

Crisis, Conflict and the Political Economy of the Middle East Region

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Any attempt to understand the political economy of the Middle East must begin with the area's vital significance to global capitalism. While the region formed an important crossroads of trade and strategic influence through the years of European colonialism, the discovery of vast supplies of hydrocarbons in the early 20th century was to position the Middle East at the centre of world politics. Oil and gas were fundamental to the nature of modern industrial production and transport following the Second World War and, in this context, control and influence over the Middle East played an important role in the balance of global rivalries in the post-war period. As a consequence, with the emergence of the US as the dominant global power, American strategy sought to construct privileged relationships with Arab governments across the region. From the late 1960s onwards, US power also came to rest upon an alliance with the state of Israel – established in 1947-48 through the expulsion of the majority of its Palestinian inhabitants.

It was in this context that Arab nationalist and left-wing movements developed through the immediate post-war period. Many of these movements took their lead from Egypt's Gamal Abdul Nasser, who came to power in a 1952 coup and inspired similar "Nasserist" movements across the Arab world. Other prominent examples were found in Yemen, Algeria, Syria and Iraq, where nationalist governments took power and attempted to wrest control of their territories from regimes that had been closely allied with colonialism. A central feature of the economic model implemented by these nationalist governments was a form of statist development that prioritized domestic control of industry, the provision of employment and food subsidies for the population, and state ownership of land and other resources. These governments were able to improve living conditions, but were also marked by authoritarian patterns of rule that attempted to repress political movements that displayed any independence from the state itself.

By the early 1970s, this development strategy ran into clear difficulties. The increase in oil prices for oil-importing countries following the 1973 global economic slump, the cost of

maintaining subsidized foods, rising debt levels, and the prodigious military expenditure associated with ongoing conflicts in the region (notably the successive wars with Israel), placed considerable pressures on Arab governments. This period of crisis, by no means unique to the Arab world, ushered in the opening phases of neoliberalism through the 1980s.¹ Backed by promises of financial support from Western states, the World Bank, IMF and the Arab Gulf countries, Arab governments began to turn away from state-led economic models and embrace policies such as privatization of state-owned firms, deregulation of labour markets, the commodification of land, liberalization of ownership laws, restructuring of tax regimes and the opening up to foreign trade and financial flows.

Of course there was considerable variation in the pace and scale of these economic changes from their inception in the 1980s through to the first decade of the 2000s.² Egypt, Tunisia, Morocco and Jordan stood out as the region's "star" reformers – consistently held up by international financial institutions as role models for the wider region. In other cases – notably Lebanon and Palestine – the policy logic of neoliberalism emerged as an integral part of the political economy of post-conflict reconstruction and development programmes (particularly connected to the urban real estate sector). States such as Syria, and to a lesser degree Libya, moved much more slowly to adopt neoliberal measures due to the strategic underpinning of state control to their autocratic regimes, and their relative isolation from Western markets. Nonetheless, in the wake of the decline of their traditional international backers in the 1990s and early 2000s, both countries began to seek rapprochement with the West. This move was not solely political; it also included an opening to world markets and initial steps towards economic reform.

What were the consequences of these policies for the Arab world? Numerous commentators have tracked the marked deterioration in living standards and growing levels of poverty and inequality that have emerged in the Middle East over the last two decades. For example, prior to the global economic crisis of 2008, average unemployment rates for Egypt, Jordan, Lebanon, Morocco, Syria and Tunisia were higher than any other region in the world, while labour force participation rates were the lowest (less than half of the population).³ For the Arab world as a whole, youth and female participation rates also ranked at the bottom of the globe.⁴ Even those in employment tended to be in precarious, low-paid informal jobs – the countries of North Africa, for example, had one of the fastest-growing informal sectors of any place on the planet. There are many other statistics like these that could be recounted for

1 David Harvey, *A Brief History of Neoliberalism*, Oxford, Oxford University Press, 2005, p. 19.

2 Adam Hanieh, *Lineages of Revolt: Issues of Contemporary Capitalism in the Middle East*, Chicago, Haymarket Books, 2013.

3 International Monetary Fund, *Regional Economic Outlook: Middle East and Central Asia*, World Economic and Financial Surveys, Washington, DC, IMF, 11 April 2011, p. 39, www.imf.org/external/pubs/ft/reo/2011/mcd/eng/pdf/mreo0411.pdf.

4 ESCWA, *The Arab Millennium Development Goals Report: Facing challenges and looking beyond 2015*, 2013, p. 10.

poverty, malnutrition, illiteracy, and other measures of social conditions – these are trends that have remained virtually unchanged for over two decades.

But it is important to note that neoliberal policies did not have a uniformly negative effect on all social layers of the Arab world. Accompanying the spread of poverty, these policies simultaneously led to a growing concentration of wealth in the hands of large business conglomerates, which benefitted from privatization efforts, liberalization of capital inflows, and policies aimed at private-sector growth. This socioeconomic polarisation and exclusion – backed by authoritarian regimes such as those found in Mubarak's Egypt and Ben Ali's Tunisia – was a key element in the outbreak of the uprisings of 2011.

At the same time as the concentration of wealth proceeded within individual countries, the neoliberal period also witnessed the growing power of business and state conglomerates connected to the Arab Gulf States. Flush with accumulated surpluses from the oil price rise of the 2000s, Gulf investors were major purchasers of privatized assets throughout the region. Indeed, the number of foreign investment projects in the Middle East announced by investors from the Arab Gulf States was greater than any other source from 2003 to 2009.⁵ Most of these investments targeted countries in the Mediterranean area, Jordan, Lebanon, Egypt, Palestine and Syria. For these five countries, Gulf investments were more than three times that of the EU and twelve times that of North America. From 2008 to 2010, the Gulf as a whole was the top-ranked source of total FDI for Egypt, Jordan, Lebanon, Libya, Palestine, and Tunisia –surpassing investment flows from the United States, United Kingdom, China, or any European country. These patterns have continued even after the global crisis: from 2010-2012, the GCC was responsible for around one-third of all FDI from the top 20 origin countries to Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, Palestine, Syria and Tunisia.

