

The Arab World: Economic Progress and Struggle

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For better or worse, globalization has forced Arab States to reevaluate their positions, collectively and individually, vis-à-vis the international arena. The challenges facing these states are immense and multilayered. As a region, the Arab world suffers from troubled economic conditions in many states, uneven political structures and issues of legitimacy, and a general lack of regional coordination. Individual states exercise varying levels of control over their internal political and economic systems, but all of them lack the infrastructure needed to compete globally. Although on the surface, greater participation in the world economy should offer sufficient incentive to this developing region, the risks to individual regime stability and control, coupled with the generally negative view of “Americanization,” hinder development and may ultimately foster new conflicts. The dilemma facing Arab leaders is how to allow for greater integration at the regional and international levels while maintaining regime stability.

This paper seeks to address the challenges facing the Arab world in its move toward both horizontal integration (integration on a regional level) and vertical integration (participation in the wider global arena), taking into account the historical, political, and social factors that influence Arab States in addressing these challenges. A closer examination of how nationalist movements affected regional relations during the 20th century and of current perceptions of the Western-dominated globalization movement will provide a framework for an analysis of the obstacles facing Arab States as they move toward horizontal and vertical integration. Finally, a closer look at how some states are working to reform their internal structures in preparation for integration will illustrate the enormity of the transition at hand.

The Influence of Arab Nationalism

Arab nationalism, defined as allegiance to a greater Arab nation of people rather than to a nation-state in the Western sense, grew in the 20th century as a political and social movement in response to colonialism and continued Western

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domination of the region. Today, Arab nationalism exists more as a social phenomenon than a political movement.

The Arab world, linked by a common historical experience, culture, value system, language, and social structure, and the birthplace of the three monotheistic religions, has been dominated by outside forces throughout modern history. For 400 years, the region was part of the Ottoman Empire. With the defeat of the Ottomans at the close of World War I and the region's subsequent division into mandated areas of control at the hands of the British and French, the land was demarcated into what we now know as the states of the Middle East. Western security interests dominated the Arab world in the 20th century because of oil interests, the Cold War, and the creation of the state of Israel. Western interests therefore focused largely on maintaining the status quo—containing the Soviet threat, protecting the state of Israel against its unfriendly Arab neighbors, and ensuring Western access to the oil-rich Persian Gulf—rather than on developing the region.

Egypt and Syria have dominated the pan-Arab movement. “At the end of the 1930s, the spread of Arab nationalism in the Fertile Crescent, combined with the increasingly violent confrontation between Arabs and Jews in Palestine, stimulated in Egypt the growth of Arabism.”¹ In the 1950s, two states—Egypt, with a well-established history and identity, and Syria, centrally located and identifying more with a greater Arab identity than a nationalist identity—joined forces to eliminate Western domination and unify the Arab world. “To this Cairo-Damascus axis, Egypt contributed its weight as the most populous, militarily strong and culturally advanced of the Arab States; Syria accepted Egyptian leadership and contributed its intense Arabism and centrality in the Mashreq.”² In 1958, Egypt and Syria incorporated their union with the establishment of the United Arab Republic. The union was brief, however, due to internal friction, and ended in 1961.

Although their political union was short-lived, Egypt and Syria forged a new alliance, bankrolled by Saudi Arabia, following the 1973 war with Israel. The “Arab Triangle” sought collectively to obtain an honorable peace with Israel in exchange for a return of Arab lands captured in 1967. Egypt later broke the alliance by pursuing its own peace treaty with Israel—an action that, for Egypt, resulted in Arab-imposed isolation for much of the 1980s. During that decade, Syria's steadfast commitment as the last bastion of defense against Israel prevailed.

