The Middle East Journal

Facing the Market in North Africa
Author(s): Bradford Dillman
Source: *Middle East Journal*, Vol. 55, No. 2 (Spring, 2001), pp. 198-215
Published by: Middle East Institute
Stable URL: http://www.jstor.org/stable/4329614
Accessed: 13-06-2017 11:09 UTC

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at http://about.jstor.org/terms

Middle East Institute is collaborating with JSTOR to digitize, preserve and extend access to *Middle East Journal*

This content downloaded from 212.175.18.234 on Tue, 13 Jun 2017 11:09:21 UTC
All use subject to http://about.jstor.org/terms

Facing the Market in North Africa

Bradford Dillman

This article examines the results of economic reform programs since the mid-1980s in Morocco, Algeria, Tunisia, and Egypt. Although these states have liberalized their economies in the face of international and domestic market forces, ruling elites have been adept at maintaining control over the distribution of resources. Selective reforms have prevented the emergence of competitive markets and powerful, autonomous private sectors and have yet to induce a transition to political liberalism and accountable government in North Africa.

For more than a decade, governments in North Africa have been implementing economic reforms inspired by a set of liberal beliefs often described as the "Washington consensus." Morocco led the charge with its 1983 International Monetary Fund (IMF)-sponsored program, followed by Tunisia, Egypt and then Algeria.[1] Most started with a stabilization program, followed by structural adjustment, limited privatization, and encouragement of foreign investment. Since the mid-1990s, a post-structural adjustment

Bradford L. Dillman is Assistant Professor of International Relations at Koç University in Istanbul, Turkey. He is the author of *State and Private Sector in Algeria: The Politics of Rent-Seeking and Failed Development* (Boulder: Westview Press, 2000). He is currently writing a manuscript on North African political economy.

1. Pinpointing the beginning of "serious" reform programs is difficult. Bluffs, false starts, failed implementation, and backtracking have characterized all the programs. Many of the governments initiated their own home-grown plans well before resorting to an IMF standby facility. This article will focus on reforms after the following starting points: Morocco in 1983 with an IMF agreement and World Bank sectoral adjustment loans; Tunisia in 1985 with an IMF standby; Egypt in 1987 with an IMF agreement (which was only partially implemented); and Algeria in 1989 under the new government of Prime Minister Mouloud Hamrouche.

This content downloaded from 212.175.18.234 on Tue, 13 Jun 2017 11:09:21 UTC
All use subject to http://about.jstor.org/terms

agenda has emerged, where the key issues are adaptation to global financial liberalization, the World Trade Organization, and the Euro-Mediterranean Partnership. The prevailing sense is that on top of basic domestic structural reforms, painful and rapid reshaping of external economic relations must be undertaken. The post-adjustment phase promises to have potentially more severe consequences for domestic institutions, private companies, and state budgets.

States in the Middle East and North Africa (MENA) as a whole have little choice but to open up to the global market and liberalize their domestic markets. Those states that delay the most face the most external punishment. Since the mid-1980s, MENA countries have become increasingly marginalized in the world economy. Hydrocarbon revenues did not recover from their post-1985 drop until late 1999, and worker remittances remained flat through the 1990s. Growth of per capita gross domestic product (GDP) was −0.6% in the 1980s and only 0.9% in the 1990s.[2] Growth of real trade as a percentage of GDP from 1985 to 1994 was substantially lower in the MENA than any world region except Sub-Saharan Africa.[3] Foreign direct investment (FDI) and portfolio investment in the region before 1996 were negligible when compared to massive net transfers to Asia, Latin America and Eastern Europe.[4] From 1990 to 1998, privatization revenues in the MENA amounted to less than 3% of total privatization revenues in the developing countries.[5] The IMF estimates that $600 billion is held by MENA nationals in countries outside the MENA, indicating that private investors are not convinced of the credibility or sustainability of structural adjustment in their own countries.[6]

Tunisia and Morocco are exceptions to this regional trend. Both are touted by the IMF and the World Bank as models for other emerging economies. Their early reform programs were relatively successful, Tunisia having graduated from the IMF program and Morocco having attracted considerable foreign investment. In 1995, Tunisia was the first to sign an Association Agreement with the European Union (EU), followed quickly by Morocco. Latecomers Algeria and Egypt are less prepared to confront globalization. By and large they have delayed difficult reforms and dragged out negotiations with the EU over their own agreements to join the Euro-Mediterranean free trade zone in the next decade. Both have reversed political liberalization of the 1980s in the face of Islamist

2. *Global Economic Prospects and the Developing Countries* (Washington, DC: The World Bank, 2001), p. 28.

3. John Page, "From Boom to Bust – and Back? The Crisis of Growth in the Middle East and North Africa," in Nemat Shafik, ed., *Prospects for Middle Eastern and North African Economies: From Boom to Bust and Back* (New York: St. Martin's Press, 1998), p. 153.

4. Of the more than $923 billion in net FDI that flowed into the developing countries from 1993 to 1999, MENA countries attracted only 3.2% of it. Of the more than $244 billion in net portfolio equity flows to developing countries from 1993 to 1999, MENA countries received only 2.3% of it. Calculated from *Global Development Finance 2000 CD-ROM* (Vol. 2, Group Tables), (Washington, DC: The World Bank, 2000), pp. 24, 40. Despite significant increases of FDI to the MENA in 1997 and 1998, net FDI inflows were less than 1% of GDP, far below proportions in East Asia and Latin America. See *Global Development Finance: Analysis and Summary Tables* (Washington, DC: The World Bank, 1999), p. 163.

5. *Global Development Finance 2000 CD-ROM* (Vol. 1, Analysis Text), (Washington, DC: The World Bank, 2000).

6. Alan Richards and John Waterbury, *A Political Economy of the Middle East, 2nd ed.* (Boulder: Westview Press, 1996), p. 224. It has been estimated that Egyptian nationals hold $80 billion in offshore funds while Algerian nationals hold $30 billion.

This content downloaded from 212.175.18.234 on Tue, 13 Jun 2017 11:09:21 UTC
All use subject to http://about.jstor.org/terms

challenges. Egypt's acceleration of reforms since 1996 has bolstered capital inflows, but as in Algeria, the program is still piecemeal, corrupt, and highly contested.[7]

This article assesses the results of more than ten years of North Africa's market-oriented reforms under pressure from international market forces. How have external economic pressures affected government-business relationships and the distribution of resources within ruling coalitions? Are governments losing power and resources? Is the private sector becoming an autonomous force capable of pushing for democratization? How profound have the economic reforms been?

Despite facing constraints from global market actors backed by powerful states, North African regimes have managed to adapt their economies selectively, using reforms and repression to mitigate many of the presumed regime-challenging effects of economic globalization. This suggests that incumbent elites can forestall democratization by a selective engagement with global markets that maintains distributional coalitions and co-opts a largely dependent domestic private sector. What is important in the process is the extent to which regimes are able to extract from greater capital inflows and, through partial economic liberalization, to generate administrative efficiencies, control access to profits and rents, and substitute for some declining resources.

The prevailing wisdom among neoliberal economists and international financial institutions is that structural adjustment and greater engagement with the global economy should progressively lead to macroeconomic stability, reduced government intervention, a dynamic private sector, and prosperity.[8] Deregulated banking, privatization, and emerging stock exchanges are ostensibly laying the foundation for competitive free markets. Association agreements between the European Union and North Africa, as well as the establishment of a Euro-Mediterranean free trade zone by 2010, promise to reduce trade barriers, free circulation of capital, and strengthen civil society. While many protected, inward-oriented North African businesses will disappear, overall entrepreneurship and export-orientedness should increase with the help of substantial EU credits for infrastructure upgrading and industrial restructuring.

