elimination of corruption and the introduction of Western style multi-party democracy. In the late 1990s, for example, IFIs refused to advance a badly needed loan (around US \$200 million) to drought stricken Kenya until and unless measures to eliminate corruption were first taken by the government.⁶⁶ In the Arab world, on the other hand, the same institutions found themselves providing financial support to equally corrupt and undemocratic Arab regimes labeled as Western “allies.” In this respect, Jordan provides a telling story. In February 2002, Jordanians learned that some of the top officials in their security forces colluded with other highly-ranked state officials and civilians to falsify documents that cost the treasury, and taxpayers, more than US \$500 million.⁶⁷ Less than four months later (in July 2002), the IMF extended a US \$113 million Stand-by Credit to the government of Jordan without any mention whatsoever of any anti-corruption measures.⁶⁸ On the contrary, this was followed by a massive rise in US aid to Jordan, totaling US \$950 million in 2003.⁶⁹ Pro-Western and “friendly” Arab regimes are not the democratic or “good governance” models that the IFIs and Washington portray them to be.⁷⁰

Lack of real democracy has not only hamstrung the ability of domestic regimes to reign in corruption, but has also encouraged them to maintain and nurture an old form of politics — corrupt “patron-client relationships” — upon which their legitimacy and survival came to depend. It is not surprising, therefore, that a vicious cycle has emerged whereby reform in the region has failed to protect the poor and instead benefited only a small elite, one that is strongly linked to the state officials, bureau-

64. See *Al-Ahram Weekly* on-line, November 24-30, 2005, International Crisis Group, “The Challenge of Political Reform: Jordanian Democratisation and Regional Instability,” *Middle East Briefing*, Amman/Brussels, October 8, and International Crisis Group, “Red Alert in Jordan: Recurrent Unrest in Maan,” *Middle East Briefing*, Amman/Brussels, February 19, 2003.

65. A. Leftwich, “Governance, the State and Politics of Development,” *Development and Change*, Vol. 25, No. 2 (April 1994), pp. 363-386.

66. For more details, see *Economist*, “Dancing in Kenya to the Donor’s Tune,” (August 3, 2000).

67. R. Hussein, “Shamayleh Testifies He Operated Under Battikhi’s Direction,” *Jordan Times*, (September 7, 2003), p. 3.

68. IMF, “IMF Approves US\$ 113 Million Stand-by Credit for Jordan,” Press Release No. 02/31, (July 3, 2002), <http://www.imf.org/externasl/np/sec/pr/2002/pr0231.htm>.

69. F. Sawalha, “\$700m US aid deal signed,” *Jordan Times*, (May 14, 2003).

70. D. Garnham and M. Tessler, *Democracy, War and Peace in the Middle East* (Bloomington and Indianapolis: Indiana University Press, 1995).

crats, and army generals. In Algeria, this elite came to be known as the “new bourgeoisie,”⁷¹ in Morocco the “agrarian elite,”⁷² in Tunisia the “economic and political elite,”⁷³ in Egypt “crony capitalists” elite,⁷⁴ and in Jordan it refers to the “progeny” of the men which King Husayn relied on to implement his policies since the early 1970s.⁷⁵ Corruption and authoritarianism have been the price of preserving “allies” and friendly regimes in power in the region, a price that Washington firmly believes is worth paying in order to defend its interests in the Middle East.

CONCLUSION

This paper draws attention to the possible implications of Western states’ and financial institutions’ policies in the MENA region. We have argued that such policies, particularly US-led policies, are backfiring. Geo-politically motivated financial flows, bringing with them IMF and World Bank economic liberalization and globalization seem to have intensified inequality and poverty in the region. This has created a growing space for Islamic groups to provide social welfare. Many of these groups are opposed to the incumbent regimes and their Western allies. Consequently, the West finds itself supporting increasingly authoritarian and repressive regimes which further fuels corruption, inequality, and opposition. Under such a scenario a vicious cycle has been created with a very real potential to lead to political collapse and chaos in the region.

It is misleading, if not dangerous, to believe that the solution lies in intensifying the onslaught on Islam or brutal repression of so-called Islamist fundamentalists that is currently ongoing. Some American scholars, like Michael Doran of Princeton University, for example, have already warned that unconditional Western support to Israel, the war in Iraq, and threats against other Muslim states under the pretext of the “rogue state” doctrine, in addition to financial and military support to corrupt and authoritarian regimes that produce little prosperity and accentuate inequality have opened “a chasm between the state and society in the Middle East.”⁷⁶ Arab regimes that allied themselves with the West are now facing a sea of hostile opinion inside their own societies. America’s dream of turning friendly Arab states into “regional showpieces of globalization” will be difficult to realize with opposition to globaliza-

71. Pfeifer, “Between Hard Rocks,” p. 31.

72. P. Knauss, “The Political Economy of Morocco,” *Economic Development and Cultural Change*, Reviewer, (1989), p. 437.

73. S. King, “Structural Adjustment and Rural Poverty in Tunisia,” *Middle East Report*, Vol. 29, No. 210 (Spring 1999), p. 42.

74. Y. Sadowsky, *Political Vegetables? Businessmen and Bureaucrats in the Development of Egyptian Agriculture* (Washington D.C.: The Brookings Institution, 1991).

75. H. El-Said, “The Political Economy of Reform in Jordan: Breaking Resistance to Reform?” in G. Joffe, ed., *Transitions in Contemporary Jordan (1989-2000)* (London: C. Hurst and Co., 2002), p. 271.

76. Quoted in “Revolution Delayed,” *Economist*, (September 5, 2002).

tion inside and outside the region continuing to intensify. This dream requires a completely different set of policies, including the linking of aid to economic and social, rather than political criteria, the erection of effective social safety nets to protect the poor from the adverse effects of globalization, and the redirection of aid to take into account the recipient's long-term economic and political prosperity. If such a course is ignored, the more likely outcome in the region is further political instability and hence retrenchment from the market, rather than more globalization.

On the political side, a peaceful and just solution to the Palestinian crisis must be genuinely and seriously pursued, along with the promotion of true democratic values and principles that will lead to the inclusion rather than exclusion of civic and religious groups and opposition. Failing to do so will only serve to benefit the Islamists in their challenge to globalization and will weaken the current drive towards liberalization in the region. Such a prospect would bring disturbing implications for international trade and investment. More alarmingly, it threatens to play into the hands of a small number of extreme fundamentalists whose brutal terrorist activities threaten core human values both within and outside the Arab region.