Throughout the 1980s, Egypt reaped the benefits of peace with Israel as a major recipient of American aid. Syria, adamant in its goal to reach military parity with Israel, found support from the Soviet Union and Iran. Saudi Arabia's interest was diverted to the Iran-Iraq war and later to the Persian Gulf War of 1990–1991. Concurrently, the Gulf States aligned with the West, particularly the United States, which provided support to Iraq during its 8-year war with Iran. The decade saw increasing fragmentation in Arab unity. With no overarching mechanism to unify the Arab world and continuing friction among nation-states because of political alliances, mistrust, paranoia among leaders, and other long-standing rivalries, Arab State relations remained fractured for much of the decade. Hinnebusch notes, “As state apparatuses solidified, pan-Arabism declined, but mass identification with separate nation-

states did not emerge; for the most part, the vacuum was filled instead by ‘subnational’ sectarian or ethnic loyalties and a ‘supranational’ Islamic identity.”³³

In 1990, Saddam Hussein invaded Kuwait in an attempt to rectify a long-standing claim to Kuwaiti land by Iraq and to gain the necessary economic power to overcome the \$75-billion debt of the Iran-Iraq war. Saddam Hussein’s occupation of Kuwait and the ensuing Persian Gulf War of 1990–1991 provided an opportunity for Egypt and Syria once again to put themselves forth as the unifiers of the Arab world. Egypt, discredited in the eyes of fellow Arabs for making peace with Israel and waning in status internationally, saw an opportunity to enhance its reputation in the West and reassert its position regionally as a dominant figure in internal Arab politics. Syria, devoid of a patron and facing economic hardship at home, presented itself to the Gulf States, in concert with Egypt, as an alternative to Western military support. The Damascus Declaration, signed in 1991, “announced plans to establish a regional peace-keeping force.”³⁴ The declaration called for 65,000 Egyptian and Syrian troops to be stationed in the Gulf. In exchange, the Gulf States would contribute \$15 billion to an Arab development fund.

The Damascus Declaration was never realized. Rather, the Gulf States individually pursued bilateral defense pacts with the West—mistrust and suspicion being the driving force behind their move toward foreign alliances. The idea of thousands of Egyptian and Syrian forces stationed on their land in itself created a sense of vulnerability among Gulf leaders. Even more troublesome was the Arab public’s identification with Saddam Hussein and its increasingly vocal criticism of the oil-rich Gulf States, to which the Gulf States responded by expelling thousands of Arab expatriate workers.

Regardless of the political rivalries and differences that defined the Arab world in the last century, Arab nationalism persists as a main source of self-identification for the Arab peoples. “State legitimacy is, however, still intimately linked to Arabism, which, mixed with Islam, remains the strongest component of popular identity.”³⁵ Globalization dictates that the Arab world should eventually operate as a distinctive regional trade area; however, the Arab people in spirit support the idea of a unified Arab nation, while Arab leaders tend to support it only when it serves their interests. As states move into the regional and global arenas, their ability to come to terms with their recent historical experiences, rivalries, political disputes, and insecurities will be the greatest challenge, as the history of Arab nationalism has demonstrated. Furthermore, they will need to come to terms with the socialist elements of the pan-Arab movement—in particular, the welfare societies of the Gulf States.

Perceptions of Globalization

The end of the Cold War and emergence of the United States as the sole remaining superpower and protector of Israel do not bode well in Arab popular opinion. The perceived threat of U.S. political and military domination in the region; continued full or partial sanctions on Iraq, Libya, and Sudan, which are viewed as promoting the suffering and death of thousands of innocent civilians; and the dominance of American corporations in the global market system only serve to promote distrust and skepticism among the Arab population. Arab citizens are acutely aware of the

widening gap between developed and developing nations and of the permeation of Western ideals and values into Arab culture. Thus, skepticism, combined with the perceived threat to Arab social values through the export of American popular culture, leads the general Arab population to be fearful of further Western penetration of their societies.

