GLOBALIZATION AND ITS DISCONTENTS IN THE MENA REGION

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The great wave of globalization that welled up as the Cold War was ending and peaked with the 2008-09 global financial crisis has, after a brief recovery, been steadily ebbing away. Between 1985 and 2011, global trade grew at an annual average rate of almost 6 percent, almost twice the annual rate of global GDP growth of 3.1 percent. The rapid expansion of trade in goods and services, made possible by technological innovations such as containerization and the Internet, and a favorable global political environment, were the principal drivers of that rapid economic growth. Since 2011, annual global trade has grown less than GDP: 2-3 percent. Stagnation in global trade, as symbolized by the final breakdown of the Doha Round of WTO negotiations in December 2015, has acted as a brake on world economic growth, and IMF forecasts do not anticipate a reversal any time soon. Regional trade blocs are proliferating, while the global financial infrastructure erected in the wake of World War II is facing increased pressure from emerging countries and even open competition from the Asian Infrastructure Investment Bank initiated by China. Revanchist anti-globalization political forces are gathering strength in both the United States and Europe. A previous wave of globalization commenced with the rise of steam navigation and the telegraph in the 1870s and dramatically ended with the outbreak of World War I. It was not followed by another wave until the 1980s, suggesting that globalization crests have been intermittent, unpredictable, driven by the world’s political context and punctuated with extended periods of stagnation.

Despite its signal contribution to economic growth and increased national income equality between the global North and South — the latter almost doubled its share of global economic output from 20 percent in 1997 to just less than 40 percent in 2016 — globalization’s great wave stimulated a matching wave of skepticism in the developed and developing worlds. Globalization was rightly seen by all as contributing to inequality within countries; in much of the developing world, it was interpreted as a new manifestation of neocolonial legacies as much or even more than...
contemporary economic consequences. In fact, globalization was driving more rapid economic growth in MENA than in the old colonial powers — growth that compared favorably to that in other emerging regions, with the notable exception of the very high-performing East Asia. Nevertheless, neoliberalism and the Washington Consensus became derogatory terms in MENA, conflated with globalization and employed to discredit it. The Arab uprisings in 2011 were commonly attributed to the effects of globalization, even though they came more than two years after globalization had gone into dramatic reverse; world trade had fallen almost 13 percent in 2009, devastating economic growth almost everywhere. So a case can be made that it was not rapid globalization, but its sudden and dramatic slowing, that has been the cause of Arab and MENA discontent.

If that is the case, discontent is likely to deepen. The slowing pace of globalization is having a more negative impact on the developing than the developed world. Capital flows from the latter to the former, a major component and driving force of globalization, have reversed. In the 18 months ending in January 2016, more than one trillion dollars of investments were recalled by developed economies from developing ones. By comparison, between 2001 and 2011, more than three times that amount flowed the other way. In 2015, there was a record $60 billion outflow from the bond and stock markets of emerging economies. Equity markets in developed economies have outperformed those in emerging ones since 2011; the total capitalization of the latter in 2016 was about one-quarter lower than it had been in 2010. Moreover, 2015 was the first year since 1988 in which more funds flowed out of emerging markets than into them. A major cause of capital flows back to the developed world is the closing productivity gap, which had widened rapidly during the globalization era. By 2016, productivity growth had dropped to 0.9 percent annually in emerging markets, one-quarter of the rate at the high tide of globalization in 2007, and not substantially better than the 0.4 percent rate in developed economies. The failure of globalization to resume its rapid pace is increasingly being interpreted as the “new normal,” compared to the golden age from 2001 to 2008, when a driving force was China’s extraordinary growth from the world’s sixth- to its second-largest economy, following its 2001 entry into the WTO. As prospects dim for China to resume such rapid growth, so too do those for a reaccelerated globalization.