Political scientists often disagree about the relationship between economic liberalization and democratization, but many authors find an important correlation between democratization and such factors as the global spread of free market models, long-term economic growth, short-term economic crisis, and Great-Power pressure.[9] Analysts of economic liberalization in North Africa mostly agree that market-oriented reforms are challenging governmental prerogatives and increasing demands for political pluralism,

7. Dieter Weiss and Ulrich Wurzel, *The Economics and Politics of Transition to an Open Market Economy: Egypt* (Paris: Organization for Economic Co-Operation and Development, 1998), pp. 194–196.

8. See *Claiming the Future: Choosing Prosperity in the Middle East and North Africa* (Washington DC: The World Bank, 1995).

9. See Paul W. Drake, "The International Causes of Democratization, 1974–1990," in Paul W. Drake and Mathew D. McCubbins, eds., *The Origins of Liberty: Political and Economic Liberalization in the Modern World* (Princeton: Princeton University Press, 1998), pp. 70–91; Stephen Haggard and Robert Kaufman, "The Political Economy of Authoritarian Withdrawals," in Drake and McCubbins, *The Origins of Liberty*, pp. 92–114.

This content downloaded from 212.175.18.234 on Tue, 13 Jun 2017 11:09:21 UTC
All use subject to http://about.jstor.org/terms

although many are less sanguine that it will produce democracy in the short term.[10] At the very least, from a structural point of view, the state's "retreat" from the economy, along with the growth of the private sector and a middle class, weakens state autonomy and leads to more political challenges.[11] The "fiscal crisis" since the mid-1980s due to declining external rents has pressured North African states to reduce subsidies and resort to new taxes, both of which can potentially threaten political elites.[12] As governments seek to ensure compliance with structural adjustment policies that are replacing the old social contract, a new institutionalization of state-society relations has emerged based on negotiations and bargaining over political space between a reinvigorated private business community, Islamists, workers and the state.[13] Although Egypt, Tunisia, and Algeria have also resorted to substantial coercion, this may not be sustainable since domestic and foreign private investors are unlikely to invest much where there is continuing repression, fiscal instability and insufficient information flows due to limited political liberalization.[14] Clement Henry theorizes that banking reform across North Africa is producing private banking oligopolies and autonomous business groups that will demand political pluralism.[15] He believes that Morocco is best poised to make a transition to constitutional democracy because its commercial bankers have the most structural power.

However, conventional interpretations of economic reform programs have several weaknesses: they tend to conflate the dynamics of an established market economy with the dynamics of a transition *toward* such an economy; they often assume (teleologically) that North African leaders are bringing their economies progressively closer to a free market; and they overestimate the ability (or willingness) of market actors to demand political accountability and transparency. An alternative interpretation comes from focusing on the adaptability of ruling elites, changes in distributional coalitions, and the paradoxical effects of economic reform on the state and market. Despite a recent legacy of legal changes, stock market booms, and free trade agreements, reforms have been selective, and the room for governments to wiggle out of or wiggle around them has been substantial. The experience of North Africa since 1985 suggests that the lag between old institutions and (effective) new ones may be very long. During the transition, the impersonal, competitive market is often not determining the allocation of resources. The new "rules" are either not known, not followed, or are bent in order to preserve rents and tap new ones. Although governments may be more vulnerable to international financial institutions,

10. See Ghassan Salamé, ed., *Democracy Without Democrats? The Renewal of Politics in the Muslim World* (London: I.B. Tauris, 1994); and Dirk Vandewalle, ed., *North Africa: Development and Reform in a Changing Global Economy* (New York: St. Martin's Press, 1996).

11. Robert Springborg, "The Arab Bourgeoisie: A Revisionist Interpretation," *Arab Studies Quarterly* Vol. 15, No. 1 (Winter 1993), pp. 31–33.

12. See Giacomo Luciani, "The Oil Rent, the Fiscal Crisis of the State and Democratization, in Salamé, *Democracy Without Democrats?"*, pp. 130–155.

13. William I. Zartman, "The State on a Tightrope: Institutionalization and Negotiation," in Vandewalle, *North Africa*, pp. 229–241.

14. See Clement M. Henry, *Challenges of Global Capital Markets to Information-Shy Regimes: The Case of Tunisia*, The Emirates Occasional Papers, No. 19 (Abu Dhabi: The Emirates Center for Strategic Studies and Research, 1998).

15. Clement M. Henry, *The Mediterranean Debt Crescent: Money and Power in Algeria, Egypt, Morocco, Tunisia, and Turkey* (Gainesville: University Press of Florida, 1996).

This content downloaded from 212.175.18.234 on Tue, 13 Jun 2017 11:09:21 UTC
All use subject to http://about.jstor.org/terms

creditors, and foreign investors, they are not more accountable to them than they were in the 1980s.

It is not certain that more than a decade of reforms has fundamentally changed the political elite or state-society relations. A perusal of Middle East Watch reports, Amnesty International reports, or the results of elections in Egypt, Algeria, and Tunisia shows that in the 1990s a reinvigorated authoritarianism emerged. The military, the *mukhabarat* (intelligence services), and high-ranking state cadres have remained key political actors since the various riots that sparked the structural reform programs. Their accountability to the general public, the political opposition, and the business elite has not significantly increased. Morocco has been a promising exception to some of these trends, but the *Makhzen* (the King and his political entourage) and its allies are hardly out of the picture. Although governing coalitions have been reshuffled, with the ousting of some old guard leaders and the entrance of young, Western-oriented technocrats, regimes are intact.[16]

What is striking in North Africa is how many government elites have converted from the gospel of *dirigisme* to liberalism. They may just be joining a worldwide bandwagon; there really is no viable ideological alternative. Perhaps they have surrendered, not out of conviction, but as a survival strategy in the face of resource crunches. More likely, they increasingly view economic reform as an opportunity to consolidate a reconfigured ruling elite. Regimes have been quite adept at maintaining patronage coalitions and determining the mechanisms by which public and external resources are divvied up. The more they "deregulate," the more they "re-regulate" by determining precisely who can most easily benefit from change and join distributional coalitions to tap profits in the market.

THE IMPORTANCE OF RESOURCE INFLOWS

An examination of changes in externally-derived capital inflows helps explain why reforms have not substantially undermined states, taken away resources, or forced political elites to become more accountable to civil society. All of the North African states have traditionally been dependent on a combination of mineral exports, aid, remittances, concessional loans, foreign investment, and other "rents" to finance budgets and maintain patronage networks. Often overlooked are the magnitude of investments in the hydrocarbon sector and the disproportionate weight of mineral exports in total exports from the region. Governments have continued to cut the domestic private sector out of the mineral sector. During reform, state enterprises have formed joint ventures with multinationals to increase the extractive and export potential of minerals. Maintenance of state "rentierness" is quite compatible with more foreign direct investment (FDI) in hydrocarbons and phosphates, since FDI partly mitigates the state's need to turn to direct and indirect taxation and helps counteract the projected fall in customs revenues from progressive trade liberalization.

16. For an examination of some of the "new guard" technocrats, see Guilain P. Denoeux and Abdeslam Maghraoui, "The Political Economy of Structural Adjustment in Morocco," in Azzedine Layachi, ed., *Economic Crisis and Political Change in North Africa* (Westport, CT: Praeger Publishers, 1998), pp. 55–88; Ghazi Hidouci, *Algérie: la libération inachevée* (Algeria: the Unfinished Liberation) (Paris: La Découverte, 1995).

