

## THIRTEEN

# Social Structure of Accumulation Theory for the Arab World: The Economies of Egypt, Jordan, and Kuwait in the Regional System

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### Applying SSA Analysis to the Arab World

The theory of social structures of accumulation (SSA) was developed to explain long swings of alternating expansion and stagnation in Western capitalist economies. The post-World War II SSA led by the United States entailed the projection of U.S. military power overseas, the allocation of U.S. foreign aid to allies and protégés, and the investment of U.S. surplus capital abroad. United States hegemony provided assurance of energy and raw material supplies and new arenas for the global spread of capitalist production, as well as the growth of markets for the United States and, increasingly, Western European and Japanese exports. Because many areas of the Arab region were rich in easily extractable sources of energy and conveniently located near Europe, controlling the region became an integral part of the United States' economic and political strategy as it replaced shrinking British and French imperial power.

The importance of SSA analysis is double-barreled for understanding economies of the Arab World. First, the establishment and evolution of this "post-World War II SSA" led by the United States, and its evolving contradictions, constituted the international context within which the Arab territories attained political independence as new "nations" and undertook "modern" economic development. Second, the SSA conceptual apparatus can be used to examine the economic achievements and internal contradictions of the Arab countries and the institutions facilitating or impeding accumulation in each period of their postwar history.

The cases of Egypt, Jordan, and Kuwait illustrate the spectrum of variation within the regional SSA in both internal economic features and

external relations.<sup>1</sup> Egypt represents the subgroup of more populated countries that have bigger agricultural sectors, a greater degree of industrialization, larger domestic markets, and more internal economic articulation than the other groups. Jordan represents a second subgroup with smaller populations, small agricultural sectors, small but significant industrialization, and greater dependence on the export of labor to generate national income. Kuwait represents a third subgroup, “rentier” economies defined by the export of oil and natural gas and very small agricultural and manufacturing sectors, which, with small populations of citizens and relatively high per capita incomes, are dependent on the import of goods, labor, and other services to be economically viable.

While the SSA approach was developed with an economy like that of the United States in mind, an industrialized capitalist country with a long history of internal articulation, a full analysis requires consideration of the United States’ place in the international system. In parallel, both the internal and the external aspects are also important for analysis of the Arab economies, but the balance between the two is reversed. The Arab region has its own internal dynamics, but it does not have a long history of capitalist development in which internal articulation could have occurred. Furthermore, the region’s proximity to and continuous interaction with Europe, and the conflicted place of the Arab countries in the U.S.-dominated international system, have pressed much more urgently on their internal economic policy and institutional structure than vice versa (Lockman 2004: chap.4).

There is an overarching regional SSA for the Arab World, with local national variations on its central institutions and with significant interaction among the countries that make up the region. Arabic language and culture, including music, food, cinema, and now media (e.g., Al Jazeera television network), continue to provide a strong identity to the native Arabic speakers of the region. They shared a pervasive sense of common history, of a civilization without national borders until the early twentieth century. “Arab nationalism” as an ideology of cultural and political unity arose in the late nineteenth century in the context of the decay of the Ottoman Empire and the spread of European economic power and direct political intervention. In the second half of the twentieth century, while Arabs came to be identified as citizens of distinct nation-states, many still viewed the borders as having been drawn either arbitrarily or

<sup>1</sup> See Pfeifer and Posusney (2003) and Richards and Waterbury (2008: chapter 2) for explanations of this method of categorization and dimensions of variation.

with deliberately divisive intent by the European powers and a handful of self-interested elites. The contradictory promises of the British and French mandatory powers regarding Arab self-rule, on the one hand, and a Zionist homeland in Palestine, on the other, culminating in the founding of an exclusionary Jewish state in 1948, were considered the final betrayal by those powers and their successor, the United States. Subsequent constant friction with Israel, the failure of the Western powers to provide justice or restitution to Palestinians, and regular Western political and military intervention in the region keep these polities continually off balance, and ironically reinforce the sense of cross-national Arab identity.

The economic dimensions embedded within this cultural-political framework are based on a set of common social assumptions and structures. Although it seemed in the 1950s that there were important differences between the Arab republics (e.g., Egypt after the abdication of King Farouk) and the monarchies such as Jordan and Kuwait, all three adopted formal constitutions that established parliamentary systems with elected representation and that defined the mutual obligations between state and citizen. Even the World Bank has come to realize, after many frustrated rounds of structural adjustment, that the distinctive features of the region cannot be so easily undone and replaced with neoliberal institutions. As one recent work puts it, the differences between the republics' "commitment to radical populism" and the monarchies' "paternalistic rationale for statism" tended over the decades since independence toward "a measure of convergence around an interventionist-redistributive form of social contract" (World Bank 2004: 23). This contract entails preferences for "redistribution and equity," for planning and for "states over markets in managing national economies," and visions for a large "role of the state in the provision of welfare and social services" and "of the political arena as an expression of the organic unity of the nation, rather than as a site of political contestation" (World Bank 2004: 25). The World Bank calls for a "new social contract" that respects regional culture and sensibilities, but uses this notion to promote the familiar neoliberal reform agenda, such as flexible labor markets and precisely targeted social welfare (World Bank 2004: chapter 7).<sup>2</sup>

<sup>2</sup> The author gave a lecture entitled, "Rethinking the Social Contract in the Middle East," at a symposium sponsored by The Middle East Institute in 1992 (National Press Club, Washington DC, Oct 16–17, 1992). The counter lecture was delivered by a representative of the World Bank, Caio Koch-Weiser, then director of the Middle East Division, who hewed to the narrow neoliberal line at the time and spoke vociferously against the idea of the "social contract."

In addition to these core features, intraregional economic relations are circumscribed by the proximity to Europe in trade, investment, and institutional structure, and by the global energy market as driver of economic cycles for both the energy-exporters and those countries that export labor to them. Economic integration comes, most importantly, from labor migration and other personnel transfer (tourism, family links, vacation residence), remittances from émigré labor, cross-national investment and aid and, to a lesser extent, intraregional trade. There is repeated and persistent interest by regional economists in *region-focused* development that resonates with citizens across national boundaries (e.g., Galal and Hoekman 2003). An important example is that the Arab League's proposal to Israel in 2002 for full recognition and a complete peace settlement with all Arab countries, in exchange for a two-state solution to the Israel/Palestine conflict along the lines of United Nations resolutions like 242, met with broad popular approval across the Arab World, for it would have meant not only a final resolution of the exhausting Palestine question, but also peace and prosperity for a more integrated region overall. Even the World Bank has come to recognize this powerful motivation and has taken it up as another tool for promoting *global* integration (World Bank 2003: chapters 1 and 7, 2008a).

Viewed in this light, our representative cases of Egypt, Jordan, and Kuwait entered their postwar SSA when British domination ended, and meaningful political independence was attained (Egypt 1952, Jordan 1948, Kuwait 1961). The economic exigencies of nation building propelled these countries toward some variant of "state-led development," entailing institutional changes like nationalization of natural resources, economic planning and infrastructure investment, import-substitution industrialization, agrarian transformation, and changes in enterprise and labor law. While the state occupied the commanding heights in investment, private capital played the role of a junior partner, participating in but not dominating the direction of economic growth and social change. This mode of development also required the cultivation of an educated middle class and skilled and unskilled working classes to fill the new occupations of an expanding "modern" economy, necessitating their incorporation into the political system in ways that would minimize class conflict.

The state-led pattern of growth contained two deep contradictions, internal and external, that grew more pressing and obvious as this SSA reached its limits in the 1980s. First, each regime in our sample was formally committed to representative government, but the concentration of economic power in the hands of the state and the myth that there are no

class antagonisms fed into authoritarian political tendencies. Alongside “state-led development” and in exchange for their citizens’ acquiescence in limitations on political freedom, there blossomed a social contract. The state promised public guarantees on the debt incurred by public and private enterprises, guarantees of employment for all high school and, later, college graduates, and universal welfare programs such as education, healthcare, housing, and subsidies for consumer necessities. While much progress was made in human development, fulfilling this social contract in terms of continuous growth of employment and income would become increasingly difficult by the late 1980s, leading to erosion of political quiescence.

Second, the growth that took place during the boom years was less internally generated than anticipated. Instead, it was more dependent on a number of external circumstances, such as high oil and phosphate prices in the world market, inter-country labor migration, and the concurrent availability of intraregional or international aid and credit. Most of these conditions would turn out to be unsustainable in the changing international economic climate of the 1980s.

Even as the Arab economies grew and developed in the 1960s and 1970s, a major structural crisis was brewing in the West that would undermine the regional boom. By the early 1980s, recessionary conditions in the west led to the decline of raw material prices on world markets, while the monetarist attack on inflation in Britain and the United States caused international credit to become increasingly scarce and much more expensive. By the late 1980s, the Arab countries’ efforts to sustain economic growth and meet social contract obligations in these straitened international circumstances translated into rising government deficits, more international borrowing at higher cost, and the inevitable foreign exchange crises, as earnings from exports failed to keep pace with the cost of imports and debt service. Investment and productivity growth faltered, and aggregate economic growth slowed or even turned negative in some years.

Dependence on hydrocarbon-export revenues made this region more vulnerable to fluctuations in the global economy, not more independent as their leaders had promised, and the more dependent the country was on oil export revenues, the worse was the crisis (see Figure 13.1 for real GDP per capita growth 1975–2005). The costs of Dutch Disease<sup>3</sup> in the

<sup>3</sup> “Dutch Disease” was first recognized when The Netherlands experienced the cycle of rise and fall of oil prices and accompanying fluctuations of foreign exchange revenue from

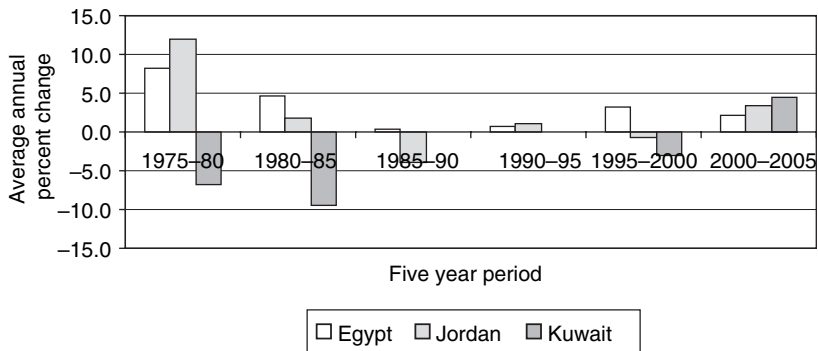


Figure 13.1. Growth of real GDP per capita: Egypt, Jordan, Kuwait, 1975–2005.  
 Source: Askari, 2006: 97, Table 6.7; World Bank 2008a: 143, Table A4.

region were generally high, as relatively cheap imports had discouraged productive domestic investment during the growth years. Subsequent stagnation in the standard of living for ordinary people and the slow growth of job opportunities, even as demographic, education, and health-care outcomes continued to improve through the 1980s, would feed into a deep political and social malaise and create particular alienation among a growing educated workforce queuing for a limited number of jobs in the public sector.

Disgruntlement with the inadequacies of state-led development grew, as did popular disgust with the intrusion of western culture along with western products into the region. But political expression of dissent became increasingly difficult as authoritarian governments repressed secular nationalist and socialist opposition movements. Led mainly by well-educated professionals, political opposition adopted the form of “Islamism,” the legitimacy of which was harder for states to challenge.<sup>4</sup> This movement does not have much to do with the religion of Islam or

North Sea oil exports. International oil transactions are denominated in dollars. When oil prices are relatively high, the infusion of oil revenues tends to drive up the value of the local currency. This makes imports relatively cheap and undermines the competitiveness of non-oil exports, favoring a shift of investment out of agriculture and non-oil industry into other sectors. When oil prices fall and the infusion of foreign currency abates, a less-diversified economy then faces rising relative prices for imports and reduced capacity for domestic production and export of non-oil products.

<sup>4</sup> The Islamist movement’s main significance as an economic ideology or program is through “Islamic banking,” a form of “socially responsible” investment using non-interest bearing instruments. The instruments can be translated into traditional profit-making formulae, as demonstrated by the “Islamic banking” departments of international institutions such as Citicorp and HSBC.