Whether rapid or slowing, globalization has posed major economic and political challenges to the MENA countries. Globalization’s take-off from the mid-1980s, combined with the end of the Cold War and a reduction in the geostrategic rents it had generated for MENA, induced the region’s states to undertake the political and economic reforms required to ride the globalization wave and extract benefits from it, including more foreign direct investment (FDI). Virtually all MENA states adopted at least some of the “ten commandments” of economic liberalization demanded by the Washington Consensus (see Table 1), typically coupling them with cautious political openings. The two decades of rapid globalization did not produce a new MENA liberal age akin to that of the colonial era. These years did, however, witness noticeable shifts from the prevailing, if already diluted, statist economic development model to something more akin to capitalism. These were accompanied by “hybrid” authoritarianism,
a system in which elections, freedom of expression and human rights began to have real, though limited, meaning. Militar- ies appeared to recede further from seats of presidential power, while many of the monarchies witnessed expansions of par- liamentary activity. Most if not all of these reforms of MENA political economies came to an abrupt halt with the Arab uprisings of 2011, which themselves followed the global economic crisis of 2008-09 and pre- saged the five years of stagnating global- ization and growth from which the world is yet to emerge. As globalization has slowed to a crawl, MENA states have scrambled to meet intensifying domestic and regional economic and political challenges. Just as they turned in unison in a liberal direction in the late 1980s as globalization intensi- fied, so they have now turned en bloc in a conservative one, shoring up state authority over the political economy while justi- fying de-liberalization on security grounds.

MENA AT HIGH TIDE

The MENA economy was substan- tially larger, more developed and better integrated into the global economy in 2008 than it had been 20 years earlier. The KOF Index of Economic Globalization reports that, on average, the MENA countries’ financial and trade flows increased by one-fifth between 1970 and 2006.12 Virtu- ally all of this growth occurred after 1989, at which time globalization accelerated dramatically. The UNDP noted that MENA GDP per capita “saw improvements in performance virtually everywhere.”13 Between 1990 and 2002, median annual GDP per capita growth in MENA was 1.2 percent, exceeding rates for both developing (1 percent) and developed countries (0.9 percent).14 From 1987, at which time MENA investment as a percentage of GDP was only slightly above that for developing countries as a whole, it began to rise, reaching some 23 percent of GDP in 2002, compared to some 18 percent for all developing countries and slightly less than 23 percent for what the World Bank refers to as High-Performing East Asian Econom- ies.15 The ratio of FDI to GDP started to grow in 1990 and sharply accelerated in 2003. Between 2005 and 2010, MENA ranked first globally in terms of ratio of FDI to GDP (4.6 percent), just above Europe and Central Asia (4.31 percent).16 Average GDP growth in MENA rose from 3.6 percent a year between 1996 and 1999 to around 5 percent between 2000 and 2008.17

This growth was propelled, not just by greater investment, but by increases in total-factor productivity and labor-force participation.18 The World Bank singled out “early reformers” Jordan, Morocco and Tunisia as MENA countries in which the main driver of growth was improvement in total-factor productivity.19 Annual employment growth in MENA between 1998 and 2008 averaged 3.4 percent, the highest rate in the world.20 MENA also witnessed, according to the ILO, “rapid gains in social indicators” for the two decades commenc- ing in the mid-1980s.21 In sum, at least by these aggregate indicators, MENA seemed to be surfing the globalization wave at least as well as — indeed rather better than — most other global regions.

A more fine-grained analysis, however, reveals that MENA’s ride on the global- ization wave was precarious. Although there was a great deal of FDI, the sectors to which it was directed reflected and reinforced structural weaknesses in the region’s economy. A global analysis of the impact of FDI on growth revealed that it
was less in MENA than in the rest of the world.22 According to the World Bank’s lead economist for MENA, “FDIs are skewed towards activities that create the fewest jobs or that create jobs in non-tradable goods. At the same time, the political unrest has discouraged the high-quality FDI in labor-intensive manufacturing and services needed for export upgrading and diversification.”23 The great bulk of FDI in the “resource poor, labor abundant” Arab countries has come from the wealthy Arab states. Potential non-Arab sources have been uninterested in risking capital in those countries.24 Multinational corporations other than those specialized in hydrocarbons have shied away from attempts to integrate MENA countries into their global supply chains, which by 2009 accounted for more than two-thirds of world trade.25

As a consequence, MENA’s contribution to manufactures in world trade steadily declined as globalization proceeded, only Sub-Saharan Africa performing more poorly on this measure. The region barely registered as a contributor to trade in high-tech goods, with even Sub-Saharan Africa contributing proportionately more of such exports.26 Its dependence on oil and gas for exports, governmental revenue and contribution to GDP was substantially higher by 2008 than it had been 20 years previously. FDI, in sum, had not facilitated diversification of MENA economies and may in fact have retarded it, reinforcing the centrality of oil and gas, along with tourism and real-estate development.