This content downloaded from 212.175.18.234 on Tue, 13 Jun 2017 11:09:21 UTC
All use subject to http://about.jstor.org/terms

Algeria is the extreme case. Its near total dependence on oil exports has remained unchanged since the late 1980s. If anything, structural adjustment has been accompanied by an aggressive government attempt to bolster oil and gas exports through joint ventures and exploration and production sharing agreements with foreign partners.[17] Between 1993 and 1999, well over half of all government revenues came from petroleum exports, and the contribution of hydrocarbons to overall GDP rose from 21.5% to 28.2%.[18] Sonatrach, the state petroleum company, estimated in 1997 that by 2002 almost $19 billion would be invested in hydrocarbons in partnership with foreign multinationals. These trends are hardly likely to make the military-bureaucratic regime more accountable to domestic forces.

A large proportion of Egypt's net foreign direct investment of $2.7 billion for 1992–1995 was in the energy sector.[19] Trade statistics for the 1990s indicate that rising exports of manufactures and services have greatly reduced the importance of hydrocarbon exports. But according to Alexander Yeats, data on Egypt's petroleum exports are misleading: "Egypt has departed from established UN practices and does not include petroleum produced and exported by foreign firms in its official trade statistics. Exclusion of these shipments causes Egypt's annual exports to be under-reported by some $1 to $1.5 billion."[20] For the period 1990–1992, petroleum exports accounted for 43.8% of total merchandise exports, but if petroleum exports by foreign firms were included, the percentage would be somewhere between 57% and 79%. From 1987 to 1995, a period when world hydrocarbon prices were depressed, Egypt's annual oil and gas rent — defined as the value of production minus costs of production and normal returns on capital — varied between $3 and $5 billion.[21] By 1995 this considerable government-controlled rent equalled 8% of GDP.

Morocco and Tunisia are not major oil producers, but mineral exports are still important. In Morocco, exports of phosphates and phosphate derivatives reached 18.3% of total exports by 1999.[22] It has been alleged that King Hasan II personally received half of the profits of the Office Chérifien des Phosphates, the state monopoly phosphate enterprise.[23] Reflecting the rapid rise of manufacturing exports from 1986–1991, Tunisian exports of petroleum and phosphates as a proportion of total exports fell from 42% to

17. See John Entelis, "Sonatrach: The Political Economy of an Algerian State Institution," *Middle East Journal*, Vol. 53 (Winter 1999), pp. 9–27; Karim Nashashibi et al, *Algeria: Stabilization and Transition to the Market*, Occasional Paper 165 (Washington, DC: International Monetary Fund, 1998).

18. *Algeria: Selected Issues and Statistical Appendix*, IMF Staff Country Report No. 98/87 (Washington, DC: International Monetary Fund, 1998), p. 36; *Algeria: Recent Economic Developments*, IMF Staff Country Report No. 00/105 (Washington, DC: International Monetary Fund, 2000), p. 55.

19. *Egypt in the Global Economy: Strategic Choices for Savings, Investments, and Long-Term Growth* (Washington, D.C.: The World Bank, 1998), p. 76.

20. Alexander Yeats, "Exports Prospects of Middle Eastern Countries: A Post-Uruguay Round Analysis," in Raed Safadi, ed, *Opening Doors to the World: A New Trade Agenda for the Middle East* (Cairo: The American University in Cairo Press, 1998), pp. 122–123.

21. *Egypt in the Global Economy*, p. 42.

22. Calculated from "Opérations avec l'extérieur." (Transactions with Other Countries) www.statistic.gov.ma/Operatio.htm [December 10, 2000].

23. Moumen Diouri, *A qui appartient le Maroc?* (To Whom Does Morocco Belong?) (Paris: L'Harmattan, 1992), p. 221. For the period 1998–2002, the Office Chérifien des Phosphates anticipated new investments worth $926 million. See *Marchés Tropicaux et Méditerranéens*, 16 January 1998, p. 108.

This content downloaded from 212.175.18.234 on Tue, 13 Jun 2017 11:09:21 UTC
All use subject to http://about.jstor.org/terms

26%. While by 1998 Tunisia's energy exports had fallen to 6.4% of total exports, exports of phosphates and phosphate derivatives equalled 13.5% of total exports.[24] Despite this relative mineral export decline, the Tunisian government has made a concerted effort to bolster its own rent by encouraging foreign investment in the energy sector. Mohamed Ghannouchi, former Minister of International Cooperation and Foreign Investment, admitted that 75% of all foreign investment from 1990 to 1994 was in the oil and gas sector, while only 10.5% was in tourism and manufacturing.[25] By 1995 about 87% of FDI was in the energy sector.[26] As a result, gas production rose dramatically from 1994 to 1998.

North African governments are increasingly discovering that foreign direct investment is a non-threatening source of manna. Foreign investors need to cooperate with state officials if they want the special entitlements that will allow their investments to reach fruition. State elites and their allies often get a significant slice of the profits of foreign investment, particularly when it is channeled through joint ventures with public enterprises.[27] The increasing trend toward foreign investments of the build-operate-transfer (BOT) type in power generation, telecommunications, and transportation promises to relieve North African governments of some infrastructure spending and return resources to state control or state-determined control in the future.

Foreign direct investment and portfolio investment do have a price, since their managers place high demands for market transparency. "Information-shy" regimes in North Africa want to bolster capital inflows, but they prefer to do so in a way that minimizes their need to divulge basic information about government operations, patronage networks, and market risks. They thus tend to be attracted to commercial bank lenders, official creditors, and bondholders who generally are less information-demanding, or who are at least willing to maintain confidentiality regarding government-provided data.[28] Algeria, the most information-shy of all, has gotten its only significant net resource flows from banks and official creditors. Although all the states except Algeria since the mid-1990s have sought international investor rating in order to raise money through bonds, only Tunisia has had much success — nearly $1 billion raised through international bond issues from 1992 to 1997. By contrast, Egypt has focused on FDI, netting $6.4 billion from 1990 to 1998, and more recently portfolio investment, netting some $3.5

24. *Tunisia: Recent Economic Developments*, IMF Staff Country Report No. 00/37 (Washington, DC: International Monetary Fund, 2000), p. 71.

25. Emma C. Murphy, *Economic and Political Change in Tunisia: From Bourguiba to Ben Ali* (New York: St. Martin's Press, 1999), p. 140.

26. Tunisia's overall net foreign direct investment started at just $61 million in 1988 and reached $562 million in 1993. From 1994 to 1998, net FDI amounted to $2 billion, a proportion of which came from privatization receipts. See *Global Development Finance 2000 CD-ROM* (Vol. 2, Country Tables), (Washington, DC: The World Bank, 2000), p. 554.

27. Some of the private FDI in the MENA may actually be the money of domestic businessmen with foreign holdings or of government officials and allies who set up dummy foreign companies and take advantage of insider knowledge about privatization or government contracting opportunities. See Henry, *Challenges of Global Capital Markets*, pp. 8, 15, and 41.