Islamic civilization, which have been highly variable from place to place and time to time over their 14-century-long history. Islamism's contemporary importance is as a broad, variegated, and clearly modern political movement, most elements of which try peacefully and persistently to push their governments to become more inclusive and responsive to citizens' demands. In our cases as elsewhere in the region, the backing of the United States and European Union has facilitated the ruling regimes' ability to curb serious challenges to their authority by this and other forms of opposition. Such repression further fuels popular anger and, as with repressed opposition movements in other places and times in history, has led the more extreme groups to take up violence.

The Arab region's "developmental" experience over the post World War II period not only reflects but also is dialectically interwoven with the long wave of growth and stagnation in the world economy and the subsequent turn to neoliberalism in the west. Whereas the U.S.-led postwar expansion of international trade initially stimulated growth throughout the periphery, with a time lag of about ten years, the subsequent stagflation of the OECD economies, particularly the United States, was then transmitted to the region through the mechanics of international commercial and official lending, again with a time lag of about ten years. Efforts to transplant the purported solution to stagflation, neoliberal ideology, and "supply-side" policy as embodied in Thatcher's and Reagan's programs in Britain and the United States, were conveyed to the region by the intervention of international financial institutions (IFIs). By the early 1990s, the International Monetary Fund's stabilization agreements and the World Bank's structural adjustment programs were being administered to poorer debtor countries, such as Egypt and Jordan, and to crisis-stricken oil exporters such as Kuwait. The enforced openings to foreign capital, promotion of non-traditional manufactured exports, and contraction of the government's role in the economy exacerbated internal contradictions and further undermined the social contract that was key to social peace in the Arab World.

Given this overarching scheme, this chapter examines the specific forms of institutional structure adopted in each of the three cases in the postwar SSA, including growth and accumulation, state/capital relations, capital/labor relations, and regional integration. It then considers the erosion of those structures in the 1980s, the cases' experience in adapting to, and resisting, the influence of neoliberalism after 1990, and the nature of the struggle to conceive a viable and sustainable SSA for this region in the context of the worldwide crisis of neoliberalism.

## POST-INDEPENDENCE SSA: STATE-LED DEVELOPMENT

Egypt, Jordan, and Kuwait were defined as “nations” only in the twentieth century under the tutelage of the British, who supported a monarchy in each area as it was wrested from local and, more distantly, Ottoman control. Their self-identification as modern nation-states did not solidify until the post-World War II era of national liberation in the territories controlled by the British and other European empires.

The British-backed Egyptian monarchy was overthrown in a bloodless coup d'état in 1952, and between 1952 and 1954, when Gamal Abdul Nasser became president, a new form of republican Arab nationalism came to the fore. British military forces continued to occupy the crucial Canal Zone until 1956; when Nasser nationalized the Suez Canal to great popular acclaim in Egypt and across the Arab World, the British were compelled to withdraw entirely, and the “Arab socialist” movement was born.<sup>5</sup>

The seeds of Jordan's emergence as a nation were planted after World War I, when the British extended their mandate over Palestine, east of the Jordan River, to encompass what they called Transjordan, created a kingdom in a territory the size of Indiana, and appointed a monarch.<sup>6</sup> Nomadic pastoralists inhabited the eastern desert region, while settled agricultural villages and animal herding predominated in the rainfed northwest hill country. Commercial activity and other urban services were provided mainly by Palestinians, thanks to monopoly licenses meted out by the mandatory authority. Jordan changed dramatically after its military occupied the territory of eastern Jerusalem and the West Bank of Palestine in the war of 1948. Overnight, Jordan's population was tripled by its newfound control over one million Palestinians, half of whom were refugees from the new state of Israel, and its economy was quickly expanded and enlivened by the incorporation of the agricultural, small-industrial, and commercial life of that region of Palestine (Piro 1998: chapter 2).

Before the turn of the twentieth century, Kuwait had been a city-state with a distinct role in the regional economy as a hub for fishing, pearling

<sup>5</sup> With their allies France and Israel, Britain went to war with Egypt over this matter (the Suez War of 1956), but the military campaign was halted by the refusal of the United States to condone it, as the latter asserted its rising hegemony in the region.

<sup>6</sup> To give the monarchy legitimacy, the British agent chose the king from the Hashemite clan of Arabia, the presumed descendents of the Prophet, and appointed a brother from the same family to the monarchy it created in Iraq under its mandate there.

and trading, organized through its natural harbor in the northwestern cul-de-sac of the Arab/Persian Gulf.<sup>7</sup> But in the late nineteenth century, trade shifted to suit the needs of the expanding British empire. In 1898, the emirate (princedom) of Kuwait was created when a member of the leading shaikhly family, the Al-Sabahs, usurped power and secured his rule as Emir by signing a secret treaty with Britain giving Kuwait “protectorate” status in exchange for Britain’s assuming control of its foreign affairs, “defending” its “national” borders vis-à-vis the Ottomans, and later taking first dibs on oil exploration (Pfeifer 2003).

### Growth and Accumulation under the Post-Independence SSA

Egypt provides a clear and early example of the state-led development model, shaped by a series of efforts dating back to the mid nineteenth century, when the ruling elite first initiated industrial development to contend with European incursions. But it was under Gamal Abdel Nasser in the 1950s and 1960s that a more thorough and planned program of infrastructure investment, agricultural transformation, and import-substitution industrialization was undertaken, including basic industries such as iron and steel as well as consumer goods such as processed foods, textiles and automobile assembly. Complementary to this economic program, the government delivered increased access by ordinary people to education, health care, and other social services, as well as what were then considered revolutionary steps toward greater equality through land reform in the countryside and the growth of industrial jobs and organized labor in the cities (Pfeifer and Posusney 2003).

The economic centrality of the state grew and, as indicated in Figure 13.2, government expenditures rose to almost half of GDP while public capital expenditures rose to 20 percent of government spending (Askari 2006:124). The construction of the Aswan High Dam was the lynchpin of the program, generating enough electricity to serve the entire country’s consumption and production needs. The overall plan was to facilitate intensification of agriculture and raise productivity in cash crops, increasing rural income and saving, and thus, in the virtuous circle of agriculture-led development, enhancing resources for investment,

<sup>7</sup> This fascinating story is told well by Ismael 1993: chapters 1–4, and Crystal 1995: chapters 1–4.

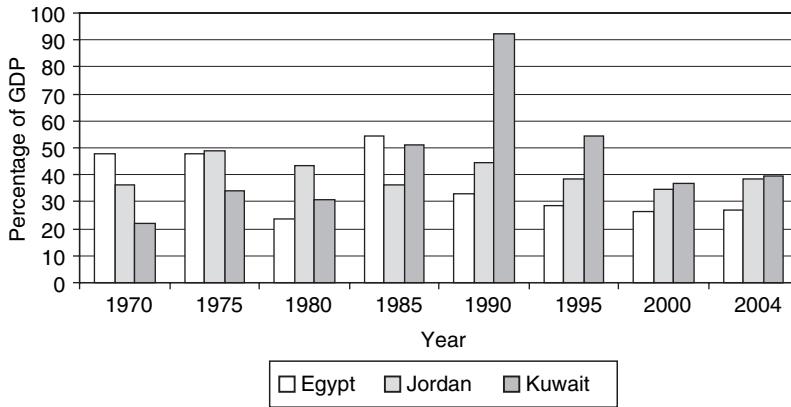


Figure 13.2. Central government expenditure as a percentage of GDP: Egypt, Jordan, Kuwait, 1970–2004.

Source: Askari 2006: 121, Table 7.2.

freeing labor to shift from agriculture to industry, and building the domestic market for growing domestic production.<sup>8</sup>

However, the vision of autonomy from the world market was a chimera. The new industries required the increased importation of capital equipment, technology, and other inputs in order to catch up quickly with modern production systems. In the early years, these imports were paid for mainly by Suez Canal dues and by the export of cotton and other agricultural products. In order to have the cotton to export and to have sufficient wheat and rice to feed the population, the bulk of these cash crops was requisitioned by a government agency at prices below those on the world market. The resale of the domestic portion helped to keep urban wages low, facilitating industrial growth, and the resale of the exported portions at world prices helped to bring in the foreign exchange needed to pay for essential imports. The closure of the Suez Canal between 1967 and 1975 put the agricultural sector under more pressure to supply the surplus for export earnings (Pfeifer and Posusney 2003).

Investment exceeded saving by a large margin every year from 1969 to 1989, just as imports exceeded exports (World Bank 1991: 229), but the economy thrived due to Egypt's key place in the region's economy and polity. The domestic "resource gap" was closed by inflows of hard currency from several sources, including oil exports, Arab aid and investment, U.S. aid linked to the 1979 peace treaty with Israel (half of

<sup>8</sup> A synopsis of this vision of bottom-up development is provided in Richards and Waterbury (2008: 28–29).

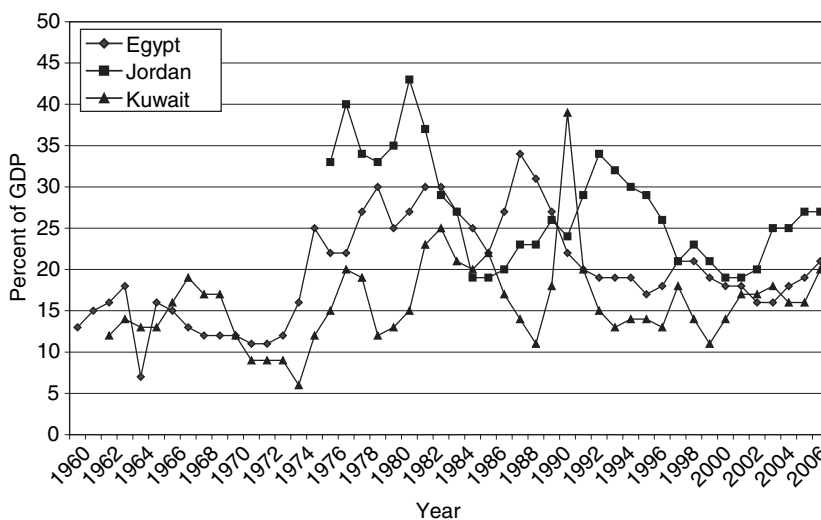


Figure 13.3. Gross fixed capital formation, Egypt, Jordan, Kuwait, 1960–2007, as a Percentage of GDP.

Source: World Bank 2008c: World Development Indicators Online.

which was military aid), tolls from the reopened Suez Canal, renewed international tourism, and remittances from migrant workers, as well as the build-up of debt to foreign lenders. With the infusion of these resources, Egypt achieved record macroeconomic growth averaging 8.4 percent per year for 1974–1985, while investment reached a historic high at 25 percent of GDP, as did total factor productivity growth, at 5 percent per year (Handy 1998: 5–8). Figure 13.3 indicates the surge in gross capital formation. Egypt also fared comparatively well in attracting foreign direct investment, ranking fourth among developing countries in total amount received during the 1981–1990 period (World Bank 1991–92, v. 1: 25).

Jordan's defeat in the June War of 1967 enabled Israel to conquer and occupy the West Bank and all of Jerusalem. On one hand, this was a great loss to Jordan, and, at first, wildly disruptive. Another 300,000 Palestinian refugees from the occupied West Bank fled or were driven east to Jordan. Palestinians and their descendents, many of whom became citizens of Jordan, came to comprise more than 60 percent of the population, constituting both a burden and a boon to the Jordanian economy. The poorer and less educated among them wound up in refugee compounds (still extant in 2008) where education, healthcare, and social services were provided by a special United Nations agency (UNRWA). The

Jordanian system provided them with public goods such as transportation, the electricity grid, and higher education, and incorporated them into the economy (Piro 1998: chapter 2).

On the other hand, much of the Palestinian population was relatively well-educated and occupationally skilled, as compared to the eastern Jordanian population. Many were able to get work as skilled or professional labor, or to go into banking or government service, or to collect enough capital to restart their economic activity. Furthermore, Palestinians made up the bulk of the labor force that migrated to other Arab countries for work. This émigré labor became one of Jordan's main exports, and workers' remittances served as a mainstay of family income and a key source of foreign exchange as long as the economies of the Gulf grew (Pfeifer 2009).

