Commentary

The Root of Middle East's Economic Woes

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I admit, I'm a bit late getting to this in my read pile, but Dalibor Rohac's CATO Institute essay, "The Dead Hand of Socialism: State Ownership in the Arab World," is a must-read for anyone who truly cares about stability in the Middle East or who goes beyond the usual "autocracy vs. theocracy" arguments in the Middle East to look at why both extremes tend to do so poorly in practice.

Indeed, whereas a couple decades ago, the Middle East was on par with most Asian economies and well above sub-Saharan Africa, now Arab economies trail well beyond their East Asian counterparts, and may soon find themselves in the basement as stable economic development takes root in sub-Saharan Africa, fears of Ebola in West Africa notwithstanding.

Rohac argues clearly and with much evidence that "extensive government ownership in the economy is a source of inefficiency and a barrier to economic development." Indeed, it's not uncommon in some Arab countries for the government to control half the GDP.

Not all Arab countries are the same, of course. As Rohac demonstrates, some countries (Morocco, Tunisia, Jordan, and Egypt) have undertaken large-scale and serious privatization over the last two decades while Lebanon has never had large government ownership of the economy. Government enterprise continues to dominate Algeria, Libya, Yemen, and Egypt, despite the latter's Mubarak-era reforms. The issue isn't simply the gas and oil industries, but also utilities, banks, and, in some cases, broader manufacturing.

Rohac goes further, however, and discusses various case studies and methods of privatization, recognizing that one size does not fit all and the devil is often in the details. Certainly, after all, part of the problem with Egypt's privatization was that while it spurred growth, it also retrenched its kleptocracy as political and military connections trumped competence and further convinced the broader Egyptian public that government was accountable and responsible to only the few.

That said, I'd go even further than Rohac in one aspect which is crucial to opportunity and building a stable middle class beyond simply the issue of state-owned enterprises: In too many Arab countries, whether monarchies or republics and regardless of whether oil-rich or oil-poor, there are franchise and sector monopolies that discourage competition. For example, Mercedes or McDonalds or any other big-name Western company may grant contracts to partners and work exclusively with one business. While in the United States, there are dozens of franchisees for big chain restaurants and hundreds for automobile dealerships, this is a rarity in the Middle East.

One person will gain the contract for “McBurger King Hut,” for example, and will never have to face competition in the country for which the license was granted. This, in turn, means that international companies most often will deal exclusively with a country’s top and most politically-connected businessmen. In Kurdistan, for example, forget working with anyone who’s not connected to the Barzani family or former President Jalal Talabani’s wife Hero Khan. And, in Bahrain, any businessman worth even a thousandth of his income will partner with an al-Khalifa. (I’ve already written about the problem of the Middle East’s first sons, here.)

For the soft drink companies, fast food joints, car manufacturers, or any large company, it’s often easier to deal with a single businessman. But so long as various country’s legislatures in the Arab world allow such concessionaire monopolies, they will be undermining the growth of their middle class and constraining opportunity which ultimately would contribute to greater stability.

Democracy needn’t be a lost cause in the Middle East. But, demanding radical political change without catalyzing growth and opening economic opportunity to grow the middle class is to repeat the mistakes of the last three years. It’s time to get serious about Arab economic reform.