Although MENA GDP growth was relatively impressive by global standards, on a per capita basis that growth was progressively undermined by population expansion. In Egypt and Morocco, for example, GDP growth hovered at around 4-5 percent from the 1980s to 2008, but GDP

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<th>TABLE 1. The “Ten Commandments” of the Washington Consensus</th>
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<td>1. Budget deficits…small enough to be financed without recourse to the inflation tax.</td>
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<td>2. …redircting [public] expenditure from politically sensitive areas [that]… receive more resources than their economic return can justify…toward neglected fields with high economic returns and the potential to improve income distribution, such as primary health and education, and infrastructure.</td>
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<td>3. Tax reform…[so as to broaden] the tax base and cut… marginal tax rates.</td>
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<td>5. …a unified…exchange rate…at a level sufficiently competitive to induce a rapid growth in nontraditional exports.</td>
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<td>6. Quantitative trade restrictions should be rapidly replaced by tariffs, and these should be progressively reduced until a uniform low rate of 10 [to 20] percent is achieved.</td>
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<td>7. Barriers impeding the entry of foreign [direct investment] should be abolished.</td>
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<td>9. [Abolition of] regulations that impede the entry of new firms or restrict competition.</td>
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<td>10. The legal system should provide secure property rights without excessive costs and make these available to the informal sector.</td>
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growth per capita slumped from 2.4 percent to 1.8 percent in Egypt and from 2.6 to 1.1 percent in Morocco. Ishac Diwan’s thoughtful analysis of those and other Arab countries over this period reveals how slowing GDP per capita growth negatively affected the prospects of the middle class, contributing profoundly to their political disaffection and, hence, willingness to join Arab Spring demonstrations. Security of employment for all was also steadily undermined as the ratio between employment in the formal and informal sectors steadily tilted toward the latter. By the end of the globalization era, between 60 and 80 percent of all formal-sector employment in the Arab world was in the public sector. In no Arab country did the formal private sector employ as much as one-fifth of the labor force. In Egypt, between two-thirds and three-quarters of all new entrants to the labor force joined the informal sector, and were thereby deprived of job security and social benefits.

As for young Arabs, by 2008, those between 15 and 24 led the world in unemployment. Even the comparative bright spot in MENA economic demography — income distribution was deemed by 2008 to be more equal than in other developing regions — turns out not to have been an accurate portrayal. Subsequent analysis based on more accurate data has revealed Gini coefficients that suggest greater income inequality in MENA than in most other developing regions. Subsequent assessments of human development have similarly revealed that, while the level of formal educational attainments increased at globally respectable rates, quality lagged well behind, undermining the region’s competitiveness in human resources.

Globalization was, in other words, propelling MENA forward, but in a haphazard, non-coordinated fashion, both within countries and in the region as a whole. Poor governance is widely attributed as the principal cause of the failure of states to react more systematically and effectively to globalization’s challenges. Indeed, other than the GCC states, the region’s performance on the World Bank’s governance indicators sagged in the decade following their initial publication in 1997, whereas those in other developing regions generally advanced. Although various MENA countries intermittently improved their ranking on the World Bank’s Ease of Doing Business Index, those improvements resulted primarily from gaming the indicators rather than actual substantive outcomes. The comparative degree of corruption in MENA has steadily intensified. Between 2012 and 2016, nine of the 18 MENA countries tracked on Transparency International’s Corruption Perceptions Index fell, with only one-third having scores below 50, the level at which corruption is deemed to be a serious problem. Since 2003, MENA has led the world in the rate of growth of illicit financial flows, the aggregate for the decade having reached $740 billion by 2013, about one-third more than the total inflow of FDI during that period.