Jordan's economy not only recovered but thrived as its economic fate became more tightly bound to that of its Arab neighbors. Real GDP per capita growth reached 15.8 percent per year from 1975 to 1980, and was still high at 5.2 percent per year from 1980 to 1985 before the regional crisis hit, while gross fixed investment rose to over one-third of GDP, as shown in Figure 13.3. Unemployment reached a record low of 1.6 percent in 1976. Foreign grants, mainly used for investment in public goods, were critical to long-term growth. Grants from the Arab oil states approximated 12% of GDP from 1975 to 1988, with debt finance running second at 10% of GDP (Maciejewski and Mansur 1996:14, 16–17, 21).

As in Egypt, the Jordanian government poured public capital into physical infrastructure and the “heavy industry” involved in extraction, processing, and export of Jordan's only known natural resources, its phosphates, potash, and other minerals. It also channeled investment into small-scale manufacturing and commercial agriculture, the burgeoning system of universal public education, and near-universal access to healthcare. Commercial agriculture grew quickly with the use of greenhouse and drip irrigation technologies to cultivate nontraditional fruits, vegetables, and flowers, and with the development of dairy and poultry farming. An important part of the manufacturing sector was composed of factories processing these goods for export to the region as well as for the domestic market. Tourism became another developing “industry” built on natural, historical, and cultural resources (Piro 1998: chapter 3; Pfeifer 2000).

Kuwait's comparative advantage was transformed by the discovery of oil and the beginnings of its extraction by foreign oil companies during the 1930s, thrusting it into the global economy on entirely new terms.

The Kuwaiti economy then developed with the oil industry at its core and thrived under the U.S.-led post World War II expansion. By the 1950s, it had become a rentier state, with the bulk of government revenues and more than half of GDP accounted for by royalties (“rents”) paid by oil companies for the right to extract oil from Kuwaiti territory. In 1980, 71% of GDP originated in the oil sector, of which 68 percentage points were from crude oil (EFB 1983, 5: 6). In 1983, the GDP per capita of Kuwaiti citizens was \$20,300 in current dollars, in the same league as the United States and West European countries. Even the per capita income of all residents of Kuwait (citizens and expatriates) was \$12,646, in the middle-income range of the world’s economies (EFB 1985, 8: 6; EIUc 1991–92: 10).

The oil wealth generated unprecedented funds for both domestic and international investment. Kuwait was the first Gulf country to take full control of its petroleum industry in the 1970s, paying £32 million to compensate Gulf Oil and the British Petroleum company (Day et al. 2007). In the 1970s, the savings rate rose to 50 percent of GDP, and investment and consumption, both public and private, soared. An index of gross fixed capital formation rose by a factor of 4.5 between 1970 and 1983, to more than 20 percent of GDP (Al-Yousuf 1990: 72, and see also Figure 13.3). As in Egypt and Jordan, the Kuwaiti government invested heavily in modern infrastructure, in equipping its own national companies with the technology to extract and refine oil, and in universal education, healthcare, and welfare systems. In the boom years, these were extended to the large populations of émigré workers and, in the case of the Palestinian community, to their families as well. In addition, the Kuwaiti government set up the Kuwait Fund for Arab Economic Development (KFAED), and cosponsored the Arab Fund for Economic and Social Development, both lending for development and giving foreign aid to poor countries in the Arab World, Africa, and southern Asia.

### State-Capital Relations under the Post-Independence SSA

In the first two decades after Nasser came to power in Egypt, private capital was subordinated to the state and confined to the interstices among public sector enterprises. However, the two wars with Israel in 1967 and 1973 were a great strain on the economy, and the new regime of Anwar Sadat undertook to adjust to this reality with an opening to international capital. Just as Egypt had been a pioneer in state-led development in the

1950s and 1960s, so did the announcement of the new Egyptian “open door” economic policy (*infitah*) in 1974 mark the first acknowledgement of the state-led model’s contradictions. But the effort to curry favor with foreign capital was made without giving up the core role of the state and without major structural change in the Egyptian economy. The state economic enterprises, social contract with labor, and other promises of the Nasser era were left intact, and queues began to form for public sector jobs even as the growth of the public sector slowed (Richards 1991).

While a private domestic capitalist class remained in the shadow of the state, the *infitah* helped to create a new wealthy comprador class, serving as the local agents for import/export companies and as representatives and junior partners of foreign capital. The United States became Egypt’s largest trading partner, source of foreign investment, and aid donor. One indication of the growing wealth of the comprador class and of the magnitude of remittances from émigré labor was the sudden materialization of previously unrecorded savings that had apparently long been stashed away outside of the state-regulated banking system, in the form of deposits in the hot new “Islamic” investment companies that mushroomed in this era. On the basis of the surprisingly large quantity of these savings, an Egyptian economist constructed an estimate that actual gross national product might be up to twice its officially measured size (Oweiss 1990: chapter 1).

In Jordan, the state took the lead in the growing economy, but was less involved in direct production than in Egypt, leaving more space to patronize and cultivate the entrepreneurial class and to encourage its expansion into productive investment. Under the British Mandate, the small Transjordanian economy had been linked to that of Palestine through a merchant class that cooperated with the British and supported the king both financially and politically. After independence in 1948, most of this elite moved to Amman and served to integrate the economies of the East and West Banks more tightly. This class and the market it served were widened and deepened by the two waves of Palestinian refugees that entered Jordan, in 1948 and 1967, but retained its dependence on the monarchy for patronage (Moore 2000: 185).

The state organized investment in the core of the economy and let the private capitalist system grow up around it. In the first stage in the 1960s, the independent central bank was created, which served actively in its first two decades to direct capital flow in the economy, but otherwise left the banks alone to be “privately owned, prudently run, and profitable” (ERF and Femise Coordinators 2005: 49). The Social

Security Corporation was established and assigned the role of passive portfolio investor to maximize returns to the pension fund system for private employees. In the second stage in the 1970s, the financial system was deepened by the addition of two more institutions: the Amman Financial Market (AFM), which became one of the most sophisticated stock markets in the region, and the Jordan Investment Corporation (JIC), which was established to invest in growth assets to fund civil service pensions. The JIC created state economic enterprises (SEEs) to develop core industries in mining, electricity, water, transportation and communication, airlines, ports and railroads, and public sector companies (PSCs) to process commodities such as oil, phosphates, and potash. The PSCs then issued shares for private purchase on the AFM (Kanaan 2001: 190–92).

The private sector thrived during the expansion of the 1970s and Jordan's per capita income rose at 12 percent per year from 1975 to 1980 (Askari 2006: 97). Increased exports of goods and of labor to the booming Gulf States and Saudi Arabia brought in surges of revenue that fed domestic demand for housing, services, and locally made consumer goods, and Amman became more important as a regional commercial and banking center as Beirut went into eclipse during the Lebanese civil war of the 1970s and 1980s. Furthermore, the oil-rich countries undertook programs of generous aid to the "frontline states" such as Jordan for major infrastructure projects.

Prior to the advent of the oil era, Kuwait's ruling family, the Al-Sabahs, had been considered "a first among equals" by the other elite merchant families whose ancestors had settled in the area, such heritage being the defining feature of legal citizenship. Oil revenue, however, elevated the ruling family's political status by allowing it to become financially independent of its merchant-elite citizens. In exchange for political acquiescence, the rulers created a patronage system that guaranteed the privileged economic status of their clients, the merchants, by supporting them directly and preserving a residual vitality for the now-truncated private-sector economy. For example, the government essentially gave away the rights to undeveloped land that would become very valuable in the soon-to-be-built modern and expanded Kuwait City, and made generous subsidies available to start new types of small scale private business in the real estate, commercial, import/export, and even agricultural sectors (Pfeifer 2003).

Given Kuwait's relatively small absorptive capacity, the government used surplus oil revenues to fund overseas investment, foreign

aid, and international loans. In 1953, the Kuwaiti finance ministry set up The General Reserve Fund (the original “sovereign wealth fund”) to be administered by the Kuwait Investment Office in London to generate a second source of rentier income. Another mainly international portfolio was created in 1976, the unique Reserve Fund for Future Generations. These funds purchased shares in large Western companies. As of 1990, the two funds together were estimated to be worth \$100 billion, yielding average annual returns of five percent (Day et al. 2007). From 1980 on, annual gross national income was between 15 and 20 percent greater than gross domestic product (Pfeifer 2003, Figure 1).

### Capital/Labor Relations under the Post-Independence SSA

Virtually all countries in the Arab region underwent a profound transformation in the class structure as they developed in the post-independence era. In Egypt, Jordan, and Kuwait, part of the national economic project entailed creation of a parliamentary system with regular contested elections, and, in the case of Egypt, elections for the head of state. It also entailed recognizing the contributions of the working classes to the country’s development and compensating workers, at least in the large productive organizations (50+ employees), with regular wage increases, pension and health benefits, and, in the case of Egypt, profit-sharing. These were supplemented with universal subsidies for basic necessities and low-cost housing and guarantees of employment in the public sector to those with high school or college diplomas. Formation of unions was legal, but they were closely supervised by the government, with “elected” leaders accountable more to the state than to the rank and file and, in Egypt, no right to strike (Posusney 1997).

Strikes took place in Egypt anyway, under the leadership of rank-and-file activists, in spite of the police repression that intensified during the 1980s crisis years under the Mubarak regime. These actions were sometimes quite militant and political in their challenge to management and to the government (Posusney 1997). Such movements, especially when allied with political parties or organizations, had some impact on government policy and put constraints on the freedom of capitalists and landlords to ignore workers’ rights under the state-led import-substitution regime and the subsequent opening to foreign capital. The political left (in various forms) helped lead or joined these movements, but was either repressed (parties made illegal, newspapers closed) or co-opted by the

state with its close control over formal leadership of the unions, effectively preventing the organization of an enduring structure of opposition (Beinin 2002).

Effective organizing of labor was also undermined by the structural fragmentation of the working classes. The combination of rural-urban migration, rising levels of unemployment and underemployment, the growth of the informal sector, and opportunities for labor migration fractured the potential unity of workers' organizations and "weakened the position of working people in the coalitions that supported authoritarian-populist regimes pursuing state-led ISI" (Beinin 2002: 117). About 3.5 million Egyptians, including professional, skilled, and unskilled workers and peasants, migrated for some period during the 1973–1985 boom to the oil-exporting countries, especially Libya, Saudi Arabia, and Iraq. This relieved a potentially explosive unemployment crisis in the 1980s and raised the standard of consumption and saving. Figure 13.4 shows the magnitude of remittances. As Beinin put it,

In Egypt, transfers of migrant workers constituted the single largest source of foreign exchange, amounting to 12 percent of the gross domestic product in the mid-1980s. By 1988, at least 20 percent of the labor force [had] worked abroad [at some time], and annual official transfers of migrant workers reached about \$3.2 billion; unofficial transfers were estimated at [an additional] \$2 billion to \$4 billion (Beinin 2002: 117).

Jordan has long been called a "liberal monarchy" because the regime usually allowed some diversity of representation in its elected parliament. However, the monarch could dismiss parliament at will, ignore the laws it passed and make policy by decree. Indeed the king banned all political parties from 1957 to 1992, preventing trade unions and other

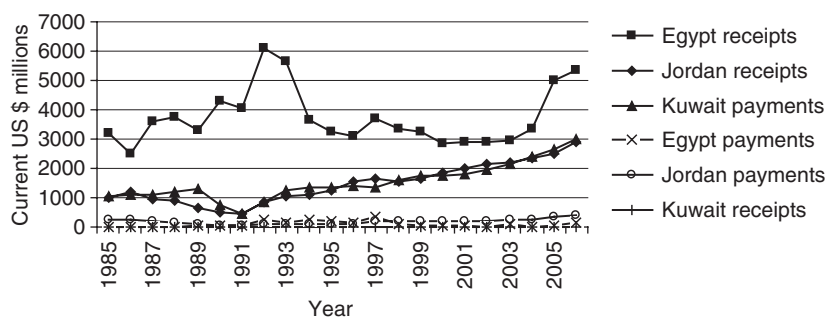


Figure 13.4. Remittances, Egypt, Jordan, Kuwait, 1985–2005.