Moreover, foreign direct investment figures do not give the full picture here. For one, they do not include the considerable government-to-government flows of aid from the Gulf that have been apparent in recent years. They also do not necessarily incorporate portfolio investments by Gulf companies and Sovereign Wealth Funds in regional stock markets. But – perhaps most importantly – they tend to understate the ways in which other Arab capital, particularly from displaced or diaspora groups (such as the Palestinian community), have become largely based within the Gulf itself. In a very important sense, these diaspora communities need to be viewed as a fraction of Gulf capital itself – their main base of accumulation remains headquartered in the Gulf, and in some cases they have received Gulf citizenship (such as Lebanon's Hariri family).

We can see the consequences of the internationalization of Gulf capital through the Arab region in numerous sectors, particularly those such as real estate and urban infrastructure

development, banking and finance, retail, logistics, telecommunications and media. In Egypt, for example, corporate-level analysis of the core companies involved in the real estate, banking/finance, and agribusiness sectors show a heavy predominance of Gulf-based firms or Egyptian-Gulf joint ventures. For the Palestinian case, these trends are even more pronounced – today, interlocked ownership structures of Palestinian/Gulf based groups directly controlled 15 out of the 17 banks in operation in PA-controlled areas, including the three most important banks – The Bank of Palestine, Arab Bank, and Cairo Amman Bank – that between them operate nearly half of all bank branches in the Palestinian territories. The launch of the \$1 billion Rawabi City project near Ramallah, a joint-venture of the Masri family and a Qatari real estate company and the largest ever private sector project in the Palestinian territories, is a striking indication of these trends. Similar ownership ties between Gulf-based firms and other Arab capital can be found in Jordan and Lebanon and, increasingly, in the Maghreb countries.⁶

These trends confirm the importance of a cross-scalar perspective to our understanding of the Arab world. They reveal, for example, the ways in which class and state structures in the Arab world have become increasingly intermeshed with those of the Gulf States. Processes of class/state formation at the national and regional scales are very much inter-linked, with regional hierarchies interiorized within – and constitutive of – processes at the national scale. Neoliberal reform processes have thus not simply accentuated inequalities within national borders; they have also acted to strengthen the position of Gulf-based groups within the Arab world, further sharpening the hierarchies within the region as a whole.

The recent period has witnessed not only the ongoing relevance of these intra-regional hierarchies, but also their widening. According to the most recent estimates of the Institute of International Finance (IIF, figures from October 2014), the net foreign assets (gross foreign assets minus external debt) of the GCC states rose from \$878 billion in 2006 to a forecast \$2.27 trillion by end-2014.⁷ This compares to a decline in the net foreign assets of Egypt, Syria, Jordan, Lebanon, Tunisia and Morocco, from a surplus of \$11 billion in 2006 to a forecast deficit of \$46.7 billion by end-2014. Similar trends can be seen in current account balances. In 2014, the six states of the GCC were estimated to have a total current account surplus of just under \$300 billion (17% of their GDP), more than four times where they stood in 2009. During the same period, the current account balance of Egypt, Syria, Jordan, Lebanon, Tunisia and Morocco reached an estimated total *deficit* of \$25.9 billion in 2014 (-4.6% of GDP), compared to a deficit of 18.8 billion in 2009 (-4.3% of GDP).⁸

The highly polarized patterns of development in the Middle East (both at the national and regional scales) are essential to understanding the current multiple and linked forms of crisis

⁶ See Hanieh 2013 for more detailed empirical discussion of this.

⁷ Institute of International Finance (IIF), "MENA Region: Recovery Buffeted by Geopolitical Risks", 8 October 2014, p. 32.

⁸ IIF, 2014, p. 31.

in the region. Most significantly, widening levels of inequality and the simultaneous undermining of potential mechanisms of social support mean that it is necessary to unpack and differentiate the effects of crisis. Moments of crisis – such as the 2008/2009 global economic downturn – tend to be concentrated on the most vulnerable and marginalized layers. This differentiated effect is not restricted solely to economic crises; other forms of crisis – refugee, conflict and (one that we often overlook) ecological crises – also act in this way. The point is that social support mechanisms have been eroded over recent decades, and thus crises tend to have even more pronounced differential effects – i.e. they lead to even greater social polarisation. This is one of the reasons (although obviously not the sole one) for the growth in sectarian political movements over the recent period.

Finally, we need to understand the dominant economic models of the last two decades as no less an important feature of foreign intervention in the Middle East as bombs, drone attacks or military strikes. Indeed, as the cases of Palestine, Lebanon and Iraq demonstrate, the two forms of intervention are frequently linked – war, conflict and military aggression are often employed as catalysts for economic liberalisation. The connection between the political and the economic is particularly important to emphasise today, as it points to the necessary linkage between the struggle to address socioeconomic inequalities and those aimed at political reform. Without challenging the vast inequalities in socioeconomic power – both national and regional – and the socioeconomic interests (national, regional and global) that have benefited from this, there is little hope of seeing an improvement to the *politics* of the Arab world. Given the escalation of conflict and apparent setbacks to popular struggles throughout 2014 and early 2015, it may be difficult to envisage a reversal of these trajectories. The need, however, for such an alternative path, has perhaps never been more urgent.

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