The Arab public in general views globalization as a facet of Americanization—the conduct of the global marketplace being established by big business and based on American work ethics, customs, and, of course, language. However, Arab public exposure to the United States is primarily through foreign policy actions, in which the United States is often seen as a dominating, all-powerful force that could potentially work above the dictates of international law without recourse. For example, current U.S. policy toward Iraq is widely interpreted by many Arabs outside the Gulf as sacrificing the well-being of an entire nation of people (Iraqi) to satisfy the U.S. agenda of deposing their country's leader. Another example is the perception of unconditional U.S. support of Israel in the face of the latter's alleged continual violation of international law with regard to Palestinian rights. If the United States does not publicly comment when Israel violates international law (disregarding United Nations [UN] resolutions or settlement policies, for instance) or falters in its commitments to the Palestinians under the ongoing peace negotiations, Arabs interpret it as tacit U.S. approval of Israeli actions. In Arab eyes, the United States runs the risk of straining relations with its Arab allies and defeating its stated agenda of promoting democracy, stability, and strong relations in the region.

In addition, the export of American popular culture to the region often threatens or offends Arab values. For example, American movies are frequently perceived as promoting moral relativism (casual sex and violence) and as creating friction with conservative Arab culture. Furthermore, many American action movies of the last decade portray Arabs as the post-Cold War replacement for the Soviet Union, the terrorist-enemy who threatens world security. In a region where comportment and civilities remain the required code of conduct between peoples and cultures, Arabs are highly offended by these stereotypes.

Throughout the region, there is a widening gap in perceptions of globalization between affluent Arab businesspersons and government technocrats, who embrace it, and the general population, which is fearful of it. The business and government technocrats display less skepticism and more optimism about the economic benefits that global participation can bring than do members of the public at large. The former see global participation in terms of lower prices and greater access to goods and services. Those who are well off financially or politically can educate their children abroad. They have witnessed their children become integrated into Western culture and obtain the tools, knowledge, and language skills to compete effectively in the emerging global world. Members of the general population, however, recognize that they continue to lag behind the Arab elite. They perceive this gap as a threat not only to their chances of progress but also to their cultural identity. Therefore, it can be deceiving when the Arab elite speaks positively about globalization because the general population tends to feel threatened by it.

This contrast highlights one of the most visible paradoxes in Arab culture today: while fears abound about the effects that globalization will have on Arab politics, culture, and economic well-being, the general population feels comfortable taking advantage of the benefits that globalization brings to their lives. From refugee camps and villages in Gaza to the oil-rich Gulf, Arabs own cellular telephones, watch satellite television, and use the Internet daily. As Islamist organizations often point out, they are not against technology; in fact, they embrace it. They are fearful of possible American political and cultural dominance of their societies. Islamists, as a function of the pan-Arab movement, reflect the Arab public's fear of American domination in the region. Jumping on the globalization bandwagon equates to adhering to global standards and requirements, which equates to a loss of control—how much of which is unknown. By contrast, the individual who chooses to use a cell phone, watch a television program via satellite, or read the news online is controlling his or her interaction with globalization.

Politically, regimes tend to reflect Arab public opinion in their leering toward globalizing, though for different reasons. Global participation requires openness and accountability, privatization, democratization, education, and communication with the outside world—all of which threaten authoritarian governance. As states seek to enter the global arena through membership in international organizations such as the World Trade Organization (WTO) and the Euro-Mediterranean partnership, they will be forced to adhere to international standards regulating fiscal policy, labor, and human rights. Global integration, however, is not just a policy issue; it is also a human development issue. Greater participation by Arab States through partnerships equates to greater participation in the global arena by their citizenry. For example, the telecommunications revolution offers enormous opportunities for both regional and international exchanges that can have a positive impact on younger generations. With the majority of the Arab population under the age of 18 (24 million Egyptians alone),⁶ the impact of global communications will have a profound effect on perceptions of both Arab identity and the world in general. Internet subscriptions in the Arab world reached 338,200 in April 1999, with the total estimated number of users reaching 923,100.⁷ Although Internet access remains limited in some areas, it is believed that it will offer more incentive for businesses, telecommunication companies, and governments to develop electronic business.⁸ Internet usage, coupled with freer access to satellite communications, such as the Qatar-based Al Jazeera satellite network (which offers a platform for dialogue on such taboo subjects as democracy, human rights, and political party opposition), and cellular phones, will provide greater exposure for the Arab populations to the outside world and enable them to communicate with one another and express their views and cultural identity while limiting the amount of control governments can exercise over them. In short, global communications have the ability to transform Arab society politically and socially while uniting it culturally.