Source: UNCTAD Online 2009, <http://stats.unctad.org/Handbook/TableViewer/tableView.aspx>

civil society groups from building explicit political affiliations or external support (Carroll 2003: 271–73).

In the context of state-led development, trade unions were legally recognized, and, as in Egypt, Jordan's workers were considered part of the nation-building coalition, and were granted legal protections against job loss. Temporary work contracts automatically became permanent when they were renewed. Workers could appeal arbitrary firing and delay it for a long time while the appeal was considered by a government-appointed labor board. Firms were required to give advance warning of possible mass layoffs, which the government could abnegate, no matter what the firm's profit or loss situation. However, the trade-off for these privileges in the formal sector was that unions were subject to government interference in their internal affairs, their top officers were tightly tied to the regime, and the right to strike was strictly constrained (Posusney 2007).

The definition of the working classes in Jordan became more complicated in the era of strong economic growth, as Jordan became both an exporter and an importer of labor. While educated Jordanians left to work in the Gulf, the lower tiers of the economy were filled by agricultural, manufacturing, and service workers from poorer Arab countries such as Egypt and, increasingly, poorer regions such as South Asia. This too made it difficult for labor to achieve long-term unified organizing and political coherence vis-à-vis the state and private employers.

Kuwait's history as a long-lived city-state prior to the advent of oil led to a unique post-independence political structure. A constitutional monarchy with a formal commitment to the separation of executive, legislative, and judicial powers, its legitimacy has no connection with religion, and there is little influence of *shariah* on contemporary law. Although the Emir can suspend the constitution and shut down the National Assembly, there is a lively political culture, with vigorous debates among elected members of a variety of political persuasions, such as Arab nationalists and Islamists of various stripes, in parliament and at the *diwaniyya*, evening gatherings at the homes of political notables where the issues of the day are freely discussed. The press too can be shut down by the Emir, but it is privately owned and competitive and has often been critical of the regime. For labor, this relative liberalism meant that Kuwait was the only monarchy in the Gulf that allowed unions and that tolerated, and even supported, political organizing among Palestinians. For example, the Kuwaiti Teachers' Federation

often backed the relatively militant (and mostly female) Palestinian Teachers' Federation (Pfeifer 2009).

While Kuwaiti/Palestinian solidarity was tolerated, there was little of the social and political integration among workers of various backgrounds that would have made long-term, coherent organizing possible. Kuwaiti society was strictly stratified into endogamous layers, both among Kuwaitis themselves and, separately, among the expatriate communities, layered each in turn by longevity of residence and their contributions to building the modern Kuwaiti economy, with Palestinians the best established, largest, and economically most significant community (Pfeifer 2003).<sup>9</sup>

The population of Kuwait more than doubled between 1975 and 1990, from 995,000 to 2,130,000. In the first decade, growth came disproportionately from the resident expatriates, whose share of total population rose from 52.5% in 1974 to a peak of 72.3% in 1985, up to 500,000 of whom were Palestinians. The non-Kuwaiti component of the labor force grew from 70% in 1975 to a peak of 85% in 1990. However, in the mid-1980s, a new nationalistic policy was adopted, promoting the "Kuwaitization" of employment at least at the professional and technical levels, and making it more difficult for expatriate workers to remain in Kuwait for long periods or for their families to accompany them.<sup>10</sup> By 1990, prior to any hint of invasion by Iraq, the balance had been shifted consciously so that the higher-paid, more politically nettlesome Arabs were reduced to less than 50 percent of the expatriate labor force, and the majority came to be made up instead of South Asians (Pfeifer 2003).

### Human Development, Income Distribution, and Poverty

The three countries, like the Arab region in general, showed significant improvement in human development, including female development, over the whole period from independence to 2005 (see Figure 13.5 for the Human Development Index, 1975–2005). In education, for example, Egypt began from a very low base, with an illiteracy rate over 70 percent in 1966. Its Human Development Index rose 27 points from 1975 to 2005, one of the biggest increases in the world over that 30-year period, ending with an illiteracy rate of 29 percent. Jordan's HDI rose by about 12 points from 1980 to 2005, ending at a value of 77 (rank 86), leaving Jordan "more developed

<sup>9</sup> The story of the work and lives of Palestinians in Kuwait is documented in Ghabra 1987, especially pp. 39–52.

<sup>10</sup> The policy targeted the Arab community in general, and Palestinians in particular, who were the only group that lived in families in well-established communities.

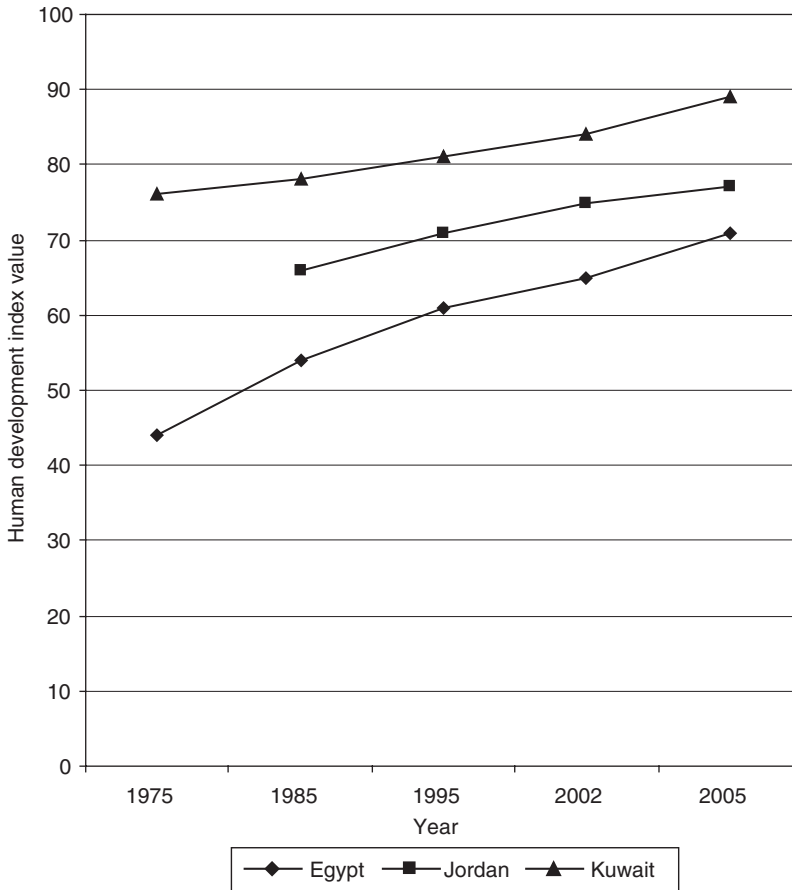


Figure 13.5. Human development index, Egypt, Jordan, Kuwait, 1975–2005.  
 Source: Askari 2006: 63, Table 5.6; United Nations Development Program 2007/2008.

than rich,” in that its HDI rank exceeded its 2005 GDP rank by 11 points. Jordan’s education system is one of the best in the region, yielding a literacy rate of 100 percent for women aged 15–24 in 2002. Kuwait’s HDI rose 13 points from 1975 to 2005, ending at 89 (rank 33), but with the caveat that it was still “richer than developed,” in so far as its GDP per capita rank in 2005 was higher than its HDI rank by 12 points. One of Kuwait’s biggest achievements was to bring girls’ school enrollment up to and beyond par with that of boys (United Nations Development Program 2007/08).

The Arab region had lower levels of inequality than most other regions of the developing world such as Latin America, South Asia, and

Africa, and lower rates of abject poverty than countries of comparable income levels. While state income tax systems were poorly developed or enforced, revenues from public-sector exports, taxes on services such as tourism, and tariffs on imports were important sources of public funding for common services. Relative equity in consumption was promoted by public sector subsidies on commodities and wage and benefit policies, as well as by well-resourced Islamic and other private charitable institutions that help to provide healthcare, education, and welfare services to the poorer parts of the population.<sup>11</sup>

The crisis years of the later 1980s and early 1990s were a period of rising income poverty for both Egypt and Jordan, and of falling average income for Kuwait as a whole, but the situation improved in the later 1990s as economic growth resumed (World Bank 2006: Table A1). As of 2000–02, Jordan's GINI index for consumption was 0.39 and Egypt's 0.34 (World Bank 2006: Table A2). In 2005, Egypt's and Jordan's Human Poverty Index (HPI-1) values of 20 and 6.9, respectively, and their ranks (61 and 11) were significantly better than their HDI and GDP per capita ranks (United Nations Development Program 2007/08).

### Economic Relations within the Regional SSA

Economic relations among Arab countries entailed direct budgetary transfers, long-term low-interest development loans, private investment, trade, and the migration of labor.

*Direct Aid.* Outright budgetary support was provided by the Arab oil exporters to the “confrontation states” to sustain them and compensate them in the conflict with Israel. From 1963 to 1966, Egypt received \$234.5 million in government-to-government transfers, including a grant from KFAED of \$27.5 million to widen and deepen the Suez Canal. Between the 1967 war and the Camp David Accords in 1978 (after which Egypt made peace with Israel and was subjected to an Arab League boycott), Egypt received up to \$17 billion in aid from Arab oil exporters, including \$162 million from Kuwait alone between 1967 and 1970 (Feiler

<sup>11</sup> We have no data for Kuwait for either income distribution or poverty. It is well known, however, that there is dramatic inequality between Kuwaiti citizens and permanent residents, on the one hand, and the bulk of immigrant workers, on the other hand, in terms of *income* from work, investment, and government largesse. However, *consumption* is much more equitably distributed insofar as any resident may shop for a broad array of commodities in the “cooperative” grocery stores and buy gasoline and other petroleum-derived products at government-owned gas stations, all at subsidized prices.

2003: 40). From 1973 to 1988, Jordan received an average of 43 percent of government revenue from external aid and loans, with a high of 53.4 percent in 1980 at the peak of the oil boom (Brand 1994, Table 1: 44–45). As one of the most generous donors, Kuwait was motivated by more than altruism, in so far as “... the substantial Kuwaiti aid payments to Jordan were in large part aimed at reinforcing the security and military apparatus of a politically like-minded and supportive state” (Brand 1994: 123).

*Development Aid, Loans, and Investment.* Oil export revenues were used for development by both the oil exporters and poorer Arab nations, through the region-based recycling of petrodollars. Figure 13.3 shows similar trajectories for gross capital formation in Egypt and Jordan from 1960 to 1975, and in Egypt, Jordan, and Kuwait from 1975 to 1987.

Total Arab investment in Egypt through 1985 was \$4.55 billion, \$2 billion of which was deposited directly into the Central Bank for public sector investment, with the remainder designated for project-specific development aid and private for-profit enterprise (Feiler 2003: 93). From 1962 to 1989, the length of the post-independence SSA and its erosion, Jordan received \$401 million in development loans from the Arab oil exporters and \$2.154 billion in cash contributions for various projects (Brand 1994: 149). Kuwait’s contributions to total loans to Jordan rose throughout the 1960s and 1970s to a peak of 6% in 1983. Most of these funds went into infrastructure projects, such as the phosphate, potash and fertilizer industries, thermal power, BirZeit University in Ramallah, West Bank municipal services, the port at Aqaba, the Amman water system, and the Jordan Valley Authority, including agricultural irrigation (Brand 1994, Tables 1 and 11: 44–45 and 130).

Private investment from Kuwait to Jordan mainly took the form of joint ventures but accounted for only a few percentage points of Kuwait’s overseas investments (Brand 1994: 143, 147). These ventures focused on real estate, including both housing and agricultural land development, commerce, tourism, bus transportation services, and food production such as dairy, poultry, and fishing. Manufacturing investment was focused on processed foods, fodder, and fertilizer, mainly for export to the region.

*Trade.* Jordan’s relations with Egypt were cool until the common experience of the 1967 war losses brought them closer. After 1970, Jordan sought to expand exports to Egypt’s growing domestic market, in order “to overcome some of the diseconomies of scale that had hindered Jordanian attempts at domestic commercial and industrial expansion,” and to enhance its regional political security through economic links (Brand 1994: 243). However, Jordan’s imports from Egypt averaged only

2 percent of all imports in the 1970s, while exports to Egypt averaged about 3 percent of all exports, with Jordan running a consistent trade deficit with Egypt. While Jordan purchased less than 2 percent of total imports from Kuwait, for example, 1.7 percent in 1973, its exports to Kuwait were significant, for example, 11 percent of all exports in 1973, and Jordan maintained a trade surplus with Kuwait throughout the 1970s (Brand 1994, Tables 7 and 8: 78–79).