28. Henry, *Challenges of Global Capital Markets*.

This content downloaded from 212.175.18.234 on Tue, 13 Jun 2017 11:09:21 UTC
All use subject to http://about.jstor.org/terms

billion from 1996 to 1998. In a similar thrust, Morocco netted $4.1 billion of FDI from 1990 to 1998 and $850 million from portfolio investment.[29]

Since the launching of reform programs, commercial banks and official creditors have channeled important resources to governments, although the process of obtaining these resources has been contentious. Since 1983, Morocco has signed eight agreements with the IMF, and has rescheduled debt several times with the Paris and London Clubs. Tunisia's 1986 standby agreement with the IMF has been followed by new infusions of capital from World Bank loans and low-interest European finance. Algeria has been most resistant to the IMF, but its 1994 and 1995 agreements paved the way for Paris and London Club debt rescheduling that saved the military regime. Of some $20 billion in foreign credits received from 1994 to 1998, perhaps 25% went to the Army and security services.[30] Much of the financial relief provided by the IMF was eaten up by imports, debt repayments, higher salaries, and fighting the civil war.[31] Egypt's 1987 IMF standby agreement had failed by 1988 and the IMF cut off further credits. In 1990 the government started another reform program, backed up with a 1991 stand-by agreement with the IMF and a World Bank loan. The Paris Club wrote off half of Egypt's debt over several years, relieving the state of the burden of repaying the foreign assistance that had gone through government bodies.[32] The third segment of debt relief of $4 billion was approved in late 1996, as the new Prime Minister Kamal al-Ganzouri got serious about privatization, fiscal reform, and trade liberalization.

The conditionality associated with these multilateral credits and debt reschedulings has forced governments to undertake painful macroeconomic reforms and has constrained political elites. Nevertheless, the "strings" attached have not fundamentally changed economies or the autonomy of the state in them. Pressures for legal changes, deregulation, and institution-building have frequently been resisted or rechannelled. There have been obvious limits to resistance, as negotiations with creditors and multilateral institutions have demonstrated. However, the bottom line is that governments still control or strongly influence the allocation of many externally-derived resources, which does not necessarily lead to bolstering the private sector, efficiency, or transparency.

Finally, the European Union has been an important source of multilateral credit, and especially since 1995 has been enticing southern Mediterranean regimes to reduce tariffs with the promise of substantially higher EU credits to offset lost customs revenues.[33] From

29. *Global Development Finance: Country Tables* (Washington, D.C.: The World Bank, 1999), pp. 204, 308; *Global Development Finance 2000* (Vol. 2, Country Tables), pp. 214, 394.

30. Fatiha Talahite, "La corruption: le prix de la contre-réforme," (Corruption: The Price of Counter-Reform) *Libre Algérie*, No. 5 (November 9–22, 1998).

31. Hélène Bravin, "L'inquiétante détérioration de la situation économique en Algérie," (The Disquieting Deterioration of the Economic Situation in Algeria) *Confluences Méditerranée*, No. 21 (Spring 1997), pp 95–96.

32. Robert Springborg, "Egypt," in Tim Niblock and Emma Murphy, eds., *Economic and Political Liberalization in the Middle East* (London: British Academic Press, 1993), p. 154.

33. At the end of the 12-year phase in of the Euro-Mediterranean free trade area, the Moroccan government may lose 13% of budgetary revenues as it loses almost two-thirds of customs duties. See Bachir Hamdouch, "The Free Trade Area Between Morocco and the European Union," in Raed Safadi, ed, *Opening Doors to the World: A New Trade Agenda for the Middle East* (Cairo: The American University in Cairo Press, 1998), p. 325. Tunisia's dismantling of tariffs may cost it 18% of budgetary receipts, an amount equal to more

This content downloaded from 212.175.18.234 on Tue, 13 Jun 2017 11:09:21 UTC
All use subject to http://about.jstor.org/terms

1986 to 1995, the EU committed ECU 3 billion[34] to Egypt, Tunisia, Morocco and Algeria, 47% of which was in the form of grants.[35] For the period 1995–1999, the EU formally pledged ECU 4.7 billion to all Mediterranean states, ECU 3.48 billion of which was to be channeled through a new MEDA[36] program to support economic restructuring and development projects. The EU also promised an equal amount of concessionary loans through the European Investment Bank (EIB). Between 1995 and 1999, Egypt received only €157 million (Euros) in actual payments from MEDA funds, while the Maghreb received €325 million.[37] In addition, the EIB financed projects in the four countries worth ECU 1.04 billion in 1996 and 1997 and €1.22 billion in 1998 and 1999.[38] In Tunisia alone, some 2,000 firms are supposed to receive funds to improve quality and efficiency.[39] For the period 2000–2006, the EU has proposed a MEDA II program in which some €5.35 billion will be granted to southern Mediterranean states, to be matched by loans from the EIB worth €7.4 billion over the period 2000–2007.

These funds and overall EU credits to North Africa are designed to bolster private enterprises and support privatization. However, only a relatively small percentage of EU aid is destined for private companies, and it is North African governments that will determine the actual beneficiaries. The bulk of EU aid is going to public enterprise restructuring, public administration upgrading, and new public infrastructure projects. State-centered distribution mechanisms for these massive funds that are mostly going to public entities will likely allow existing North African regimes to reinforce political patronage and keep the private sector in a dependent position. Inflows tied to economic reform programs have reinforced regimes, not weakened them.

---

than 5% of GDP. See Jacques Ould Aoudia, "Les enjeux économiques de la nouvelle politique méditerranéenne de l'Europe." (The Economic Stakes of Europe's New Mediterranean Politics) *Monde arabe – Maghreb Machrek*, No. 153 (June-September 1996), p. 38.

34. From 1986 to the end of 1998, the exchange rate of the ECU against the US dollar mostly fluctuated in the range of 1 ECU = $1-$1.4. When the Euro was introduced on January 1, 1999, its value was set at 1 Euro = 1 ECU. The euro's initial value against the US dollar was 1 Euro = $1.18. By January 1, 2001, it had depreciated to a rate of 1 Euro = $0.95.

35. "Evaluation of Aspects of EU Development Aid to the MED Region." www.euromed.net/documents/report/report-71.htm [December 6, 1999].

36. The acronym MEDA's original reference may have been "Mediterranean Assistance," but it is not spelled out in official EU documents. It is simply referred to as MEDA or the MEDA Program. However, MEDA's authorizing regulation defines MEDA as "Financial and technical measures to accompany reforms to the economic and social structures in the Mediterranean non-member countries." That is the only "official" definition that seems to exist.

37. "Annual Report of the MEDA Programme 1999," http://europa.eu.int/comm/external_relations/med_mideast/euro_med_partnership/meda/report1999_en.pdf [January 15, 2001].

38. Calculated from European Investment Bank, "Euro-Mediterranean Partnership Countries: EUR 802 million of finance contracts signed in 1999." www.eib.org/loans/a99med.htm [December 20, 2000]; "Activities in Mediterranean Countries in 1998." www.eib.org/loans/a98med.htm [December 6, 1999]; "Mediterranean: list of finance contracts signed in 1997." www.eib.org/loans/lc97med.htm [December 6, 1999]; "Country-by-country overview of financing outside the European Union in 1996." www.eib.org/loans/cbcneu96.htm [December 6, 1999].

39. By early 1999, 462 companies had been allotted funds as part of the *mise à niveau* (industrial upgrading) program. See *Tunisia: Recent Economic Developments*, p. 14. Financial commitments to Tunisia's *mise à niveau* program in its entirety from the government, EU, and World Bank for 1996–2000 totaled $2.5 billion. See Murphy, *Economic and Political Change in Tunisia*, p. 148.