Horizontal Integration: Political and Social Implications

While the Middle East as a whole is a developing region, the Gulf States (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates [UAE]) enjoy high levels of economic prosperity because of oil revenues. Nevertheless, throughout the region, economic and political reforms are needed for horizontal (regional) integration to occur. Regional integration necessitates legal conformity. "Legal issues that affect intellectual property, the right to compete and other rules are indispensable complements to liberalization that would increase both communication between economies and long-term security. This would encourage investment and thus growth and employment."⁹ It also necessitates the free flow of workers, goods, and materials across state borders, an issue not to be underestimated in a region where it is usually easier to enter a state from the West than from the country next door. Finally, regional integration necessitates an open system of information. Individual states currently exercise varying levels of control over communication systems, including television, satellite, telephone, Internet, and print media. Additionally, communication infrastructure varies from state to state.

Politically, regional integration equates with both a loss of power and a threat to individual regimes, internally and externally. If one subscribes to the theory that regional integration requires the presence of a hegemonic power with sufficient economic and social means to maintain regional stability, this in itself creates a problem among Arab States. Although Egypt has reinforced its position as the pan-Arab leader, it lacks sufficient economic power to fill this role. Saudi Arabia possesses the economic power but lacks the political leadership to unify the region. Regardless, mistrust, rivalries, patriarchal relationships, and differences in opinion toward larger issues such as the peace process and the Gulf War do not allow for hegemonic leadership on a pan-Arab level.

Internally, the threat is quite different. If a state increases its economic standards, develops its human resources, and encourages direct foreign investment and information technology, it makes itself vulnerable to increased calls for legitimacy, greater democracy, and accountability. Additionally, states must appease their individual patriarchal, tribal, and sectarian needs. Halim Barakat notes, "Efforts at social and political integration have been frustrated by regionalism, the pursuit of idiosyncratic interests by the established ruling classes in separate Arab countries, dependency, colonization, the power of traditional loyalties (religious, ethnic and kinship), urban-rural-nomadic differences, and repressive conditions."¹⁰

Conversely, regional integration has the potential to improve the social structure of Arab society. It can serve as a salve for an internally fragmented region that shares a common history, language, and culture. It can bring new meaning to the Arab national identity through a strengthening of economic, political, and cultural bonds. Furthermore, a stronger identity would appease groups who feel their region is threatened by Western values and culture.

For horizontal integration to succeed economically, Arab States must have transparent and open economies, macroeconomic stability, and liberalized trade. To be sure, a unified system of laws, procedures, and economic stability will be a prerequi-

site to regional integration. More important, the states must want to integrate. Arab leaders need to recognize not only the economic but also the cultural and political benefits of integration. The initiatives taken by many Arab States toward the legal reform, privatization, and liberalization of their economies, although designed to satisfy global trade requirements, can also open a door to intraregional trade and investment. Regional integration will provide for a better sharing of resources among member states in terms of their human, physical, and institutional infrastructures. Moreover, a regional trading bloc will provide the Arab States more leverage and bargaining power in negotiations with larger trading partners.

Finally, horizontal integration will break down the physical barriers that hinder the free flow of workers and goods across borders. Greater economic opportunities will stimulate growth in the middle class and allow for improved educational standards, reduced illiteracy rates, and better global opportunities for future generations. While it is important for Arab States to move toward greater integration, they must exercise caution when adopting integration policies, in order to provide for vulnerable groups during the structural readjustment phase of integration. A gradual plan would ensure a smooth transition while protecting employment and small- to medium-size enterprises.

Although the region has entertained the idea of a regional trade and investment bloc over the years, plans never evolved into a concrete system. Two attempts at regional integration, the Gulf Cooperation Council and the Arab Maghreb Union, are currently under way. As we will see, they have had varying levels of success.