The much-decried MENA variant of neoliberalism was far from the actual model propagated by its advocates.
Implementation of the 10 Commandments of the Washington Consensus lagged, as reflected in MENA’s relatively high tariff barriers and other restraints on trade, behind which cronyism and rent seeking flourished. Public employment and social safety nets receded, not out of commitment to economic liberalization but because of shrinking governmental revenues in proportion to populations. The private sector, which globalization had not freed from the comparative unease of doing business in MENA, did not expand sufficiently to absorb the growing number of potential entrants to the labor force. Ever-greater dependence upon hydrocarbons reinforced the region-wide Dutch Disease; over-valued currencies militated against exports of tradeable goods other than oil and gas and some commodities heavily dependent upon them, such as petrochemicals, fertilizer and cement. Almost all agricultural exports languished due to overvalued currencies, lack of adequate governmental support to the sector, inappropriate land tenure and insufficient water. Further exacerbating economic management problems for all governments of the region was their preference for guns over butter. Military expenditures and deaths from armed conflict declined virtually throughout the world as globalization accelerated at the end of the Cold War. MENA’s leading world status on these measures, however, remained unchanged.

MENA, in sum, was carried forward by the globalization wave, but more as flotsam and jetsam than as an adroit surfer picking how and where to ride the wave. So once it crested and ebbed, MENA, which had essentially squandered opportunities globalization had offered, was left without the will or capacity to sustain forward momentum. The magnitude of the economic challenge facing the region was masked temporarily by resurgence of oil prices after the 2008-09 crash, but the dramatic downturn that commenced in June 2014 has left the region floundering. As for political challenges, the uprisings of 2011 rendered the region even less able to confront rapidly intensifying economic challenges.

To make matters worse, the factors most closely associated with slowing globalization are particularly ominous for MENA. First, the collapse of world commodity prices, including those for oil and gas, presents enormous challenges to what in essence is more of a mono-crop region than any other in the world. Just as the absolute imperative to diversify economies away from hydrocarbons has arrived, so is the capital necessary for that diversification ever scarcer. As noted above, global capital is flooding back to the developed world. Local capital stock, such as that accumulated in sovereign-wealth “rainy day” funds, is being drawn down to meet recurrent governmental expenditures. Spending on infrastructure and other capital projects is being sharply reduced. Since the private sector relies heavily on governmental expenditures, it too is facing hardships, even in the non-oil exporters, such as Egypt, where non-fuel exports declined dramatically in the 2014-15 financial year. Finally, the flow of remittances, which provided 3.3 percent of the region’s entire GNI in 2013, is slowing, as it is in other developing regions. Between 2006 and 2012, remittances to MENA grew from $25.9 billion to $48.5 billion; they then essentially plateaued, reaching just $51.7 billion in 2015, a 1.1 percent increase from 2014, the lowest rate of growth since the globalization era began. As MENA remittances depend heavily on earnings in
the region’s own oil-exporting countries, they are likely to decline in the wake of falling oil and gas prices.

Second, MENA’s own contribution to slowing globalization is a legacy from which it will be hard to escape. This region contributed more than any other to ending “America’s moment” at the close of the Cold War. It was supposed to be the end of history, we were told, when the United States sought to position itself as the central driving force in the spread of democratic capitalism and a New World Order. The disastrous war in Iraq put paid to those ambitions, stimulating opposition, not just to America’s designs for the region — symbolized by Shimon Peres’s “New Middle East” — but to the grander project that was driving globalization. President Obama’s attempt to pivot to Asia constituted recognition of the failure to achieve objectives in MENA and the desire to escape the bog it had become for American forces and interests more broadly. Siren calls to engage in state and nation building in the fragmenting MENA are being ignored in Washington, Brussels and — except for some initiatives by Moscow and Beijing — everywhere else as well. The Western world seems to have settled on a strategy of trying to quarantine the region while confronting the terrorist threats it generates, rather than to develop its political institutions or economies. This approach has not, however, prevented an escalation of meddling by global actors or mischief-makers in the region. Indeed, the scaling back of Western engagement with MENA has enticed both types of intervention, neither of which has a positive effect on the region’s prospects for stability or growth.

SLOWING OF GLOBALIZATION

MENA’s status as a “rentier region” has come to a dramatic end, unlikely ever to be restored. Too many factors militate against hydrocarbon rents being sufficient to support social contracts except in the very richest of the exporting counties: Kuwait, Qatar and the UAE. The supply of and demand for oil and gas are unlikely for the foreseeable future to reproduce prices anything like those reached during the last globalization wave. Both sides of the equation are being dramatically affected by technological advances, including fracking, renewable energy sources and ever-greater efficiencies. Rapid population growth in MENA was undermining the favorable rent-to-population ratio in most of its countries and the region as a whole, even before the 2014 price crash. The terms of trade between oil and food have become and are likely to remain profoundly unfavorable to MENA, simultaneously the world’s biggest oil-exporting region and world’s biggest importer of foodstuffs. While the price of oil had fallen from a baseline of 100 in 2005 to about 30 in January 2016, during that same period food prices rose from the 100 baseline to 145, according to The Economist’s commodity-price index. The food that could be purchased with a barrel of oil in 2005 thus required five in early 2016.