This content downloaded from 212.175.18.234 on Tue, 13 Jun 2017 11:09:21 UTC
All use subject to http://about.jstor.org/terms

THE PARADOXES OF PRIVATIZATION

The North African experience suggests that privatization does not necessarily take away state resources, reduce the role of the state in managing the economy, or bolster competition. Formal privatization was still in its infancy until 1996. The delayed programs have not dramatically reduced the public sector or its large workforce. Selective privatization has reconfigured and consolidated state control over strategic resources. It has been associated with massive transfers of funds to public enterprises through "cleanup" programs and debt consolidation. The bulk of privatized assets have been light industries, cement and construction material producers, services, transport, hotels, and tourist facilities. Mostly off of the privatization lists, until quite recently, have been major government sources of rent, monopolistic profits, and information: heavy industries, banks, insurance companies, hydrocarbon and phosphate industries, airlines, the Suez canal, railways, and telecommunications. The privatization process has often not been centralized and transparent, and often buying has been restricted to privileged groups of domestic and foreign actors. State elites, officers, and allies have also enriched themselves through the privatization of lucrative import activities.

Privatization has rarely been a 100% affair. States have sought to preserve strategic shares in companies that are administratively labeled private. In many cases, public holding companies have been created as an intermediate step toward privatization. Granted the same legal status as private companies, they are still subject to government interference. The holding companies sort out profit-making from profit-losing public enterprises, often set up joint ventures with multinationals, and often recapitalize companies to make them more attractive to buyers. Many joint ventures with multinationals provide holding companies with new technology, capital and access to foreign markets. The process does not get rid of state ownership, but continually shifts and redefines the boundaries between public and private.[40] More information is divulged to private partners, but the new mixed capital firms can be just as rent-seeking and market contorting as their predecessors. It is not clear that pressures for accountability necessarily increase.

North Africa has seen a messy mix of privatization methods with different implications for distributional coalitions: partial sales; sales to anchor investors; public offerings in the stock market; contracting-out of services; worker buyouts; and liquidations.[41] It is frequently difficult to determine the number of companies privatized, the true value of privatized assets, and the identity of purchasers and beneficiaries.

Although Morocco did not start serious privatization until 1993, it has been one of the most successful privatizers. It already had a well-developed and organized business class. The stock market and the liberalized banking system have provided institutional

40. Giacomo Luciani, "Privatization as a Policy for Development," in Heba Handoussa, ed., *Economic Transition in the Middle East: Global Challenges and Adjustment Strategies* (Cairo: The American University in Cairo Press, 1997), p. 118).

41. See Nazih Ayoubi, "Etatisme Versus Privatization: The Changing Economic Role of the State in Nine Arab Countries," in Heba Handoussa, *Economic Transition in the Middle East*, pp.127–128.

This content downloaded from 212.175.18.234 on Tue, 13 Jun 2017 11:09:21 UTC
All use subject to http://about.jstor.org/terms

support for the process. The public sector is proportionally smaller and less entrenched politically. The government's discourse and record on privatization has been credible to domestic and international investors. From 1993 to 1998, privatization had garnered $1.9 billion for the government.[42]

From the beginning of the *infitah* (economic opening) in 1974 until 1990, the Egyptian government resorted mostly to contracting out to private companies, despite instances of total sell-offs and joint ventures. Between 1991 and 1993, more than 1,500 small public companies at the local level were sold. Law 203 of 1991 made some 300 public holding companies and affiliates, along with some 200 mixed companies, subject to private law and commercial management. From 1993 to 1998, Egypt's privatization amounted to $3.3 billion.[43] However, the majority of the proceeds were used to restructure and reinvest in state enterprises or fill state bank coffers; none of the proceeds was used to reduce government debt.[44] Egyptian privatization could be seen as a self-interested state strategy, involving not so much deregulation as re-regulation of the public sector.[45]

Remarkably, Tunisia has been the least amenable to privatization, selling about $950 million in public assets from 1987 to 1998, almost half of which came from two cement factory sales in 1998.[46] Algeria's formal privatization program until 1998 was minuscule, but *de facto* privatization in the 1980s and early 1990s was widespread as the government dismantled socialist farms, abandoned fruit and vegetable trading, sold off public real estate, pulled out of retailing, and liberalized importing.[47] In a corrupt frenzy in 1996–1997, the government sold off or liquidated most of its 1,000 local public enterprises. It then slated enterprises worth more than $2 billion for sale, yet by the end of 1999 not a single majority privatization had occurred.[48] The weak Algerian business class was alienated from the inept reform effort, standing to gain much less than senior cadres and officers-turned-entrepreneurs.

Several important observations can be made of the privatization processes. First, privatization in a protected market does not necessarily increase competition; absent competition legislation, it is more likely to result in "a series of privately-owned monopolies which need to be neither responsive, low-cost nor dynamic."[49] In most of North Africa, competition legislation has been delayed or unenforced, and privatized assets have often been sold below market value to small groups of investors, increasing their oligarchic control of markets. Engaging the market this way has less to do with generating efficiency than picking winners and losers.

42. *Global Development Finance 2000 CD-ROM* (Vol. 1, Analysis Text). In 1999, sale of a GSM mobile phone license to a foreign buyer brought in $1.1 billion of privatization revenues that are also factored into the FDI figure.

43. *Global Development Finance 2000.*

44. *Egypt in the Global Economy*, p. 24.

45. Ayoubi, "Etatisme Versus Privatization," p. 130.

46. *Marchés Tropicaux et Méditerranéens*, (Paris) November 27, 1998, p. 2486.

47. Bradford Dillman, *State and Private Sector in Algeria: The Politics of Rent Seeking and Failed Development* (Boulder: Westview Press, 2000).

48. Dillman, *State and Private Sector in Algeria*, pp.82–83.

49. Paul Stevens, "The Practical Record and Prospects of Privatization Programmes in the Arab World," in Niblock and Murphy, eds., *Economic and Political Liberalization in the Middle East*, pp. 123–124.

This content downloaded from 212.175.18.234 on Tue, 13 Jun 2017 11:09:21 UTC
All use subject to http://about.jstor.org/terms

Second, privatization has not uniformly taken resources away from government control. It has relieved pressure on the budget to cover operating losses and capital expenditures; provided one-time income from sale; and increased the corporate tax base. In Morocco, "personalization" of the public sector masquerading as privatization has directly benefited the Royal family and entrepreneurs affiliated with it.[50] A number of privatized firms after 1980 were purchased by Omnium Nord Africain (ONA), a holding company in which King Hasan II had a significant stake. By 1988, ONA was the third largest enterprise in Africa, controlling a large proportion of the market in many sectors by buying up public, private and foreign companies.