Jordan was the first Arab country overtly to break the embargo on Egypt in 1983, in order to facilitate Egypt's material support of Iraq in the Iran-Iraq war and to help Jordan's private sector replace shrinking Iraqi markets with Egyptian customers. Many joint ventures were discussed but only two significant projects were realized, the Aqaba-Nuwaybi line in 1975, for maritime shipping between the Suez Canal and Jordan's Red Sea port, and a joint development bank in 1984, with branches in both countries (Brand 1994: 243–44, 248–49, 255–56).

*Émigré Labor and Remittances.* At the zenith in 1982–83, about 23 percent of the Egyptian labor force, or 2.9 million workers, were employed abroad. Their remittances amounted to \$3.98 billion in 1984, with a cumulative total for the 1974–84 period of \$22 billion (Feiler 2003: 100, 111, 116), more than ten times the value of Kuwait's direct investment in Egypt around the same time. Egyptian labor played an important role in Kuwait, ranging from 150,000 workers in 1978 to 200,000 in 1982–83, and in Iraq during the eight-year-long Iran-Iraq war, involving a total of up to 1.25 million, mainly farm, laborers (Feiler 2003: 101, 244).

Jordan sent many professionals, teachers, and military advisers to Kuwait, and Kuwait sent its own students to Jordan to be trained as teachers and military officers. There were at least 350,000 Jordanian émigrés (mostly of Palestinian origin) in Kuwait in 1985 (Brand 1994: 134). During the same era, and despite the embargo on Egypt, Egyptian labor continued to work in Jordan, mainly in agriculture and construction. As of 1987, there were 250,000 Egyptian workers in Jordan, a number that then declined with the economic crisis of 1988–89 (Brand 1994: 264–65). As shown in Figure 13.4, at their first peak in 1986, Jordan's receipts of remittances reached almost \$1.2 billion and Jordan's payments of remittances reached \$247 million.

#### EROSION OF THE STATE-LED SSA AND THE ADVENT OF NEOLIBERALISM

By the mid-1980s, as oil prices and oil revenues declined, the internal contradictions of state-led development and the region's dependence on

oil revenues and labor remittances came together to generate a crisis. The core symptom was the failure to sustain productivity growth. An exercise in growth accounting showed that “the MENA region as a whole has experienced the lowest contribution of total factor productivity to economic growth in comparison with the rest of the [world’s] regions,” and that TFP’s contribution to growth was actually negative on average over the whole of the 1960–1997 period (Makdisi et al. 2007: 48). Similarly, average per-worker real GDP growth rates for Egypt fell from 6.49 in the 1975–1984 decade to 0.78 in the 1985–1994 decade, and Jordan’s fell from 8.24 percent to minus 3.13 percent, while Kuwait’s were negative for the whole of the 1965–2004 period (Esfahani 2007: 63). The main difference in severity among these results seems to be due to the degree of dependence on capital-intensive oil extraction or employment in the Gulf as the basis of economic growth.

In Egypt’s case, four core internal contradictions came to the surface. First, instead of following through on the promise of agricultural led (“bottom up”) growth based on the land reform and Aswan High Dam that would have enabled peasants’ income and saving to rise, the state turned to paying very low, controlled prices for requisitioned crops such as cotton, in order to sell them for higher prices on the world market. Peasants shifted to producing uncontrolled crops, the most famous being *berseem*, a kind of clover fed to cattle, in response to rising urban demand for meat. As Egypt became a net importer of food grains and import costs rose, this tactic for increasing foreign exchange was self-thwarting. Second, the state’s industrialization strategy relied on importing western technology wholesale in large chunks of capital-intensive investment. This caused early growth to be based on additions to capital and labor, without much technological innovation or long-term expansion in the demand for industrial labor. The combination of the first and second factors led to rapid rural-urban migration and emergence of a growing informal sector.

Furthermore, in contrast to the East Asian model – Egypt is often compared unflatteringly to South Korea – ISI protection for domestic industry was allowed to go on for too long, with little expectation that these firms would “pay back” the support with innovation that would make their products more competitive in world markets and earn their own share of foreign exchange. And, finally, the promise of jobs in the public sector for all graduates, and the job protections that formal sector labor had won as part of the state-led social compact, led to overstaffing, wasted time and resources, and declines in real compensation as inflation overtook nominal wage growth.

Consequently, Egypt's GDP growth, national saving, and public spending all plummeted in the later 1980s. Real per capita GDP growth fell from 4.7 percent per year during the 1980–1985 period to 0.3 percent per year from 1985 to 1990 (Askari 2006: 97). Domestic saving seemed to evaporate overnight with the collapse of several pseudo “Islamic” investment companies that ran Ponzi schemes with the investors' purchases of shares, undermining confidence in the private sector. At the same time shortages of foreign currency to finance imports of industrial inputs and food fueled the debt crisis that struck Egypt as elsewhere in the Third World. External debt rose to more than 100 percent of GDP in 1985. By 1990 the government had cut wages in the public sector, and real wages in manufacturing had fallen below their 1970s levels. Unemployment and poverty rose, even as the government cut subsidies on necessities such as bread and fuel (Beinin 2002: 129–30).

This combination of internal crisis and the new reality of declining oil revenues and remittances made the Egyptian state more vulnerable to pressure from the importers and financiers who had flourished under the *infitah* since 1974 and also more susceptible to pressure from the Bretton Woods institutions. Prior to 1990, the Washington Consensus had not been making headway in Egypt due to resistance from organized labor and the possibility of escape for émigré workers. However, “cancellation of nearly half of Egypt's \$55 billion foreign debt in return for participating in the U.S.-led coalition against Iraq in the (1991) Gulf War opened the way to concluding a successful agreement with the IMF and gave the regime sufficient political capital to begin the long-delayed privatization of public-sector enterprises” (Beinin 2002: 116–17).

During the same time period, Jordan experienced two major shocks that left its economy in disarray. First, the oil price declines of 1983 and 1986–1988 sent the oil-exporting economies into recession. That led them to reduce their demand for émigré labor, curb their imports of Jordanian products, and cut their foreign aid. Unemployment rose to 10 percent in 1988 and by 1990 manufacturing wages here, as in Egypt, had fallen to levels below that of the early 1970s (Beinin 2002: 129–30). In 1989, Jordan experienced its first massive bread riots as the government cut subsidies. Real GDP per capita fell by 3.9 percent per year from 1985 to 1990 and debt rose to more than 200 percent of GDP in 1990 (Askari 2006: 97, 166). As foreign exchange reserves fell precipitously, Jordan reached the limits of its ability to borrow on the international markets, and the dinar had to be devalued by 60 percent, severely curbing the country's ability to import the final and intermediate goods it did not produce itself.

The second major shock came with the Gulf crisis of 1990–91. Jordan's trade with Iraq, its major trading partner, fell by half as war and then economic sanctions took effect. Furthermore, the Gulf country allies halted their aid to and trade with Jordan in retaliation for its neutrality and expelled large numbers of expatriate workers, especially Palestinians, many of whom had nowhere to go but Jordan. Thus remittances plunged at the same time that the domestic labor force suddenly bulged with an additional 60,000 to 70,000 workers, half of whom were unemployed in 1991. The unemployment rate for 1991 is variously estimated to have risen to between 14.4 and 25 percent. Real GDP per capita grew by less than one percent per year from 1990 to 1995 (Askari 2006: 97) and, while the number of registered private enterprises had grown from 1,990 to 4,349 between 1987 and 1992 (Kanaan 2001: 192), the capitalist class was weak and demoralized and did not take up the chance to assert its interests more strongly vis-a-vis the state (Moore 2000: 185–91).

Like Jordan, Kuwait experienced several sharp reversals in the 1980s. The world-wide recessions of 1980–1982, the shift toward alternative fuels and conservation in the oil-consuming countries, and the entry of more non-OPEC suppliers into the oil market all contributed to a fall in the demand for OPEC oil and falling prices. Kuwait's "real" oil revenues (nominal revenues deflated by an import price index) were 13 percent lower in 1982 than their 1974 value. Oil prices fell again in 1986 and in 1988, and Kuwait's oil revenues plunged once more, to 58 percent of their 1974 value (Al-Yousuf 1990: 6–8). Economic growth then plummeted, with real GDP per capita falling by 9.4 percent per year from 1985 to 1990. As Figure 13.3 shows, by 1990 gross capital formation had slipped to about 11 percent of GDP. Gross domestic saving was a tiny 4 percent of GDP, while, in contrast, gross national saving was 17 percent, indicating that capital was being held abroad rather than invested inside the country (Askari 2006: 97, 100, 110).

The sense of demoralization in Kuwait was underpinned by the failure of the non-oil commodity sectors to grow rapidly. Excluding petroleum refining and a few essentially European "model firms," real value added per worker fell from KD 2,836 in 1976 to KD 2,312 in 1984 (Al-Sabah 1988: 26). This poor performance was due partly to the Dutch Disease real-sector hangover from the oil boom years. It was also due to the financial-sector problems based on the Souk al-Manakh stock market crash of 1982 and subsequent liquidity crises, which undermined confidence in real private investment in the domestic economy, even though

the government stepped in to buy up both stocks and bank shares at much-higher-than-market prices (Looney 1992).

Planners and consulting economists repeatedly proposed reform programs intended to tackle Kuwait's "structural problems" and reduce its dependence on both oil revenues and expatriate workers. The key idea was to shift resources to favor productivity-enhancing, "high value-added" ventures at home and abroad, such as financial service, industrial-design, and engineering, to be organized and managed by well-educated and highly-skilled Kuwaitis (Al-Sabah 1988), to encourage private entrepreneurial activity and to move the economy toward a more East Asian model of development.<sup>12</sup> Instead, Kuwait intensified its pursuit of the old, familiar course that had brought it wealth and success in the 1960s and 1970s. In violation of its OPEC quota, and in competition with other OPEC members similarly seeking to cheat on their agreement, Kuwait stepped up oil production, from June of 1989 until the disastrous invasion by Iraq in August 1990 (EIUc 1991–92: 13), and replaced the expatriate labor force with a less expensive one after the restoration in 1991. See Figure 13.4 for the sharp dip in remittances received by Jordan and remittances paid out by Kuwait from 1988 to 1991.

### Disintegration and Reconstruction of Regional Economic Relations, 1985–2000

The crisis years of the later 1980s and the Gulf War of 1991 entailed radical changes in the structure of intraregional economic links. When links were reconstructed in the 1990s, the process affected Egypt, Jordan, and Kuwait quite differently. With Egypt, Gulf Cooperation Council (GCC)<sup>13</sup> links were greatly reduced during the boycott years, but were restored in the later 1980s and strengthened in the 1990s. For Jordan, on the other hand, GCC links, with Kuwait in particular, weakened steadily in the later 1980s and were ruptured almost entirely in the 1990s. Figure 13.3 shows that the paths of gross capital formation diverged widely among Egypt,

<sup>12</sup> Two of the researchers involved in the project, Lance Taylor and Alice Amsden, are well known for their critique of the IMF/World Bank formula and their analyses of the success of the various East Asian development strategies.

<sup>13</sup> The Gulf Cooperation Council was founded in 1980, with the support of the United States, as a grouping of Arab Gulf countries opposing the Islamic Republic of Iran and supporting Iraq in the Iraq-Iran War (the "first Gulf War"). Comprised of six countries, Bahrain, Kuwait, Qatar, Saudi Arabia, the United Arab Emirates and, a bit later, Oman, it subsequently evolved to have economic dimensions as well, similar to the European Economic Community.

Jordan, and Kuwait during the years of crisis and stagnation, 1988–1997, in contrast to the synchronization that existed before and was to appear again after this depressed decade.

*Aid.* Arab aid to Egypt was negative from 1981 to 1985, due to the boycott, but resumed from 1986 to 1989 on a much smaller scale than in the 1960s and 1970s, with a total of about \$210.5 million over those four years (Feiler 2003, Table 6.1: 233). Meanwhile, Egypt received aid of about \$2 billion per year from the United States after the peace treaty with Israel in 1979.