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Slowing globalization has rendered the challenge of economic diversification much more difficult than it was a decade earlier. As just noted, capital to support the shift from a regional economy based on extraction to one based on broader production and services is in increasingly short supply because of shrinking FDI and repatriation of capital to the developed from the developing world, and because MENA sovereign-wealth funds and other assets are being drawn down to support recurrent budgetary expenditures. Diversification would, in any case, be ever more difficult even if funds were plentiful. Automation is undermining the path upwards from labor-intensive industrialization. While almost half of the jobs in the United States are at risk from automation, in populous low- and middle-income countries the proportion is far higher: 69 percent in India, 77 percent in China and a staggering 85 percent in Ethiopia.

There is no conceivable scenario in which the rapidly growing populations of the MENA states will be sufficiently attractive to investors in manufacturing for their economies to replicate the Chinese or broader East Asian development models. These were based on cheap, urbanizing labor, combined with large-scale investment and integration into multinational corporations’ production chains. Indeed, with China joining Japan as a second lead “goose” in the so-called “flying geese” pattern of East Asian development — offshoring steadily more of its labor-intensive manufacturing to Southeast Asia — the share of global manufacturing captured by East and Southeast Asia will likely continue to rise, though stagnating wages in the developed world might possibly lure back some previously offshored industries.

The challenge facing very late industrializers, including some in MENA perhaps, grows steadily more daunting. China’s investments in MENA, including those announced by President Xi Jinping on his January 2016 trip, are part of the new Belt and Road Initiative, an effort to extend and secure trade routes westward from China, especially for oil — not to invest in manufacturing industries along that Road once it leaves Asia. Chinese investments in MENA, therefore, are largely confined to infrastructure and energy.

Finally, the classic industry in which late industrialization could first capitalize on cheap labor and then move up value chains was textiles, an industry in which Asian market share continues to expand as investment moves to Asian economies with lower prevailing wages. Bangladesh, for example, now exports 10 times more textiles than does Egypt, essentially reversing the ratio that obtained less than 30 years ago. For Egypt and other MENA countries, the tried and tested routes to industrialization no longer seem possible to emulate.

Although diversification away from a rentier political-economy model based on hydrocarbon rents is all the more problematic in a context of slowing globalization, MENA governments have little choice but to attempt it. Indeed, in the 18 months since oil prices began their dramatic slide, most of these countries have undertaken cautious steps to enhance governmental revenues from non-hydrocarbon sources. Most have imposed direct and indirect tax increases while reducing subsidies and raising governmental fees. Some have inaugurated programs of support, including financial, for small and medium enterprises. Longstanding efforts to nationalize labor forces in the oil-rich, labor-poor countries have been intensified, typically coupled with incentives for private-sector
job creation. But the heavy lifting involved in moving from allocation to extraction as the basis for state-society relations is yet to really begin.

The belt is being tightened, but not by much. Devaluations of MENA currencies, a much-needed and more substantial measure, have thus far been entirely avoided or minimized, largely out of a fear of inflation and its potential political repercussions. So the region-wide Dutch Disease persists, thwarting efforts at economic rationalization and diversification. Whether low labor costs might attract investment into labor-intensive enterprises is a hypothesis yet to be tested. Those costs remain comparatively high, due primarily to impacts of the regional rentier economy, including relatively high public-sector salaries and possibilities for intraregional immigration.

There are two other stumbling blocks facing major reforms of MENA economies. The first is the unanswered question of what the appropriate economic model should be. During the era of rapid globalization the answer was simple — adopt neoliberal reforms based on the Ten Commandments of the Washington Consensus. But that model is deemed out of date, to say nothing of being discredited. There is also the lure of alternatives as a result of the rebalancing of global power away from the United States, initially toward the BRICs and now mainly toward China. Many in MENA conflate politics and economics in their interpretations of the success of the BRICs. Political nationalism, particularly evident in Russia and China, is seen as the key to the organization of their economies. In reality, however, it was globalization and comparatively successful adjustments to it or simply rising prices and volumes of raw-material exports, especially oil, that drove the BRICs’ and others’ economic growth. Those adjustments typically included adoption of many of the Ten Commandments of the Washington Consensus.