Third, privatization has not significantly reduced state domination of banking. State banks still provide the bulk of investment credits to enterprises. Throughout North Africa, lack of strong commercial legislation and effective disclosure regulations for financial markets has enabled collusive behavior. While the Tunisian government has defied World Bank wishes by pursuing an incremental strategy of selling shares in public banks, but maintaining control of their management as a majority (or even minority) shareholder, it began to implement banking reforms in the late 1990s designed to restructure bad loans to public enterprises and merge several banks. Still, state banks control 50% of total bank assets. By the late 1990s, Egypt's four main state banks controlled 70% of the country's loan portfolio. Not knowing the level of capitalization of these banks, the World Bank was fearful that profits were being used for recapitalization of the public sector, essentially repeating the cycle of squandering resources on more bad loans.[51] Algeria's banks sustained this vicious cycle from 1991 to 1997 when a massive amount of money was channeled to state commercial banks, the majority of whose assets were non-performing.[52] Hundreds of billions of dinars were used to recapitalize banks, cover foreign exchange losses, and swap government bonds for bad loans to public enterprises. In effect, financial restructuring saved inefficient state banks, kept state enterprises on the dole, and failed to foster a private banking system. By the end of 1999, Algeria's public banks held an estimated 95% of the total assets and deposits in the banking sector.[53]

Fourth, although a limited amount of privatization has been carried out through stock market offerings, the performance of stock markets is hardly a good indicator of greater openness or private-sector strength. By 1995, stock market capitalization had reached 22% of GDP in Tunisia, 14% in Morocco, and 17% in Egypt.[54] Most of the stock markets were driven up by regime insiders and allies who earned windfalls by straddling the public and private spheres in this early stage of capital market formation when enormous market

50. Jeffrey Coupe, "Courting His Majesty: USAID in King Hassan's Morocco," *Middle East Policy*, Vol. 5 (January 1997), pp. 163–164.
51. *Egypt in the Global Economy*, p. 18.
52. Nashashibi et al., *Algeria: Stabilization and Transition to the Market*, p. 38.
53. *Algeria: Recent Economic Developments*, p. 37.
54. Algeria's embryonic stock market only started functioning in 1999.

This content downloaded from 212.175.18.234 on Tue, 13 Jun 2017 11:09:21 UTC
All use subject to http://about.jstor.org/terms

inhibitors and oligopolies still existed.[55] All three North African stock markets have suffered large corrections since 1995.[56]

Finally, privatization is intimately associated with the rise of informal markets, especially in Egypt and Algeria where they encompass some one-third of economic activity.[57] Often with the connivance of government officials, illegal activities like black-market currency exchange, unregulated importing, unlicensed manufacturing, influence peddling, and racketeering have allowed small groups of "entrepreneurs" to avoid regulation and personalize public resources. "Profiteers of the old regimes"[58] in the region have used the money they gained while in government during the early stages of economic liberalization to buy privatized state companies. Algeria's often-derided "political-administrative mafia," which now controls much of the economy, is also a key outgrowth of partial reform.[59] Since 1987, a number of families in Tunisia with close personal relations with President Zine El Ábdine Ben 'Ali have reputedly been involved in illegal economic activities.[60] In Morocco, some 30 large families tied personally to King Hasan were said to be the chief beneficiaries of liberalization in the late 1980s.[61] Moreover, cannabis and hashish have become the country's most valuable export items, bringing in an estimated $3 billion a year. This important "private sector" activity in which high public officials are accused of being involved has thrived in the free market environment into which Morocco has thrown itself.

THE PRIVATE SECTOR'S ADJUSTMENT TO STRUCTURAL ADJUSTMENT

Historically, all of the regimes in the region, except Algeria's, had fostered private-sector coalitions in the 1970s and early 1980s that could be built upon when serious reforms started in the late 1980s. For example, in Morocco the Makhzen had

55. For example, Tunisia's stock market shares and trading have mostly been controlled by a "tightly-knit oligopoly dominated by financially fragile public sector banks." See Henry, *Challenges of Global Capital Markets*, p. 24.

56. For example, Tunisia's ratio of capitalization to GDP plunged to just 11% by 1998. See Banque Centrale de Tunisie, "Les Comptes de la Nation" (The Accounts of the Nation) www.bct.gov.tn/francais/indicateurs/comptes.html [December 6, 1999]. Between 1998 and October 2000, Morocco's stock market capitalization fell by some 15%. See www.statistic.gov.ma/indimar51.htm [December 13, 2000]; www.statistic.gov.ma/bourse [December 13, 2000]. Although Egyptian stock market returns fell sharply in 1995 and 2000, market capitalization rose to 35% of GDP at the end of 2000. See Arab Republic of Egypt, Ministry of the Economy, "The Monthly Economic Digest." www.economy.gov.eg/English/monthly/7a_StockInd.htm [February 10, 2001].

57. See Omar Steel, "La conversion au marché en Egypte et en Algérie: Un ajustement par l'informel?" (The Conversion to the Market in Egypt and in Algeria: an Adjustment through the Informal?) *Les cahiers de l'Orient* (1st Quarter 1997), pp. 45–64.

58. The term comes from Zartman, "The State on a Tightrope," p. 239.

59. For more about the spread of corruption in Algeria, see Dillman, *State and Private Sector in Algeria*; Hidouci, *Algérie: la libération inachevée* (Algeria: the Unfinished Liberation); Djillali Hadjadj, *Corruption et démocratie en Algérie* (Corruption and Democracy in Algeria) (Paris: La Dispute, 1999); and Rachid Tlemcani, *Etat, Bazar, et Globalisation: L'Aventure de l'Infitah en Algérie* (State, Bazaar, and Globilization: The Infitah Experience in Algeria) (Algiers: Les Editions El Hikma, 1999).

60. See Nicolas Beau and Jean-Pierre Tuquoi, *Notre ami Ben Ali: l'envers du 'miracle tunisien' (Our Friend Ben Ali: The Other Side of the "Tunisian Miracle")* (Paris: La Découverte, 1999), pp. 152–157.

61. Diouri, *A qui appartient le Maroc* (To Whom Does Morocco Belong?), p. 171.

This content downloaded from 212.175.18.234 on Tue, 13 Jun 2017 11:09:21 UTC
All use subject to http://about.jstor.org/terms

developed a commercial, industrial, and agricultural bourgeoisie with tariff protection, subsidies, credits, contracts with public enterprises, and access to public markets. Egypt's *infitah* in the 1970s saw the "emergence of a class of nouveaux riches engaged in import trade, real estate speculation and various forms of arbitrage favoured by a transitional regulatory system between state control and free markets that offered many remunerative opportunities."[62] Large manufacturers who are already relatively competitive or who have licensing agreements with foreign partners have been mostly favorable to reform, as have young entrepreneurs who see opportunities for windfall profits in new niches like telecommunications, tourism, and services. In Tunisia, for example, orthodox reform and technocratic competence bolstered support for Ben 'Ali's team among joint-venture participants and exporters of agricultural items and manufactured goods. The large "*infitah* bourgeoisie" in Egypt, using ties with political elites to speculate and benefit from the disarray in the administration and public sector, has supported reforms of the "open-door" variety.[63]

Despite the existence of some reform supporters in North Africa's private sector by the late 1980s, liberal economic policies have often been viewed with apprehension, if not hostility, by many businessmen who believe that domestic legal changes will hurt their companies.[64] Perceptions of threat and opportunity by businessmen vary on the basis of their ties to political elites, access to capital, and the size of their companies. Many large manufacturers fear increased competition. Small and medium-sized manufacturers, especially in the informal sector, fear tariff reductions under the Euro-Mediterranean Partnership because they cannot compete with European companies.[65] Many believe that reform of state administration will translate into higher taxes. Since the "retreat of the state" began in the early 1980s, a number of small retailers and manufacturers have supported Islamist movements like the Islamic Salvation Front in Algeria and the Muslim Brotherhood in Egypt which pledge to fight corruption, respect private property, and reduce Western economic penetration.

How businessmen "adjust" to structural adjustment also depends on professional organizations in their country. Morocco's Confédération Générale Économique Marocaine (CGEM) has a long existence of autonomy, but functions as a loyal partner of the

62. Weiss and Wurzel, *The Economics and Politics of Transition*, p. 30. For a detailed examination of the entrepreneurial classes that emerged from Egypt's *infitah*, see Eric Gobe, *Les hommes d'affaires égyptiens: Démocratisation et secteur privé dans l'Egypte de l'infitah* (Egyptian Businessmen: Democratization and the Private Sector in Egypt's Infitah) (Paris: Editions Karthala, 1999).