Gulf Cooperation Council

The Cooperation Council for the Arab States of the Gulf (Gulf Cooperation Council, or GCC) was established in 1981 to promote cooperation and integration among the Gulf member states: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE. The objectives of the Gulf Cooperation Council are to

effect coordination, integration and interconnection between Member States in all fields in order to achieve unity between them; to deepen and strengthen relations, links and scopes of cooperation prevailing between their peoples in various fields; to formulate similar regulations in various fields including inter alia, economic and financial affairs, agriculture, industry, commerce, customs and communications, education and culture, social and health affairs, information and tourism, and legislative and administrative affairs; to stimulate scientific and technological progress in various fields, to establish scientific research centers and implement common projects, and to encourage a cooperation by the private sector.¹¹

Increasing Openness. Although coordination efforts, particularly in the realm of unifying economies, have been slow, the Gulf States are now pressing forward in an effort to compete as a regional organization. Additionally, since all but two GCC states have secured WTO membership (Saudi Arabia should accede in 2001, and Oman will pursue membership soon), they must accordingly structure their systems to adhere to WTO standards. Abdulla Bishara notes, “politically, all Gulf States are

moving towards these adjustments, [democracy, human rights, religious tolerance, the free flow of information and women's rights] in harmony with the global requirements of the 'd'etat' of Globalization: transparency, openness, liberalization and human rights."¹² The same applies for the Maghreb states that are entering into Euro-Mediterranean agreements. Transparency means that businesses will have to adhere to the requirements of global securities laws in financial reporting and accountability. Under current systems, Arab enterprises are often closed to public scrutiny; adherence to global requirements is likely to be resisted by business leaders if they perceive difficulty in being open and accountable. To create liberalized and open economies, states must reduce restrictions on foreign direct investment (FDI), reduce tariffs, modify their legal structures, and eliminate such restrictive practices as requiring foreign suppliers to use local sales agents.

End of the Welfare State. The decline in oil prices over the past two decades has dramatically affected how citizens of the Gulf States live and work. The welfare state is slowly coming to an end. Gulf States are now faced with the task of resocializing their citizenries on issues of responsibility and work ethics. In the UAE, as in the rest of the Gulf, there are calls to decrease government payrolls and encourage private-sector jobs. Officials acknowledge the need to meet the employment aspirations of an indigenous population increasing by an estimated 4 percent a year.¹³ Citing Kuwait as an example, Abdulla Bishara notes that the GCC governments are grappling with privatization. "Privatization means laying off people. In order to privatize, many Kuwaitis will have to be laid off—this is a drastic contradiction to the welfare culture. Thus there is no public support for privatization and no parliamentary support. Privatization is an issue that is not easy to fulfill if you take into consideration the background of the welfare culture."¹⁴ Additionally, as jobs in the Gulf become scarcer, and if new sectors of business are not developed, expatriate Arab and non-Arab workers who continue to rely on the Gulf for employment will be the big losers. Dubai Internet City's recent hiring of expatriate workers, rather than UAE nationals, caused a huge uproar in that country.

An Arab Maghreb Union?

The Arab Maghreb Union was established in 1989 to create a common market among the Maghreb states. In that year, representatives of the five member countries (Algeria, Libya, Mauritania, Morocco, and Tunisia), agreed to work toward achieving progress and prosperity in the realms of trade relations and peace and security. "Between 1989 and 1994, the five member nations concluded 26 cooperation agreements, including accords on investments protection, nondouble taxation and the free movement of people and goods. They also concluded a convention, setting up a regional parliament where in each member state would be represented by 20 members. These accords, however, have remained a 'dead letter,' say political observers, and any upturn will depend largely on the settlement of the political problems facing North Africa."¹⁵ These political problems include Algerian intervention in the Western Sahara, a lack of unified Maghreb backing of Libya in the Lockerbie bombing, and UN Security Council sanctions on Libya (lifted in 2000, although U.S. sanctions

remain in place). According to Youness Al Figuigui, "The biggest problem facing the Maghreb is that its leaders favor what is political over what is economic, at a time [when] economy[ies] have become the driving force all over the world."¹⁶