Nationalism in the most successful developers, especially China, was largely reserved for the political sphere. Yet in MENA, where the anti-colonial legacy is particularly strong, the temptation to fall back onto nationalism as a key organizing principle for the economy is difficult to resist. Indeed, it appears more compelling now in some MENA states than the will to globalize. For example, Egypt’s President al-Sisi announced in February 2016 a series of measures intended to restrict imports and stimulate local production as part of what seems to be an attempt to return to the Nasser-era model of import-substitution industrialization. Egyptian economic policy, like that of many other MENA countries, increasingly seems to lack the coherence that would reflect inspiration from a dominant, well-defined model. Egypt and many of its Arab neighbors are struggling to find a new economic modus operandi. No longer enamored of even a watered-down neoliberalism, they are tempted by economic nationalism, in part because of its falsely assumed association with success in those countries that

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appear to challenge Western hegemony. They are also fearful of opening up their limited-access orders, in which entrenched elites have shored up their positions by distributing patronage.41

Coupled with confusion in MENA states about which economic model to adopt is an ever-accelerating reliance upon coercion. Limited political openings and neoliberal economic reforms were the rule, leading up to and during the era of rapid globalization. Now, by contrast, MENA is witnessing political de-liberalization as states batten down the political hatches. Coercion is increasingly the political currency of choice for governments and even for oppositions. This choice is driven in part by economic pressures, but also by uncertainties about how to ameliorate them in the short term, while in the medium and long terms restructuring national economies. Increased reliance upon coercion is also due to the traumatic impact of the Arab Spring in virtually every country of the region and, in its wake, the rise of violent extremism against a backdrop of ever-growing interstate regional tensions and extra-regional interventions. MENA’s coercive politics, in sum, are the product of a perfect storm of local, regional and global economic and political factors that have struck simultaneously, blowing away fragile political institutions while undermining the weak political-community foundations upon which they were built.

At the domestic level, growing reliance on coercion reflects a shift from infrastructural to despotic power. These are Michal Mann’s apt terms for the state’s either penetrating and managing civil society and the economy by virtue of its administrative capacities as opposed to simply intimidating all non-state actors.42 Typically coupled with and resulting from an expansion of despotic power is militarization, both of which result from and contribute to poor economic management. Adding yet more pressure to this vortex into which MENA is increasingly being sucked is worldwide militarization in the wake of slowing economic globalization.43 Although not yet a full return to the Cold War, the path backward to militarization poses special dangers for MENA. Global militarization also stimulates both the arms race in the region and the false hope nurtured by some MENA political elites of a return to the bad old days of collecting strategic rents, thus obviating the need for economic reform.

THE DRAG OF MILITARIZATION

Although militarization can in some circumstances stimulate economic growth, generally it does not.44 As for contemporary MENA, the sheer magnitude of militarization, in comparison to the economic bases that have to support it, serves to drain, rather than develop, those economies. The more guns MENA buys, the less butter it can afford — and buy it does. The Global Militarization Index, a composite measure that includes such indicators as military expenditures as a percentage of GDP and in relation to health expenditures, as well as military and paramilitary personnel in relation to population, ranks MENA as the world’s most militarized region. Thirteen of its countries in 2015 ranked in the top 29 of the 151 countries assessed.

When the index was launched in 1990, MENA had 10 countries among the top 30.45 Saudi Arabia has the world’s fourth-largest military budget; it doubled in the decade ending in 2015. The UAE is, after
Saudi Arabia, the world’s second-largest purchaser of U.S. weapons. Algeria spends more on its military than any other country in Africa, having increased its defense budget by 176 percent since 2004 and by a third over the last five years. The military’s share of Tunisia’s 2015 budget increased more than that of any other part of government, taking its annual allocation to almost $1 billion in that cash-starved country.46 The Palestinian Authority in 2015 spent more than a quarter of a billion dollars on its security forces, far and away the highest expenditure category in its budget, about a third of total “governmental” expenditures.47