63. See Gobe, *Les hommes d'affaires égyptiens*, pp. 34–35.

64. For example, in the first phase of Tunisia's restructuring in 1987–1988, an estimated 1,100 private firms shut down or went bankrupt. Ayoubi, "Etatisme Versus Privatization," p. 138. Rather than full liberalization, the aim of entrepreneurs is often selective liberalization, a "process of establishing semi-private bargains between regime elites and a limited set of private sector investors." See Steven Heydemann, "Taxation without Representation: Authoritarianism and Economic Reform in Syria," in Ellis Goldberg et al, eds., *Rules and Rights in the Middle East: Democracy, Law, and Society* (Seattle: University of Washington Press, 1993), p. 81.

65. An estimated 30% of Tunisian enterprises are at risk from the creation of a free trade zone, and the vast majority will be unable to withstand foreign competition without government assistance. Similarly, Moroccan officials estimate that 40% of Moroccan manufacturers will be competitive under the EuroMed free trade agreement; 20% could be competitive with help; but the other 40% would likely remain non-competitive. Hamdouch, "The Free Trade Area," p. 326.

This content downloaded from 212.175.18.234 on Tue, 13 Jun 2017 11:09:21 UTC
All use subject to http://about.jstor.org/terms

King, as do the regional Chambers of Commerce who are represented in the Assembly of Councillors. Although flexing its muscles in the face of a 1996 anti-corruption campaign by reaching a gentlemen's agreement with the government to give companies more time to straighten out their books, CGEM still cannot serve as counterbalance to the state apparatus.[66] The Egyptian Businessmen's Association and the Federation of Egyptian Industries have become more capable of presenting collective demands, but are still less critical to the regime than the public sector and the bureaucracy. Tunisia's Union Tunisienne de l'Industrie, du Commerce, et de l'Artisanat (UTICA) has been dominated by the state, occasionally expressing its concerns publicly as in 1988 against tax reforms and in 1993 against parts of a new investment code. As elsewhere in the region, mostly small, familial companies in Tunisia, even though now better represented in chambers of commerce, cannot easily engage in collective action.[67] Algeria's *patronat* is fragmented. The Chambers of Commerce have been controlled by state allies, while the Confédération Algérienne du Patronat (CAP) and the Confédération Générale des Opérateurs Economiques Algériens (CGEA) have harshly criticized the government for abandoning textiles, maintaining state monopolies, and mismanaging the economy.

Regimes continue to manage professional associations through a mix of threats and inducements. Loyalty can be quite rewarding. Ben 'Ali has selectively coopted Tunisian businessmen with restructuring credits, awards to employers, more media exposure, consultations, and cabinet posts.[68] King Hasan channeled reform benefits to large capitalists and rural notables. Regimes set up investment promotion bodies like Tunisia's Agence de Promotion de l'Industrie (API), Egypt's General Authority for Investment and Free Zones (GAFI), Morocco's Export Promotion Center (CMPE), and Algeria's Agence de Promotion de Soutien et de Suivi des Investissements (APSI) selectively to reward businessmen who jumped on the reform bandwagon. Gradual but uneven trade liberalization since the mid-1980s has allowed governments selectively to prolong protection to key sectors.[69]

Voice remains a risky strategy for North African businessmen. Those who seek to challenge the state apparatus face potential sanctions. Tunisian industrialists cannot confront the state because their profits are still "hostage to state largesse," and

66. Michel Laurent and Guilain Denoeux, "Campagne d'assainissement au Maroc: Immunisation du politique et contamination de la justice," (The Clean-up Campaign in Morocco: Immunization of Politics and Contamination of Justice) *Monde arabe – Maghreb Machrek*, No. 154 (October-December 1996), p. 133.

67. Robert J. King, "The Political Logic of Economic Reform in Tunisia," in Azzedine Layachi, ed., *Economic Crisis and Political Change in North Africa* (Westport, CT: Praeger Publishers, 1998), p. 120.

68. See Jean-Pierre Cassarino, "The EU-Tunisian Association Agreement and Tunisia's Structural Adjustment Program," *Middle East Journal*, Vol. 53, No. 1 (Winter 1999), pp. 59–74.

69. For example, in the early 1990s the Tunisian government used provisional duties to protect cooperative domestic manufacturers. See Mohamed Hedi Lahloul, "Competition Policies and Deregulation in Tunisia," in Nemat Shafik, ed., *Economic Challenges Facing Middle Eastern and North African Countries: Alternative Futures*, (New York: St. Martin's Press, 1998), pp. 30–33. In 1998, the Algerian government re-protected domestic manufacturers by imposing import reference prices on 200 products accounting for 10% of imports. Piritta Sorsa, *Algeria - The Real Exchange Rate, Export Diversification, and Trade Protection*, IMF Working Paper WP/99/49 (Washington, DC: International Monetary Fund, 1999), p. 12.

This content downloaded from 212.175.18.234 on Tue, 13 Jun 2017 11:09:21 UTC
All use subject to http://about.jstor.org/terms

recalcitrance brings punishment.[70] Morocco initiated an anti-corruption campaign against selected companies and public officials in 1996. Algeria launched a cleanup of the Commercial Register in 1997. Partly as a result, businessmen have not been in the vanguard of movements calling for political pluralism and government accountability. They have not become more autonomous, and economic reform has proceeded through reinforced authoritarianism in every state except Morocco.[71] In the early stages of structural adjustment, breaking down corporatist structures in places like Egypt, Tunisia and Algeria necessitated political liberalization, but as "deepening" follow-up measures were instituted and social resistance rose, regimes turned back to repression.[72] A contraction of external rents did not lead to a Boston Tea Party phenomenon. Regimes have turned not so much to direct taxes on incomes and wealth, but to indirect taxes, especially value-added taxes, which do not necessarily generate demands for performance accountability.

Economic reforms have not fundamentally altered the balance of power between the state and private sector. In Egypt, Algeria and Tunisia, former ministers and military officers have been integrated into the business elite, but few businessmen serve as government officials. The commercial bourgeoisie that has thrived under *infitah* has adapted to authoritarianism's legal insecurity and policy shifts, and it is cultivated by state officials precisely because of the opportunity for good "payoffs."[73] The industrial bourgeoisie that emerged from *infitah* experiments has been fragmented, heavy investment-shy, and patronage-dependent.[74] Ironically, private sector dependency on the state may actually have increased.[75] The more domestic and foreign actors invest, the more they need political stability. The more governments learn about market actors, the more they can extort from them. For example, recent *mise à niveau* programs require that companies open their books in exchange for government and EU assistance, making businessmen potentially more vulnerable to regulators and tax collectors. Business associations still cannot prevent the state from autonomously determining the winners and losers from reform via investment codes, tax codes, public procurement regulations, and pricing laws. State autonomy may eventually come under pressure from the progressive implementation of multilateral agreements, but North African regimes have shown a remarkable capacity to "domesticate" external threats to their preexisting rationality.

70. Eva Bellin, "Civil Society in Formation: Tunisia," in Richard Augustus Norton, ed., *Civil Society in the Middle East*, Vol. 1 (New York: E. J. Brill, 1995), pp. 134–135.

71. Eberhard Kienle, "Libre-échange contre libéralisation politique: partenariat et stabilité dans le bassin méditerranéen," (Free Trade Versus Political Liberalization , Partnership and Stability in the Mediterranean Basin). *Politique Etrangère* (1st Quarter 1998), pp. 51–67.