Some Maghreb states may, however, be picking up speed. "This year's [1999] push to revive the union is driven not only by lobbying from the private sector in the region. Both the European Union and the United States have been urging Tunisia, Morocco, and Algeria to set up a common economic area that would become a magnet to foreign investors."¹⁷ While much progress is being made through bilateral initiatives, the Maghreb remains slow to integrate. "Since 1990, the five countries have signed more than 30 multilateral agreements covering diverse economic, social, and cultural areas. While member countries have ratified varying numbers of these agreements, only five have been ratified by all members of the union. These include agreements on trade and tariffs (covering all industrial products); trade in agricultural products, investment guarantees; avoidance of double taxation; and phyto-sanitary standards."¹⁸ As the Maghreb states must address increasing calls to meet the growing needs of their populations, income opportunities and new job creation will be two of the most important issues.

Arab States are facing a very serious contradiction. These regimes tend to fear the political consequences of global participation. At the same time, they see the long-term economic benefits of globalization. In a region that must accommodate millions of entrants to the workforce each year, globalization must be pursued.

Vertical Participation: Economic, Political, and Social

Vertical participation refers to trade agreements between countries in a region and another regional trading system, such as the European Union (EU). It includes membership in international organizations such as the World Trade Organization. As Arab States establish vertical ties, they must revise laws that regulate their economies. Howard Stovall¹⁹ identified the issues that Arab States must address. They included the differential treatment of local and foreign businesses, direct investment and management in local companies, portfolio investment and stock market participation, import and distribution of products, the use of intellectual property and protection thereof, and the taxation of income arising from commercial endeavors.

The Euro-Mediterranean Partnership. The Barcelona Conference in November 1995 established a framework for a Euro-Mediterranean free trade area by 2010. The framework objectives are to promote cooperation and regional integration, speed socioeconomic development, and improve relations between Europe and the Mediterranean countries. The Arab States belonging to this partnership are Algeria, Egypt, Jordan, Lebanon, Morocco, the Palestinian Authority, Syria, and Tunisia.

The free trade area "is to be achieved by means of the Euro-Mediterranean Association Agreements negotiated between the European Union and individual Mediterranean partners, to be complemented by Agreements between Partners themselves."²⁰ Common aspects of the Euro-Mediterranean Association Agreements include a free trade area in line with WTO standards, to be completed within 12 years of the signing of the agreement; gradual liberalization of trade in the agricultural products and ser-

vices sectors; gradual elimination of customs duties on EU exports of industrial products, and duty-free access for Mediterranean partners' industrial exports; and protection of intellectual property rights.

Is Vertical Integration a Good Idea? The World Bank notes that for the short term, it may be more appealing for individual states to seek bilateral agreements with other regional trading blocs rather than seek horizontal agreements.

On the basis of the existing economic and political incentives, it may appear that it is in the interest of a country such as Egypt to open up its economy first to a large trading partner such as the EU rather than to other countries in the region. After all, Egypt's exports to and imports from the EU represent some 50 percent and 40 to 50 percent of the total, respectively. In contrast, the country's trade within the region accounts for less than 10 percent of its total trade. Therefore, based on strict revealed preferences, it does not appear that integration within the region is nearly as attractive as integration with the EU now.²¹

However, vertical integration can play a constructive role in the region.

Vertical integration requires adapting to global standards—something many states are leery of because of the costs. If not undertaken systematically and with due regard for social safety nets, rapid economic adjustments can severely damage small- to medium-scale industries, rendering thousands jobless and creating internal instability. However, Bernard Philippe suggests, “By inviting them to integrate into a established economic and regulatory structure and adapt its standards, the [Euro-Med] partnership enables these countries to avoid a choice between two questionable alternatives: excessively prudent gradualism—without the possibility to initiate all the reforms necessary—and a ‘big bang’ which could prove socially intolerable.”²² This, in turn, Philippe argues, should strengthen their ability to undertake internal reforms that would be conducive to investment and employment. Additionally, as the whole structure should be in line with the rules of the World Trade Organization (which must approve association agreements), those Arab States that are not currently part of the World Trade Organization should experience a smooth transition into the organization once they adhere to these standards. However, for the Maghreb partners, adjustments will not be without difficulties. The Maghreb states must develop infrastructure—ports, roads, and telecommunication systems. They must have access to technology and investment capital. And, as the World Bank notes, with labor force illiteracy rates of between 20 and 60 percent, substantial investment needs to be made toward basic education and training.²³