In reward for its participation in the war to expel Iraqi forces from Kuwait, Egypt received a record amount of aid, \$4.8 billion, in 1990–1991, of which \$3 billion came from the Gulf oil exporters, and the cancellation of \$13 billion of its international debt. Arab aid then declined again due to low oil revenues, to a grand total of just \$8 billion over the 1995–2001 period, while U.S. aid continued at about \$2 billion annually. Despite Kuwait's continued straitened circumstances, it was responsible for about 15 percent of that Arab aid and debt cancellation, and, in 1999, KFAED provided Egypt with a big boost, \$50.8 million in development loans, for projects involving land improvement, power transmission, paper and printing, a drainage system, and the Social Development Fund (Feiler 2003: 232–42).

Jordan received a declining share of government revenues from external aid and loans in the 1980s, down from a peak of 53.4 percent in 1980 to 28.8 percent in 1988 while Kuwait's share of foreign loans to Jordan fell from a peak of 6 percent in 1983 to 1.3 percent in 1988 (Brand 1994, Table 1: 44–45). Furthermore, in response to Jordan's attempt to remain "neutral" after Iraqi forces occupied Kuwait in 1990, Kuwait withdrew its recognition and support, and the two countries did not reconcile until 1999.

*Investment.* Arab investment in Egypt increased in the later 1980s, rising to 23 percent of total Arab investment in 1990 and accounting for 12.5 percent of private FDI into Egypt in that year (Feiler 2003: 240). Private Arab capital continued to flow into Egypt in the later 1990s, with Kuwait responsible for about 20 percent per year, for example, \$17.6 million out of a total inter-Arab FDI of \$88.2 million in 1999. In 1999, there were 1,799 Arab companies in Egypt, with a registered capital stock of \$16.28 billion, including the Kharafi Investment Group from Kuwait, accounting for \$725 million. These companies were involved in a diversified range of activities including industry, agriculture, banks, transport services, investment companies, and free zone commerce (Feiler 2003: 241).

Private Egyptian capital also flowed out into other Arab countries in the later 1990s. Out of a total Egypt-Arab flow of \$4 billion from 1985 to 2000, \$1.1 billion went to Kuwait alone, reinforcing Egypt's special relationship with Kuwait (Feiler 2003: 243).

*Trade.* Jordan's trade with Egypt declined during the core boycott years from 1979 to 1983, with imports from Egypt falling to 0.4% of all imports and exports to Egypt falling to 1.2 percent of all exports. After Jordan abandoned the boycott, both imports and exports rose again (to 1 percent and 2.2 percent of total imports and exports, respectively, by 1988) and Jordan actually ran a trade surplus with Egypt in one year, 1987. Jordan's imports from Kuwait became somewhat more important in the 1980s, rising from 0.5 percent of all imports in 1984 to 2.2 percent in 1988, as it shifted away from dependence on Iraq for fuels. However, its exports to Kuwait declined in importance, falling from 11 percent of total exports in 1973 to 4 percent in 1984 and 3 percent in 1988. Jordan incurred a trade deficit with Kuwait for the first time in 1987 and 1988 (Brand 1994, Tables 7 and 8: 78–79).

*Tourism.* Tourism is an important intraregional phenomenon. World Bank indices show that Jordan and Egypt underperformed relative to their potential in 2000 on all measures of trade integration (the trade-to-GDP ratio, exports to GDP ratio, product diversification, intra-regional trade, non-oil exports and FDI), but they performed higher than their potential in tourism (World Bank 2003: 43, 48, 49, 72–74, 76–78). Tourism receipts averaged 4 percent of GDP for Egypt in 1998–2000, 9.3 percent for Jordan (World Bank 2003, Appendix Table 4: 234). In 1998–99, Arabs from other countries constituted 56 percent of all overnight visitors, including tourists, to Jordan.<sup>14</sup>

*Émigré Labor and Remittances.* The crisis years of the late 1980s saw a sharp reduction in the demand for specifically Arab labor in the Gulf, as those countries tried to place their own citizens in higher-echelon occupations and to expand the proportion of non-Arabs in the lower echelons. As indicated in Figure 13.4, remittances received by Jordan fell by about half from 1985 to 1990, while Kuwaiti payments leveled off and then dropped precipitously in those years as well.

Although more than 700,000 Egyptians returned from the Gulf countries in 1990–91 in the wake of the Iraqi occupation, their numbers revived, with about 2 million Egyptians working in other Arab countries in the later 1990s. Of those, about 227,000 worked in Jordan in 1999

<sup>14</sup> [www.dos.gov.jo/ari\\_dep/ari\\_dep\\_e/20.html](http://www.dos.gov.jo/ari_dep/ari_dep_e/20.html)

(Feiler 2003: 244–45). As can be seen in Figure 13.4, remittances leaped up in 1990–91, as Egyptians were recruited on a temporary basis to support the war effort against Iraq, and then settled into a normal range of between \$3.2 and 3.6 billion per year from 1994 to 1999.

Up to one-third of the Jordanian labor force had been working abroad in 1990, but 60,000 to 70,000 workers were expelled from Kuwait and other Gulf countries, and their families, most of whom had fled the war zone, were not allowed to return. As a result, on the one hand, remittances did not grow from 1991 to 1995, hovering at about \$1 billion per year (Figure 13.4), but, on the other hand, gross capital formation leaped up from 1993 to 1995, and remained above its 1990 level until 1998, as returnees established businesses and invested in real estate (Figure 13.3). Based on the increased size of the labor force, a growing number of Jordanians worked abroad (but not in Kuwait) in the later 1990s, and remittances to Jordan again grew from about \$1 billion to 1.5 billion.

For both Jordan and Egypt, workers' remittances remained a crucial source of national income. Remittances per capita, at an annual average of \$355 and \$60, respectively, in 1998–2000, significantly exceeded FDI per capita, \$72 and \$18, and aid flows per capita, \$98 and \$26, in those same years (World Bank 2003, Appendix Table 5: 236).

### Accommodation and Resistance to the Neoliberal Agenda

In the 1990s, Egypt, Jordan, and Kuwait were repeatedly urged to structurally adjust their institutions to match Washington Consensus requirements, that is to stabilize by reducing government spending, to privatize state economic enterprises, and to liberalize foreign trade, access for foreign investment and labor law. Failing to accommodate in full and yielding no coherent version of a neoliberal SSA, they generated sometimes bizarre results that contradicted Washington Consensus expectations. For example, Jordan's domestic capitalist class responded to almost full privatization by lobbying the regime to pursue a "developmental state" model (Carroll 2003: 268).

*Rebalancing State/Capital Relations.* Egypt reduced the ratio of government spending to GDP by half from 1985 to 2004, cutting public employment from 39 to 30 percent of the labor force. The government liquidated holdings in 189 of 314 state economic enterprises, halving employment in that sector from 1.08 million employees (about 6 percent of the labor force) to less than one-half million (Carana Corporation

2002: 8–11). Stock market capitalization rose from 35.6 to 105 percent of GDP, the official unemployment rate fell from 11.7 to 8.3 percent, and employment in the formal private sector rose 6 percentage points to 27 percent. Unexpectedly, however, the share of the formal private sector in GDP actually decreased between 2000 and 2007, from 70.7 to 62.3 percent, and private ownership became more concentrated as the number of companies listed and traded on the stock exchange fell by about 50% (American Chamber of Commerce in Egypt 2008). Furthermore, by 2006, the *informal* sector had expanded to absorb 75 percent of new labor force entrants, accounted for 61 percent of actual employment, and produced between one-third and one-half of officially measured GDP (Assaad 2007: 1, 12–13; Nassar 2008: 6).

Kuwait reduced its government-spending-to-GDP ratio from more than 50 percent during the 1985–95 decade to less than 40 percent by 2004. However, it resisted IFI urgings to curb its “wasteful” spending on universal subsidies for necessities and to reduce higher salaries and pensions and other benefits to public sector employees (Chalk et al. 1997: 1–2, 6–7, 14–15, 24; EIUb 2000 4: 16). Instead, the government restored subsidies and other current transfers to their level of 1980, 24% of total government spending, from a low of 20% in 1990, and expanded public employment benefits to cover Kuwaiti citizens working in the private sector (Askari 2006: 131).

Similarly, Kuwait’s hydrocarbons remained firmly in the public domain, and even its small manufacturing sector, just 6.4% of GDP in 2005, remained dominated by state economic enterprises such as petrochemicals, building materials, and aluminum (World Bank 2006: 297). Private capital played an active role in finance, as banking alone accounted for one-third of stock market capitalization in 2005 (NBK 2006). Private investment dominated construction and real estate, but the government supplied the framework with subsidies for land and residential development and incentives to expand into new projects in tourism, hotels and resorts, and public housing (Day et al. 2007).

*Openings to Foreign Trade and Foreign Investment.* Egypt and Jordan liberalized foreign trade, but both had consistent trade deficits of about 20% of GDP over many years into the 2000s and émigré remittances remained key to filling the gap (ERF and Femise Coordinators 2005: 65–68; World Bank 2008b). The export of labor remained as important as the export of goods.

The World Bank ranked Kuwait as number 52 out of 181 countries in its “ease of doing business” index, much higher than Egypt or Jordan,

based on the generous tax cuts offered to foreign business in 2008, and the room carved for foreign capital in the stock exchange, banking, air transport, and mobile phone service (EIUb 2008: 9–10), despite the closed hydrocarbon sector receiving big infusions of public capital (Day et al. 2007).

In contrast, Egypt and Jordan liberalized foreign access to almost all sectors, but with minimal impact on diversification. The stock of FDI in Egypt rose to just under 40% of GDP in 2007. However, the bulk resided in the hydrocarbon industry, with U.S.-based oil corporations accounting for three-fourths of that stock (EIUa 2007: 182; World Bank 2008b). Similarly, in Jordan, the tradables sector experienced a surge of FDI in free-enterprise zones (QIZs), where mainly Asian entrepreneurs employed mostly Asian labor, to produce duty-free exports of textiles and garments to the United States and Europe. While Jordan's exports to the United States grew to \$1.5 billion in 2008, as compared to 25 million in 1997 (Abdelkrim 2009: 71–72), this created few jobs for Jordanian workers and few opportunities for Jordanian capital, with little technology transfer and only minor linkages into the domestic economy (ERF and Femise Coordinators 2005: 66, 69–70, 85).

*Rebalancing Capital/Labor Relations.* After years of protracted negotiations, both Egypt and Jordan passed liberalized labor laws in the 2000s that granted business more flexibility to hire and fire on economic grounds alone. In Egypt's case, the law eliminated the stronger job protections workers had had under the old social contract, with a "quid pro quo" granting labor more freedom to organize and strike (Posusney 2007). Labor responded with a huge wave of strike activity in 2006–2007, including lockouts of management, demanding living wages and the right to elect their own leaders. This militancy spread into the general population in 2008, with more politicized demands, protesting rising food prices, and asserting the right to freely assemble, a movement that won the backing of many thousands more sympathizers via an internet solidarity campaign that seemed to awaken even the somnolent left (Agbarieh-Zahalka 2008: 6–8; Beinin 2008: 2–3).

In Jordan, unexpectedly, the new code retained more of the old job protections than in Egypt, but made it harder for workers to contest firings and kept restrictions on strike activity (Posusney 2007). Jordanian labor did not take up the challenge as in Egypt, perhaps because its strength was muted by rigid labor market segmentation between the Jordanian citizenry working at home or abroad in business or professional jobs and non-Jordanian immigrants concentrated in more lowly occupations.

Kuwait did not liberalize its labor law but was challenged by an unprecedented labor crisis in 2008. Due to the rapid growth of the South Asian economies, shortages of immigrant labor led to pressure to raise wages and associated payments. For their part, the usually quiescent workers mounted militant strikes and large-scale demonstrations demanding higher wages and better working conditions. For the first time, the Minister of Social Affairs and Labor and the leaders of the national assembly considered legal reforms to the inequitable system governing relations between Kuwaiti employers and immigrant labor.