72. Murphy, *Economic and Political Change in Tunisia*, pp. 24, 31–32.

73. Volker Perthes, "The Private Sector, Economic Liberalization, and the Prospects of Democratization: The Case of Syria and Some Other Arab Countries," in Salamé, ed., *Democracy Without Democrats?*, p. 269.

74. Gobe, *Les hommes d'affaires égyptiens*.

75. See Jean-Pierre Cassarino, *Tunisian New Entrepreneurs and Their Past Experiences of Migration in Europe* (Aldershot: Ashgate Publishing, 2000), esp. Chapter 4.

This content downloaded from 212.175.18.234 on Tue, 13 Jun 2017 11:09:21 UTC
All use subject to http://about.jstor.org/terms

THE EXTENT OF CHANGE

How much has really changed after some 10 to 15 years of reform in North Africa? Although many policy reforms have been implemented, many of the structural characteristics of political and economic systems remain the same. None of the market-reforming regimes in Morocco, Tunisia, Algeria or Egypt has collapsed, nor have the basic features of political domination been altered in any of the countries. The policy elites that dominated the administered economies of the 1970s are to a large extent the same elites that are gradually dismantling it.[76] In some respects, structural reforms have increased the extractive and regulatory capacities of governments that are not accountable to representative legislatures. Morocco has made the greatest strides toward representative government, but it remains to be seen whether Prime Minister Abderrahmane Youssoufi can fundamentally change the nature of governance. Elsewhere, a sad legacy of violence and manipulated parliamentary elections since the 1980s has yet to give civil society any substantial role in economic policy-making.

Economically, a number of changes have taken place. The initial standard package of policy changes demanded by the IMF, the World Bank, the US, and the EU have been implemented: devaluation; price deregulation; cuts in government budget deficits; reduction of subsides; and higher interest rates. Except in Algeria, there has been a substantial rapid rise of non-oil exports (especially textiles) since the late 1980s. And domestic private investment has expanded rapidly, as has the middle class (mostly in Tunisia). As a result of these changes, Egypt, Tunisia, and Morocco have experienced impressive growth of GDP.[77] Despite these positive developments, many of the difficult adjustments by which the market will judge the credibility of governments still have not been implemented. Successful long-term growth will require the modification of tax systems, financial markets, the bureaucracy, commercial codes, investment laws, and a whole host of supplementary institutions.

Distorted incentive structures still exist throughout the region: comparatively high tariff and nontariff barriers; excessive regulation; monopolies; and uncertainty about government policies. Bureaucratic control is still important, as is domination. A significant concentration of foreign investment has been in sectors like energy that will create more state rent. Public enterprises are still major actors, and public investment remains significant.[78] States have cooperated more with foreign capital but important economic

76. This point is made about Egypt by Alain Roussillon, *L'Egypte et l'Algérie au péril de la liberalization* (Egypt and Algeria in Peril of Liberalization) (Cairo: CEDEJ, 1996), p. 104.

77. Real GDP growth rates from 1985 to 1989 were 0.8% in Algeria, 4.1% in Egypt, 4.8% in Morocco, and 2.4% in Tunisia. See *African Development Indicators 1998/99*, (Washington, D.C.: The World Bank, 1998), p. 17. Rates from 1990 to 1998 were 1.2% in Algeria, 4.2% in Egypt, 2.1% in Morocco, and 4.4% in Tunisia. See *Economic Trends in the MENA Region, 2000* (Chapter 1) (Cairo: Economic Research Forum, 2000), www.erf.org.eg/html/economic_00/html/appendix.html [December 16, 2000].

78. As late as 1998, 34 of the 50 largest Tunisian enterprises (based on annual turnover) were public enterprises. *Information Economique Africaine*, No. 289 (March 1999), p. 19. From 1992 to 1998, Tunisia's public sector was responsible for half of all investment in the economy and accounted for more than 20% of GDP. See "Privatisations à relancer," *Jeune Afrique/L'Intelligent*, No. 2063 (25–31 July 2000), pp. 60–61; *Tunisia: Recent Economic Developments*, p. 25. Egypt's public sector (including the government) accounted for

This content downloaded from 212.175.18.234 on Tue, 13 Jun 2017 11:09:21 UTC
All use subject to http://about.jstor.org/terms

niches are still not open to the private sector. Domestic private investment has concentrated in speculative sectors where transitional profits are high.[79] The vast majority of private companies remain internationally uncompetitive, family-owned, and risk-averse.

North Africa has yet to witness the emergence of economic or political liberalism. Except in Morocco, facing the market has not meant fostering political pluralism. During the opening up period since the 1980s, states have largely determined who gets to join distributional coalitions and which economic actors get access to profits in the market. Reform has been largely an elite affair, unlikely in the short run to foster great demands for transparency. Windfall gains from the stock market, import activities, real estate speculation, and banking deregulation have gone to early entrants who may not have an interest in speeding up a transition to accountable, competitive, open markets. And many private market actors are not responding to economic reform in ways that will increase long-term productivity or political accountability. Ultimately, how well North Africa copes with globalization will depend on: how political elites manage the private sector; whether a rule of law is generated by representative legislatures and enforced by the state; and whether existing ruling elites can continue to attract and control resource inflows. The challenges to regimes from the global market are likely to be greater in the coming decade. If regimes continue piecemeal reforms like those since the 1980s, it is unlikely North Africa will end up with truly free and competitive markets that can sustain rapid growth.



37% of total GDP in 1995/1996 and 34% of the total labor force. *Egypt: Beyond Stabilization, Toward a Dynamic Market Economy*, Occasional Paper No. 163 (Washington, D.C.: International Monetary Fund, 1998), p. 47. In Morocco from 1988 to 1996, the growth rate of government GDP was actually higher than that of market GDP. El-Waleed Hamour, "Economic Reform and Liberalisation and Economic Performance: The Moroccan Experience," *Journal of Economic Cooperation Among Islamic Countries* Vol. 19, No. 4 (1998), p. 153. Between 1987 and 1994, gross domestic credit to public enterprises as a percentage of GDP fell significantly in Algeria and Egypt, but remained almost unchanged in Tunisia and Morocco. *African Development Indicators 1998/99*, p. 270. However, from 1995 to 1999, Algeria's public sector absorbed more than 80% of all credits distributed to the economy (*Algeria: Recent Economic Developments*, p. 82). From 1993 to 1998, credit to the private sector as a percentage of GDP doubled in Egypt and Morocco but declined slightly in Tunisia and Algeria. See *Economic Trends in the MENA Region, 2000* (Chapter 2) (Cairo: Economic Research Forum, 2000), www.erf.org.eg/html/economic_00/html/table2_6.html [December 16, 2000].

79. For example, in Egypt a large proportion of private investment since 1987 has been in non-tradables — real estate, construction, trade, finance and insurance. In 1993/1994, 48% of all private investment was in non-tradables, an indication of Egypt's lack of competition in tradables and a limitation on future productivity growth. See *Egypt in the Global Economy*, pp. 11, 25. Similarly, in Morocco investment in machinery and equipment as a percentage of total investment fell from 46% in 1980 to 36% in 1995, while investment in construction rose from 32% to 40%. *Marchés Tropicaux et Méditerranéens*, February 13, 1998, p. 335.

This content downloaded from 212.175.18.234 on Tue, 13 Jun 2017 11:09:21 UTC
All use subject to http://about.jstor.org/terms