While it may be easier for some Arab States to integrate vertically, they need to continue to work toward peace and economic integration in the region. Otherwise, it is likely that each state will seek its own interests within the existing and emerging regional economic box in Europe and Asia.²⁴ In such a case, each state would be attached to a powerful economic group to the north or east of it. The Arab States might run the risk of not working toward regional integration, the impact of which would be further economic fragmentation and political friction among Arab regimes.

In sum, it is not wise for Arab States to pursue vertical agreements exclusively and at the expense of horizontal integration. Rather, they should work toward progress in both areas.

Reform Programs

Ali Abootalebi notes, "Stabilization and adjustment programs demand substantial administrative capacity and political skill. In this regard, the primary problem with governments in the Middle East remains the persistence of traditional political structures. Political elites and entrenched interests continue to resist political reforms and economic adjustment policies that they perceive as threatening the status quo."²⁵ The beneficiaries of the current political structures, therefore, feel a need to create mechanisms whereby they can "get in the game" without subjugating their own authority and power structures. Many Arab States have begun initiating reforms on privatization, FDI, and regulatory laws in an attempt to control the liberalization process. The following paragraphs describe some current reform programs.

Jordan. King Abdullah has made economic growth a priority and has undertaken a program of economic legislation to encourage privatization and FDI. The program seeks to establish new laws and amend existing ones on "banking, deposit guarantees, privatisation, sales tax, the special economic status of Aqaba, customs, landlord and tenant arbitration, and the Jordan Valley Authority law."²⁶ The Jordanian government is also working closely with the Palestinian Authority to pursue efforts to establish a free trade zone between the two governments. On July 6, 2000, Palestinian and Jordanian representatives signed the joint minutes of the Joint Economic Committee Meetings (Amman, Jordan, July 4–6, 2000). The cooperation agreement calls for a free trade zone to be completed by 2007, an increase in the number of custom-exempted commodities to 1,370, cooperation in investment encouragement, and the establishment of a joint industrial zone to expand trade exchange to 50 million dinars by the end of 2000.²⁷

Saudi Arabia. In early 2000, the Saudi government announced a new foreign investment law, including an opening of the oil and gas sectors to foreign investment. The provisions of the foreign investment regulations include reduced tax rates, foreign ownership of property, and granting foreign partners equal treatment with local concerns. The newly established General Investment Authority (GIA), a one-stop shop for foreign investors, should also encourage FDI. Additional reforms are planned, some of which include insurance and financial services. Saudi Arabia, however, needs to place more emphasis on diversifying its private sector. "More than 100,000 Saudi males enter the workforce every year, yet the non-oil private sector is only creating enough new jobs to absorb about one in three job seekers."²⁸

Syria. In April 2000, "in a flurry of presidential decrees and parliamentary action, Syria liberalized its strict rules against the possession of foreign currency and narrowed the purview of its 'economic security courts'—changes that permit businesses to operate with more freedom and less concern about the law. Regulations on foreign investment were also changed, allowing greater tax and investment advantages for longer periods."²⁹ This, coupled with a \$31 million pilot project to bring

cellular telephones to Syria and plans to increase Internet access, makes analysts cautiously optimistic about the future direction of Syria under Bashar Assad.

Tunisia. Tunisia entered into a partnership with the European Union in 1995 and has slowly taken steps to liberalize trade, reduce tariffs, and encourage FDI. The *Middle East Economic Digest* reports that the largest tariff reductions are scheduled to occur between 2004 and 2008. In 1999, the largest growth in this country occurred in the service, communications, manufacturing, and tourism sectors.³⁰

Oman. Since the early 1990s, Oman has entertained plans to diversify its oil-dominated economy through privatization and increased investment. "Privatization is now firmly entrenched in government thinking and the authorities are adopting the liberal reforms of commercial regulations that are necessary to nurture it. The pressure for change is both internal, driven by the desire to reduce costs to the state and stimulate the private sector, and external, with accession to the World Trade Organization forcing the pace of change. The foreign investment code is being revised to permit 100 percent foreign ownership, agency laws have been liberalized and it has become easier and cheaper to set up a representative office."³¹ In addition, the court system is being restructured to allow greater foreign investment.