Non-state militarized actors are more prevalent and destructive in MENA than in any other region. Nine of the top 20 countries of the 124 ranked on the Global Terrorism Index are in MENA.48 The Government Defense Anti-Corruption Index of Transparency International singles out MENA as the region most susceptible to military corruption, in significant measure because its disproportionate military expenditures as a percentage of GDP are the world’s highest, at 5.1 percent on average, or 7.6 percent of the world total. In addition, the region increased its arms imports by 71 percent in the last decade, spending $135 billion in 2014 alone. MENA accounts for more than one-quarter of the world’s “opaque” defense spending. In 2015, of the five regions assessed regarding the prevalence of defense-sector corruption, MENA comes out worst. Thirteen of its 19 countries received scores of E or F, the bottom two grades on the scale, placing MENA well below even Sub-Saharan Africa.49

Quantitative indications of high and expanding levels of militarization in MENA are matched by qualitative changes. Conscription has been introduced in the last three years in three of the six GCC countries. Most MENA militaries have substantially enhanced their capacities, ranging from counterterrorism to border surveillance to adoption of elements that comprise the so-called Revolution in Military Affairs — battlefield control systems, satellite intelligence and means of power projection. Asymmetric warfare capacities have been greatly increased, for example through Russian technical assistance to Hezbollah forces in Syria. Military alliances have proliferated, the most recent example being the 34-country coalition formed by Saudi Arabia, ostensibly to counter terrorism but widely thought to be directed against Iran and its proxies. Joint exercises between the armed forces of MENA countries have proliferated. Military interventions, such as those in Libya, Syria, Yemen and Iraq, are becoming commonplace.

The consequences of militarization for MENA’s economic development are devastating. First, there are the direct costs, such as procurement and force sustainment, as well as the opportunity costs of manpower and other resource commitments. Indirect costs may be even more deleterious to the region’s economies. Militarization deters FDI, at least in sectors, such as manufacturing, that are inherently risk-averse. They require substantial time to earn returns on investments, and their fixed-capital assets are physically vulnerable. The steady encroachment of the military into many of the region’s national economies undermines the private sector, impedes accountability and places military officers in economic decision-making roles for which they are ill-equipped. MENA’s world-leading rate of military corruption, the result of the penetration of the econo-
my by the armed forces, imposes annual costs in the billions of dollars.

In addition, there are other, broader consequences that render development yet more difficult. The region’s stability is being undermined by armed conflicts within and between states. Humanitarian disasters are becoming commonplace; MENA now produces more refugees and internally displaced people than any other region.\(^{50}\) As militarization proceeds, the political, administrative and economic roles of armed forces grow steadily greater, reinforcing or creating altogether new limited-access orders, the very nature of which is inimical to sustainable economic development.

**CONCLUSION**

Globalization and MENA are caught up in a doubly paradoxical relationship. MENA did not embrace globalization as fully or effectively as some other regions, at least partly as a result of collective political choices. Yet it seems now that slowing rather than intensifying globalization poses the greater threat to MENA political economies. Whereas globalization produced at least some “winners” in those countries, as well as prospects for further liberal reform, it is leaving in its wake only losers, with the partial exception of coercive forces and those benefitting from their expansion. Reform coalitions are far harder to constitute among losers than winners. When and if its paradoxical relationship with globalization becomes widely apparent in MENA, it is still an open question whether that would cause a re-evaluation of costs and benefits.

For the immediate future, however, the region-wide perception that globalization, rather than its comparative absence, is the root of the MENA’s problems will persist. Even if MENA could make a significant contribution to stimulating a new globalization wave, it is unlikely that there would be sufficient consensus to attempt it. There is, of course, the prospect that new technological breakthroughs will rekindle globalization. The most dramatic technological changes of the past few years, however, are those that are reducing reliance on hydrocarbons, thus undermining MENA’s key economic comparative advantage. Even if those innovations stimulated a resurgent globalization, MENA could only be a very indirect beneficiary of it, unless its economic diversification had proceeded apace, a most unlikely prospect.