#### GROWTH, ACCUMULATION, AND THE CRISIS OF NEOLIBERALISM

##### Regional Economic Relations in the 2000s

In the 2000s, economic links among the Arab countries were not only restored but intensified, facilitated by the flush of petrodollars into the region during the boom of 2003–2007 and the drive for the Gulf oil exporters to use their growing current account surpluses productively. The GCC countries had learned important lessons from the last oil boom in the 1970s-early 1980s and crash in the late-1980s-1990s, which were to diversify as much as possible within their own countries and to export capital, including productive foreign direct investment in the region on a broader and deeper scale.

*Aid.* Subsidized loans flowed from the oil exporters to the poorer states for specific large-scale projects. For example, Kuwait's KFAED provided a development fund of KD 26 million to Egypt for 2008–2010 to rehabilitate the poultry industry after the devastation of the bird flu epidemic.<sup>15</sup> Similarly, KFAED provided \$450 million in 2009 to help Jordan consolidate its electricity network.<sup>16</sup>

*Trade.* Intra-Arab regional trade remained more important to countries such as Egypt and Jordan than to the region overall. At about 8% of total trade, intraregional trade was low by world standards, as compared to the ASEAN countries' 23 percent, for example. In 2000/1, although Egypt purchased only 5.8 percent of its total imports from other Arab countries, it sold 13.6 percent of its exports to them (Feiler 2003: 246–47). Over the 1995–2003 period, Jordan's exports to the region averaged 45

<sup>15</sup> Médecins sans Frontières, 2/18/09, /www.flutrackers.com/forum/showthread.php?t=94742).

<sup>16</sup> www.kuwaittimes.net/read\_news.php?newsid=ODQwNTc3MDA5.

percent of total exports and its imports, 24 percent of total imports (ERF and Femise Coordinators 2005: 68).

*Tourism and Other Cross-Border Travel.* In the 2004–2007 period, Arabs from other countries accounted for 20 percent of the tourists and 25 percent of tourist nights spent in Egypt,<sup>17</sup> and Egyptians made up more than 10 percent of visitors to Kuwait in 2004.<sup>18</sup> Aside from tourism, Jordan was host to between 500,000 and 700,000 Iraqi refugees in 2007, many of whom fled there to live and work, even to build houses and start businesses, for the duration of the U.S. occupation and war (Nanes 2007).

*Émigré Labor and Remittances.* In 2005/06, 2.3 million Egyptians worked abroad,<sup>19</sup> and, as indicated in Figure 13.4, remittances rose from an average of \$3 billion from 2000 to 2003 to more than \$5 billion in 2004 and 2005, the fifteenth highest dollar amount in the world. In 2003, about 350,000 Jordanians worked abroad, while immigrant workers, many from Egypt and Syria in sectors outside the QIZs, made up about 13 percent of its labor force.<sup>20</sup> Figure 13.4 shows that Jordan's receipts of remittances, ranging over the 1985 to 2005 period from a low of \$448 million in the dark days of 1991 to a high of \$1.54 billion in 2005, tracked Kuwait's outflow of payments almost exactly. Jordan's ratio of remittances to GDP, more than 20 percent in 2004, was the sixth highest in the world (World Bank 2006: 90).

*Foreign Direct Investment.* Investment in the region overall grew by almost 20 percent in 2008, “accounting for 3.4 [percentage] points of the region's 5.8 percent growth in the year,” and the amount to the *developing countries* of the region, including Egypt and Jordan, rose from \$4.7 billion in 2000 to \$26.4 billion in 2006 and \$21.5 billion in 2007 (World Bank 2009: 163), as shown in Figure 13.6.<sup>21</sup> However, the amount of this FDI may still be low as compared to other developing regions of the

<sup>17</sup> [www.sis.gov.eg/VR/egyptinnumber/egyptinfigures/englishtables/149.pdf](http://www.sis.gov.eg/VR/egyptinnumber/egyptinfigures/englishtables/149.pdf)

<sup>18</sup> [www.Europaworld.com/entry/kw.ec](http://www.Europaworld.com/entry/kw.ec)

<sup>19</sup> [www.msrintranet.capmas.gov.eg](http://www.msrintranet.capmas.gov.eg)

<sup>20</sup> Of 290,000 immigrant workers with work permits in 2006, over 95 percent received monthly wages of 150 JD or less, about \$225. The females among them were almost entirely South Asian and worked in domestic service with few legal protections (Arouri 2008: 6–8, 16; ERF 2005: 98–100), while over one-fourth of immigrant workers were employed in the manufactured-exports sector, from whence numerous reports of ill-treatment emanated (e.g., Greenhouse and Barbaro 2006).

<sup>21</sup> These figures include FDI among those countries, for example, from Egypt to Algeria and Turkey, from Jordan to Egypt, and from Lebanon to Jordan and Egypt.

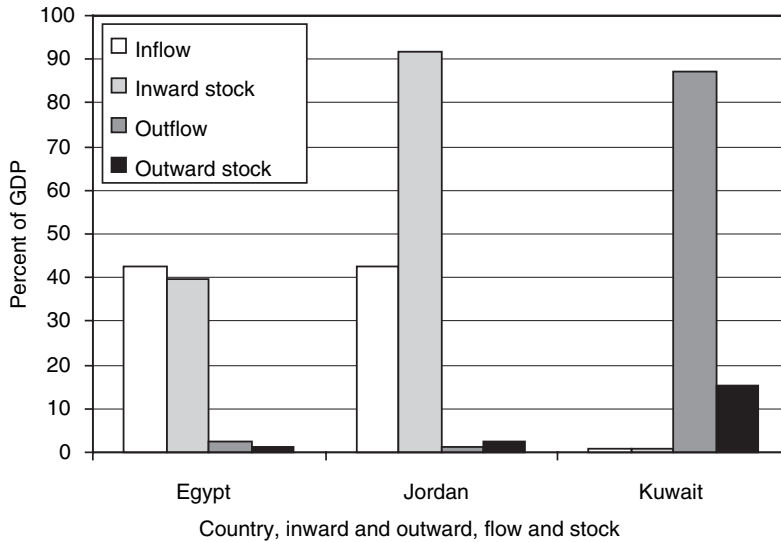


Figure 13.6. Foreign direct investment, Egypt, Jordan, Kuwait, 2007.

Source: UNCTAD 2008, Country Fact Sheets. [www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)

world, only part of it was for new investment, and many projects did little to create jobs in the long run (Henry 2008: 18, 22).

The GCC countries accounted for one-third of total FDI (in dollar terms) to the Mediterranean countries (MEDA),<sup>22</sup> in particular, from 2003 through 2007, with Egypt receiving 40 percent of these GCC flows and Jordan 11 percent. Energy, heavy chemical industry (such as fertilizers), cement, and metallurgy accounted for 13 percent of GCC FDI, while telecom and banking accounted for 15 percent. The remainder focused on transportation, high-end real estate development, tourism, and shopping malls, with only a small proportion allocated to the production of light industrial products and consumer goods for mass domestic consumption (Henry 2008: 14–16, 31–32).

Half of the FDI went for acquisitions of existing firms, including the purchase of privatized public sector enterprises, rather than for new facilities. In 2007, for example, a company from the UAE took over the Egyptian Fertilizers Company (Henry 2008: 23, 26–27, 30). Similarly,

<sup>22</sup> The thirteen “MEDA” countries include Morocco, Algeria, Tunisia, Libya, Egypt, Jordan, Israel, the Palestinian Territories, Lebanon, Syria, Turkey, and two island nations that were admitted to the EU in 2004, Cyprus and Malta.

Orascom Construction, an Egyptian corporation that was listed as one of the top 100 non-financial transnational corporations (TNCs) from developing countries in 2006 (UNCTAD 2008), was acquired in 2007 by LaFarge of France (Henry 2008: 22).

Of the GCC total FDI to MEDA from 2003 through 2007, Kuwait was responsible for 100 projects worth 11 billion Euros, 23 projects in Egypt, and 18 projects in Jordan (Henry 2008: 30–31). Kuwait's stock of investment in Egypt stood at \$25 billion in early 2009, mostly in real estate. Aside from Kuwait's participation in a consortium to expand the international airport, its investments in Jordan in 2007 were mainly acquisitions, such as an increase in Noor Telecom's stake in Jordan Telecom to 22 percent and the purchase of a 20-percent stake in a public works and utilities contractor. (Henry 2008: 34, 67, 117–20).

*Portfolio Investment.* Region-based financial institutions were active in the 2000s pursuing local “financialization.” Two of Kuwait's biggest investments in 2007 were the acquisition by the (private) National Bank of Kuwait of one of Egypt's most successful private banks, Al Watany Bank, and the purchase by the Global Investment House, a private equity firm, of a significant stake in the private brokerage firm, Capital Trust, of Egypt (Henry 2008: 35, 67).

Arab investors were prominent in securities trading on the Amman Financial Market. In the first quarter of 2007, while Arab traders were just 5.7 percent of “natural persons” whose buying and selling of stocks represented about 10.5 percent of market value, their investing companies were 14 percent of “judicial persons,” whose buying accounted for one-third of the market value of shares traded and whose selling accounted for 22 percent.<sup>23</sup>

### The Regional SSA Amid the Structural Boom and Crisis of Neoliberalism

The intraregional investment described earlier was part of a larger, global pattern of expanded sovereign wealth fund (SWF) activity in the 2000s.<sup>24</sup> The capital for SWFs is based on government accumulation of current account surpluses, which are then invested in a diverse portfolio to

<sup>23</sup> [www.sdc.com.jo/english/images/stories/pdf/2007eng.pdf](http://www.sdc.com.jo/english/images/stories/pdf/2007eng.pdf); [www.ase.com.jo/pages.php?menu\\_id=2&local\\_type=0&local\\_details=0](http://www.ase.com.jo/pages.php?menu_id=2&local_type=0&local_details=0)

<sup>24</sup> Sovereign wealth funds (SWFs) are investment agencies owned by governments but usually run by professional managers as autonomous firms. They are distinct from the private holdings of wealthy individuals and families and distinct from private equity firms, which

generate a dependable stream of income to supplement or, in a situation of falling commodity prices, to replace the income from exports. Gulf countries that rely on hydrocarbon exports know well, after their experience of the 1980s and 1990s, that oil prices and revenues can fluctuate widely and that they must prepare for the day when the oil runs out or the world shifts to non-carbon based or renewable energy. The appropriate strategy is to invest in non-hydrocarbon projects that contribute to the country's development, diversify its economy, and broaden sources of income.

Prior to the early 2000s, Gulf SWFs generally kept about half of their assets in lower-risk dollar, euro, or yen denominated forms, such as bonds or blue-chip stocks, that provided a relatively dependable income over the long run. The other half was held in portfolio or foreign direct investment involving more risky equity commitments, which surged in the 2000s in the form of domestic non-oil based development. Including real estate and infrastructure, large-scale endeavors such as the building of whole cities to serve new industries and services, and complex projects in solar and wind power development, "the non-oil sectors in the 6 states of the GCC averaged around 7 percent annual growth in the past half decade [i.e., 2002–2007]" (Teslik 2008). This was paired with increased FDI in the Arab region and other "emerging markets" as described earlier.

*The Boom.* This investment program was too limited to accommodate the unprecedented gush of oil revenues after 2002. GCC SWFs, except for Saudi Arabia's SAMA fund, which remained conservative, then shifted their portfolios to favor more equity, more "alternatives" like derivatives, and faster-growing emerging markets over the traditional slower-growth U.S. and E.U. assets (Setser 2009: 23).<sup>25</sup> Total GCC

tend to be closely held partnerships of very wealthy individuals, and publicly traded mutual funds or investment companies. The top twenty SWFs as a group include funds – in some cases, more than one – from China, Hong Kong, Singapore, Russia, Norway, and several other non-Middle Eastern countries as well as GCC funds from the UAE, Saudi Arabia, Kuwait, Qatar, and Bahrain. As a group, these twenty had accumulated \$2.5 trillion in assets as of January 1, 2008, and had grown impressively over the previous eight years (Knowledge@Wharton, 9/22/08). Useful research on sovereign wealth funds can be found in Aizenman and Glick 2008, Harris 2009, and at the websites of the Wharton School ([knowledge.wharton.upenn.edu](http://knowledge.wharton.upenn.edu)) and the Council on Foreign Relations ([www.cfr.org](http://www.cfr.org)). Information, news articles, and opinion about them can be found in a series of articles in *The Guardian* of London from June of 2007 to March of 2009 ([www.guardian.co.uk/business](http://www.guardian.co.uk/business)).