Kuwait. Kuwait has embarked on a reform package to promote FDI, privatize, and reform the legal system in an effort to attract foreign investors. The International Monetary Fund reports that the reforms include "draft legislation on privatization (utilities, telecommunications, airlines, transportation), foreign investment, market reform, the company and agency laws, the corporate income tax law, and the copyright and patent laws. A consensus between the government and the National Assembly on most of the draft bills has still to be reached, particularly with regard to implications of some of the reforms for employment, utility tariffs, and the risk of emergence of private monopolies."³²

Conclusion

For the time being, global competition will exist among unequal entities, where those with the upper hand (the West) establish the rules of the game. The challenge for Arab States is to reduce structural economic deficiencies, reform political structures, and introduce greater access to the tools of globalization such as the Internet. These changes will, in turn, increase opportunities for political participation and encourage horizontal and vertical integration. Horizontal integration will unite the Arab world culturally and as a regional economic system, better positioning it for global competition. Vertical integration will bring greater economic opportunities, higher standards of living, and political accountability, and will increase the prospects for democracy in the region.

For thousands of years, the Arab world was at the center of the world trading system. At the start of the 21st century, Arab States are engaging in a dialogue of identity and interaction to define their positions, individually and collectively, in the global arena. As they do this, Arab leaders and the general population will need to come to terms with the paradoxes that globalization brings to their culture and society. Globalization dictates that the Arab States are naturally inclined to operate within

a regional framework. The Arab world can become a full participant in the global arena; however, this will be possible only if the region can find mechanisms that will enable it to reap the benefits of globalization without sacrificing Arab values, culture, and tradition. Furthermore, partner states must disengage from the political rivalries of the last century, which bred suspicion and insecurity, and forge new relations based on trust and shared gains.

For Arab leaders, globalization should be viewed in the context of gains rather than losses. Participation in the global arena will provide economic stability, higher standards of living and better services, and opportunities to better educate their people. Additionally, it will enhance their own cultural ties through better systems of communication and interaction and will provide jobs for the growing numbers of Arabs entering the workforce every year. Finally, “globalization may actually help the cause of civil society and democracy by weakening the state’s control of the economy and society on the whole.”³³

As a new generation of Arab leaders comes to the fore, they should work to strengthen regional relations. These younger, Western-educated leaders are aware of the benefits that globalization can bring. While vertical agreements seem preferable to Arab States at this time, Arab leaders should make a conscious effort to give due attention to regional agreements as well. Integration will strengthen the region in terms of security. Strong and stable economies among member states will reduce the likelihood of cross-border violence. Israel, already better developed in terms of infrastructure and human capacity, will be well positioned to reap the rewards of peace through joint projects with its Arab neighbors. Economically, integration will provide jobs for the millions of Arabs entering the workforce each year. The Arab world must continue to take steps toward global integration. Without such progress, the Arab States will fall further behind in the globalization game.

For its part, the United States should pursue a policy that encourages greater infrastructure development and technological modernization in the region. Such a policy would complement current U.S. initiatives to promote the development of a stable, more democratic civil society in the Arab world. 🌐

Notes

¹ James A. Bill and Robert Springborg, *Politics in the Middle East*, 4th ed. (New York: Harper-Collins, 1994), 41.

² Raymond A. Hinnebusch, “Egypt, Syria and the Arab State System in the New World Order,” in *The Middle East in the New World Order*, ed. Haifaa A. Jawad, 2d ed. (London: Macmillan Press, Ltd., 1997).

³ Ibid.

⁴ *The Middle East and North Africa 2000*, 46th ed. (London: Europa Publications, Ltd., 1999), 256.

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