The second paradox of globalization in MENA is that, while it was a relatively reluctant globalizer, it contributed more to braking globalization than any other region. MENA was where the political umbrella necessary to shield globalization from opposing forces was most severely buffeted. When the United States ran up against the limits of its own power in the region, initially in Iraq, then elsewhere and now just about everywhere, the New World Order that followed the collapse of the Soviet Union ended. A multipolar world, which had emerged in part because of the very success of globalization, as the very term BRICs attests, replaced a shaky unipolar one. Even if the key forces in that multipolar world were all committed to globalization, it would still be hard to coordinate the necessary mechanics, especially since it now has to be done without the United States as the undisputed maestro. But, in reality, some key actors are not committed; some others resent lingering U.S. and Western influence over globalization; and most are being swept by a nationalism driven by fear of the Other.

The breakdown of the Doha Round of trade negotiations is reflective of the fraying world consensus behind globalization.
And MENA continues to contribute more than its fair share to globalization’s woes. The surge of refugees into Europe in 2015, the emergence of ISIS, the spread of terrorism, the collapse of states (Libya, Yemen, Syria and maybe Iraq), the intensification of state and anti-state violence, and the re-emergence of something like a Cold War competition between the United States and Russia, to say nothing of intraregional interventionism, are MENA phenomena that have cast a pall on global cooperation. Indeed, as long as MENA continues to fester and serve as a jousting ground for outside powers, it is hard to see how its travails can be prevented from infecting globalization. The very act of trying to quarantine it — which has considerable support already among believers in a “Fortress Europe” or its American equivalent — runs counter to the tenets of globalization. Trying to isolate MENA bespeaks a return to the Cold War rather than a renewed commitment to globalization.

In the absence of a new wave of globalization that would somehow lift MENA economies, it is hard to see how the region will escape its present discontents. MENA and globalization seem locked into a counterproductive, downward spiral, harmful to the region and the world as a whole.


2 For a discussion of globalization’s dual impact on equality — increasing it between countries, reducing it within them, see Foreign Affairs 95, no. 1 (December 2015), especially Ronald Inglehart, “Inequality and Modernization: Why Equality Is Likely to Make a Comeback,” https://www.foreignaffairs.com/articles/2015-12-14/inequality-and-modernization.

3 For a discussion of the “colonial dialectic” and its contemporary relevance to globalization in MENA, see Clement Moore Henry and Robert Springborg, Globalization and the Politics of Development in the Middle East (Cambridge University Press, 2010).

4 For a sympathetic presentation of this view among Egyptian youth, see Jack Shenker, The Egyptians: A Radical Story (Allen Lane, 2016).


6 Ibid.

7 Ibid.


9 Ibid.

10 Ibid.

11 Ibid.

12 As reported in Henry and Springborg, 21.


14 Ibid, 160.

15 Ibid, 161.

Forum, December 2013, 2.


18 Ibid, 6.

19 Ibid, 6.

20 Ibid, 15.


25 UNCTAD estimated that in 2009 there were 82,000 multinationals in operation, controlling more than 810,000 subsidiaries worldwide and accounting for more than two-thirds of world trade. World Trade Report 2014, 201.

26 World Development Indicators (World Bank, April 2015), http://data.worldbank.org/indicator/TX.VAL.TECH.MF.ZS.

27 Jobs for Shared Prosperity, 107.


29 Jobs for Shared Prosperity, 1-5.


37 According to the investment firm Lazard, the cost of electricity generation using wind power fell 61 percent from 2009 to 2015, while the cost of solar power fell 82 percent. Lazard’s Levelized Cost of Energy Analysis, Version 9.0, (Lazard, November 2015), https://www.lazard.com/media/2390/lazards-levelized-cost-of-energy-
analysis-90.pdf.


43 Global defense spending as a proportion of GDP rose in 2015 compared to 2014, in part because of increased defense spending by European countries. U.S. defense spending was $100 billion more than its inflation-adjusted, post-Cold War average. Saudi Arabia’s expenditure of 13 percent of its GDP on the military was more than double that of Russia, the second most profligate military spender. “Defense Budgets,” *Economist*, February 13, 2016, http://www.economist.com/news/economic-and-financial-indicators/21692877-defense-budgets. The U.S. defense budget supported in 2015 military operations in 147 countries and commencement of a $1 trillion upgrade of 7,200 nuclear weapons. For a view of the U.S. contribution to global militarization and an assessment that it is likely to continue under a new president, see John Feffer, “The Leader Our Foreign Policy Deserves,” Lobelog Foreign Policy, February 7, 2016, http://lobelog.com/the-leader-our-foreign-policy-deserves/.