<sup>25</sup> See also Raphaeli and Gersten 2008 on this shift, plus their opinion that the biggest impact of this shift in investment may be to stimulate the entrepreneurial spirit in the sluggish Arab region (Raphaeli and Gersten 2008: 6).

outflow from 2002 through 2006 approximated \$560 billion, including up to 60 percent to the United States, 30 percent to the EU, 5 percent to Asia, and 5 percent to the MENA region (Setser 2007: 12). Part went for acquisition of U.S. properties, amounting to over \$2.6 billion from 2000 to 2005, for diverse activities such as aircraft manufacture and a coffee distribution and retail chain, and purchase of Manhattan real estate, such as the Chrysler Building (Blustein 2006). The funds then expanded further to purchase shares in alternative risky assets such as hedge funds and private equity (Setser 2007).

GCC SWFs were swept up into the final throes of neoliberalism's financial fireworks, and ended 2007 holding more than \$1 trillion in assets (Setser 2007:1). Following the Yale University endowment model, the Kuwait Investment Authority (KIA) reduced the dollar denominated share of fixed income assets and "traditional" U.S. equities to 40 percent, and increased purchases of both emerging market equities to 10 percent and more risky alternatives to 15 percent (Setser 2007: 7, 10, 12, 14; Setser 2009: 23). KIA's assets rose from \$55 billion at the end of 1999 to \$275 billion at the end of 2007 (Setser 2009: 1, 9), equivalent to about 250 percent of GDP (Aizenman 2008: 19, 37). When prices of alternative financial assets stopped rising in early 2007, and before the markets began their descent, Gulf investors increased purchases of shares in troubled western financial institutions, especially in the United States, that were threatened by the sub-prime mortgage crisis and the collapse of "alternatives" such as collateralized debt instruments, apparently to "tap into [Anglo-Saxon] banks' expertise in trade finance and financial systems" (Olson 2007).

*The Crash.* Once they had bought into the more risk-prone strategy, and the markets began to decline in 2007–08, Gulf SWFs and wealthy private investors bought shares in well-established western financial institutions such as Citigroup, Merrill Lynch, Morgan Stanley, Bear Stearns, UBS, Credit Suisse, Barclay's, Kaupthing, and the London Stock Exchange, among others, to help stabilize the markets for their own as well as the system's sake.<sup>26</sup> They then incurred steep losses as the crisis deepened in the latter half of 2008, sucked down by one of the core contradictions of neoliberalism's demise, the financialization of asset creation and trade without sufficient real investment to undergird the system. KIA's portfolio shrank from \$262 billion to 228 billion from the end of 2007 to the end of 2008, a net loss of 36 percent. As a group, GCC SWF external

<sup>26</sup> See *The Guardian of London*, articles from June 2007 to March 2009 illustrating this role [www.guardian.co.uk/business](http://www.guardian.co.uk/business).

portfolios had a capital loss of 27 percent. The current account surpluses from increases in oil revenues in 2008 were essentially erased by these losses (Setser 2009: 102).

*Impact on the Region.* Output growth in the GCC remained positive in 2008 due to ongoing projects in their domestic economies. However, as credit became scarcer and more expensive and as the number of bond and equity issues to finance important projects was reduced, the value of other financial assets fell across the region. From their peaks in spring 2008 to November, GCC stock markets fell 50 percent, and Egypt's bourse index dropped 54 percent (World Bank 2009: 161). Profits at most firms traded on the Kuwait Stock Exchange dropped 94 percent in the first quarter of 2009 as compared to the first quarter of 2008, with the biggest impact on investment companies and banks, especially those that had been active in mergers and acquisitions in MEDA, such as the National Bank of Kuwait.<sup>27</sup> Even financial entities that were not involved in the machinations of western institutions were hit. For example, 25 Islamic funds were liquidated in 2008–09, only 89 were launched (as compared to 271 over the same period a year earlier), and average returns in 2008 were -39 percent as compared to 23 percent in 2007.<sup>28</sup>

GDP growth in the region overall was expected to remain positive in 2009, slowing from 5.8 percent in 2008 to 3.9 percent in 2009, as indicated in Figure 13.7. Investment growth was also expected to remain positive, but to fall from 18.9% in 2008 to 7 percent in 2009 (World Bank 2009: 163–65), sustained by public investment<sup>29</sup> and ongoing commitments to a number of large infrastructure projects, real

<sup>27</sup> [www.kuwaittimes.net/read\\_news.php?newsid=MzkxODIyMTI](http://www.kuwaittimes.net/read_news.php?newsid=MzkxODIyMTI)

<sup>28</sup> For example, see [www.business24-7.ae/Articles/2009/5/Pages/25052009/0526; corp.gulfinthedia.com/gulf\\_media/view\\_article\\_en\\_print.php?action=print&id=472247](http://www.business24-7.ae/Articles/2009/5/Pages/25052009/0526;corp.gulfinthedia.com/gulf_media/view_article_en_print.php?action=print&id=472247)

<sup>29</sup> News reports were full of efforts by governments to help cushion the blows. Kuwait bought up worthless shares on its stock exchange ([www.kuwaittimes.net/read\\_news.php?newsid=MzkxODIyMTI](http://www.kuwaittimes.net/read_news.php?newsid=MzkxODIyMTI)). Saudi Arabia and Bahrain announced new Islamic bond issues to finance more diversified real estate such as home mortgages and mutual funds ([www.business24-7.ae/Articles/2009/6/Pages/SaudieyesFannie...; corp.gulfinthedia.com/gulf\\_media/view\\_article\\_en\\_print.php?action=print&id=471595](http://www.business24-7.ae/Articles/2009/6/Pages/SaudieyesFannie...;corp.gulfinthedia.com/gulf_media/view_article_en_print.php?action=print&id=471595); [corp.gulfinthedia.com/gulf\\_media/view\\_article\\_en\\_print.php?action=print&id=471503](http://corp.gulfinthedia.com/gulf_media/view_article_en_print.php?action=print&id=471503)). The Abu Dhabi Investment Authority (ADIA) announced 52 new projects in infrastructure, agriculture, and housing in Egypt for 2009 ([www.business24-7.ae/Articles/2009/5/Pages/30052009/0531](http://www.business24-7.ae/Articles/2009/5/Pages/30052009/0531)). Kuwaiti businesses negotiated new manufacturing projects for the Asyut region, as Egyptian ministers traveled to Kuwait to recruit \$10 billion more in real estate, energy, railways, roads and ports, “for investors to profit with a timetable” ([corp.gulfinthedia.com/gulf\\_media/view\\_article\\_en\\_print.php?action=print&id=472198](http://corp.gulfinthedia.com/gulf_media/view_article_en_print.php?action=print&id=472198); [www.kuwaittimes.net/read\\_news.php?newsid=ODYwMzEONjA1](http://www.kuwaittimes.net/read_news.php?newsid=ODYwMzEONjA1)).

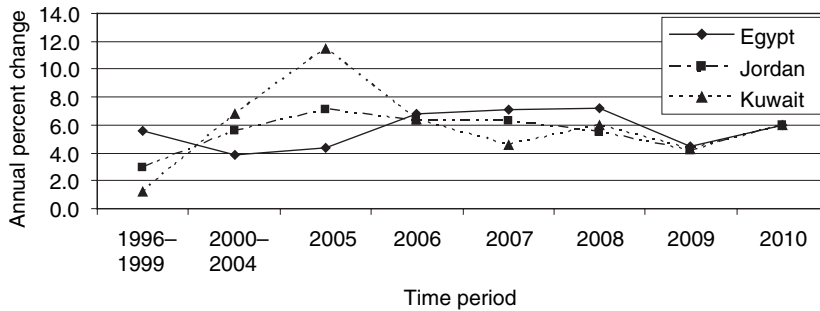


Figure 13.7. Growth projection for real GDP, Egypt, Jordan, Kuwait,\* 2007.

Source: World Bank 2008: Table A.1; World Bank 2009: Tables A.7 and A.8.

Note: \* “Kuwait” values for 2008, 2009, 2010 are for “the resource rich labor importing group,” which also includes Bahrain, Oman and Saudi Arabia.

estate, commerce, and industrial development, in Egypt and Jordan in particular.

The MEDA economies did not fare as badly as the region as a whole, with a drop of 35 percent in incoming FDI in 2008 and a decline of 6% in the number of projects funded by the GCC (Abdelkrim 2009: 7).<sup>30</sup> Egypt’s GDP growth in 2009 was expected to be half of its 2008 rate, between 3.5 percent and 4 percent (Abdelkrim 2009: 66–67; and see Figure 13.7), sustained by 102 new investment projects from 2008, about of third of which were sponsored by the GCC. Jordan’s growth was projected to slow somewhat to 4.2 percent in 2009, down from 5.5 percent in 2008, buttressed by 37 new FDI projects carried over from 2008, in energy, construction, transportation, communications, and manufacturing, including expanded commitments from Kuwait to the international airport, railway, and Aqaba industrial development projects, and because Jordan “appears as a haven of stability in the eyes of investors ... even if the infatuation of Gulf state investors [with real estate in Jordan] have [sic] been affected by the crises” (Abdelkrim 2009: 71–72).

#### PROGNOSIS FOR BUILDING A NEW SSA

As of 2009, the region remained profoundly affected by oil price fluctuations and global financial markets, the GCC exporters of oil and capital having been badly burned in both these arenas in 2008. Given their

<sup>30</sup> For example, see [www.business24-7.ae/Articles/2009/5/Pages/27052009/0528](http://www.business24-7.ae/Articles/2009/5/Pages/27052009/0528)

current economic structures, the price of oil has to be at least \$50 per barrel (in constant 2007 dollars) in order to cover essential imports without having to liquidate some capital assets (Setser 2007: 2, 2009: 1–4). If oil prices stabilized at \$65 to \$75 in 2009 (at least \$60 in 2007 constant dollars), the region would be able to sustain positive investment and growth out of surplus revenues (World Bank 2009: 166), and higher prices would enable the GCC SWFs to start growing again.<sup>31</sup>

Perhaps the more important lesson from the crises of 2008–2009 is that the diversification of domestic investment and greater sophistication of intraregional FDI cushioned these economies, as well as the economies of FDI recipients such as Egypt and Jordan, and kept growth prospects positive for 2009 despite a financial crisis and global recession. It is not apparent, however, that a new SSA was engendered. There were many problems and limitations to the institutional framework that governed economic growth and capital accumulation in the Arab region in the 2000s. Intraregional FDI created wealth without much dispersion for raising incomes to industrial or agricultural workers. It was focused on polluting industries such as hydrocarbon energy and chemical fertilizers, and on real estate, telecom, and tourism projects that served an already wealthy clientele from Europe and the Gulf with little concern for ordinary consumers, working conditions, or human development. It was focused more on the superficial passing around of funds – banking, brokerage, and the local version of “financialization” – with insufficient concern for investment in production for mass consumption or for long-term job creation. It generated too few multiplier effects and linkages in local economies, leaving the poorer countries as dependent as ever on remittances to fill critical gaps.

If a new SSA is to bloom in this region, the institutions will have to involve more thorough regulation and organization of capital on an international level, deeper and broader real investment, a commitment to “more sustainable and more socially useful projects,” (Abdelkrim 2009: 8) closer regard for the needs of consumers, and attention to the legitimate demands of both domestic and émigré labor. Whatever

<sup>31</sup> If the price of oil were \$75 in next 5 years, one analyst predicts that GCC SWFs would grow to \$1.7–1.8 trillion. At that point, the bulk of income would come from investments rather than oil, and the SWFs would be growing due to interest, dividends and capital gains being added back in to the principal. It is very likely, at \$75/bbl or above, that portfolios would be rebalanced to increase the more conservative portion, again about 50 % to bonds (Setser 2009: 16). If the price rose to \$100/bbl, the GCC SWFs would grow to \$2.1 or 2.2 trillion by 2012 (Setser 2009: 6, 15, 17–18).

the balance between government and private capital, this region requires a new social contract to frame a culturally appropriate and sustainable SSA.

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