

Transitions in the Middle East

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It is fashionable to talk about transitions in terms of moving into the 21st Century. This scarcely, however, applies to the Middle East. Most of the people in the region are moving toward the year 1,500, while many of the rest are moving towards the year 5600. The Middle East has good reason to greet some else's millennium with a yawn of indifference.

Similarly, it is fashionable to talk about transitions in terms of the "usual suspects." These transitions include the impact of the Arab-Israel conflict, proliferation, Iran and Iraq, Islam, human rights, democratization, changes in political leadership, and all the rest. Unlike the year 2000, these are all important transitions, but they are also familiar transitions that tend to get the attention they deserve.

I would like to talk about three other transitions this afternoon: Population, economics, and social change, and hopefully to address these transitions in ways that raise new issues for policy making or new insights into how policy must be made.

Let me begin, however, with an important caution. I am not talking about any of these three subjects because the Middle East faces some Malthusian crisis or imminent disaster. We are talking about anywhere from 19 to 23 very different nations. Some are successful, some are marking time, and some risk failure. Moreover, all nations face challenges in every region and the Middle East is scarcely alone in facing such challenges and the need for suitable transitions to meet them. I am talking about population, economics, and social change because I do not believe that they get the kind of policy-level attention they deserve and because I believe that no one can have a successful Middle East policy that does not take them fully and honestly into account.

The Problem of Population

Population is scarcely a new issue, and many experts on the region have long raised warnings about the issue of population growth. The fact is; however, that neither Arab governments nor US policy makers are comfortable with honestly facing the problems that population growth is raising for the region. Even the World Bank seems to have adopted a Panglossian approach to demographics in recent years. Its figures often assume that unusually rapid declines in growth rates will occur in the immediate future, along with economic reform. Regardless of who does the counting, however, the Middle East is experiencing massive population growth.

- When I first came to the Middle East in the early 1960s, the total population of the Middle East and North Africa, or MENA, totaled around 80-90 million.
- By 1970, it was well in excess of 120 million.
- The World Bank estimates the total population was 174 million by 1980.
- By 1997, it totaled 279.3 million.
- According to the World Bank estimates the total will be 393.9 million in 2015, and 481 million in 2030.

As I have stated, this latter World Bank projection of population growth is scarcely alarmist. It assumes the region will suddenly drop to a relatively low average annual population growth rate of only 1.9% during 1997-2015, although the average growth rate in the Middle East was 2.7% during 1980-1997. It also a conservative population momentum of 1.6, in spite of the fact that the average annual growth rate for the ages from 0-14 has been 2.0%.

I hardly need remind you that much the MENA area is largely a desert and not a particularly wealthy desert at that - at least in terms of per capita income. Oil and gas are virtually the region's only unique resource. These resources make a few lucky states wealthy, but the region as a whole is severely limited in terms of water and arable land and it has virtually no comparative advantages in terms of trade beyond energy exports.

The region-wide population trends I have just quoted also disguise the fact that population pressures are much greater in some states than others.

- As a rough rule of thumb, any nation with population growth rates in excess of 3% will have trouble in sustaining high rates of growth in its per capita income. The CIA estimates that nine countries in the Middle East have growth rates well in excess of 3%. They include Gaza, Iraq, Libya, Oman, Qatar, Saudi Arabia, Syria, the West Bank, and Yemen are all well about the 3% growth rate.
- Even much lower growth rates can be a problem, however, when much of the population is young, and the total population already strains the limits of what the economy and society can cope with.
- Let me give you some national examples of the impact of such trends.
- Egypt had a population of 41 million in 1980. It is now around 66 million. Although Egypt's population growth rate is now only about 1.9%, the World Bank projects a population of 93 million in 2030.
- Iran had a population of 39 million in 1980. It is now over 69 million. Although Iran's population growth rate is now only a little over 2%, the World Bank projects a population of 96 million in 2030.
- Iraq had a population of 13 million in 1980. It is now around 21.7 million and its growth rate of 3.2% is one of the highest in its history. The World Bank projects 39 million in 2030.
- Jordan had a population of 2.2 million in 1980. It is now around 4.4 million and its growth rate is 2.6%. The World Bank projects a population of 8 million in 2030.
- Morocco had had a population of 19.4 million in 1980. It is now around 29.1 million although its recent growth rate is only 1.89%. The World Bank projects a population of 42 million in 2030.
- Saudi Arabia had had a population of 19.4 million in 1980. It is now around 29.1 million although its recent growth rate is only 1.89%. The World Bank projects a population of 42 million in 2030.
- Syria had had a population of 8.7 million in 1980. It is now around 17 million and its recent growth rate is 3.2%. The World Bank projects a population of 28 million in 2030.

Let me again stress that we are talking about challenges and not crises. There are no magic limits to population growth, and many other developing regions exhibit similar trends.

Nevertheless, population growth is a luxury and not a right. It also interacts with each failure in economic development to lower the per capita income, and this in turn makes it progressively harder to adjust to social change.

Further, these data on population growth are a reason to be cautious about confusing the symptoms of policy problems with the diseases. As Middle East experts, we tend to talk rather blithely about water shortages and water wars. We talk about the problems in achieving self-sufficiency in food. Behind all of these problems, however, is the inexorable pressure of population and the question of what solutions can be found to lesser problems that do more than buy time if population growth rates are not brought under control.

Accordingly, the first suggestion that I would make about transitions and policy this afternoon is that we need an honest assessment of the impact of population growth. While a few countries

may be able to afford high rates of growth, most cannot. I believe that it is all too clear that the Middle East needs far more aggressive efforts to limit population growth and bring it into balance with its rate of economic development.

The Problem of Economic Reform

Let me now turn to transitions in economic reform. The problem the Middle East faces is not that the region has a bleak future, but rather that it is moving far too slowly in ensuring that it will have a good one. It all too easy to talk about serious structural economic reform, and much harder to implement it. When Mark Twain was asked about the difficulties of quitting smoking, he replied that it was easy and that he had done it dozens of times. I am reminded of this comment every time that I read about new efforts in economic reform in the Middle East. It is also a reason I send my students back to their reference book every time I read about economic reform in their papers, and require them to present a chronology of all the past promises and attempts at reform and to then explain why they failed.

The Middle East is not a failed region. No one who compares the Middle East of today with the Middle East of the 1960s, 1970s, and 1980s would suggest that there has been no progress, or that the region should regress back to the past.

At the same time, the Middle East is not a competitive or successful region by the standards of the most advanced developing regions and countries. For much of the last decade, many countries have hovered on the edge of beginning economic reform without moving forward to the levels of reform that cause major changes in economic growth and per capita income.

Even if one considers a largely unearned windfall from oil and gas exports, the MENA region has accounted for a steadily shrinking share of the world's GNP and trade since the mid-1970s - a period of more than a quarter of a century. Middle Eastern economic growth has lagged badly behind East Asia and Latin America, and recently has not kept pace with South Asia or Sub-Saharan Africa.

- The Middle East only had an average GDP growth rate of 2.1% during 1981-1990 versus 7.5% for East Asia, and 5.6% for South Asia. The rate of growth in the Middle East improved to 2.9% during 1991-1997, but East Asia improved to 9.4%, South Asia to 5.6% and Latin America to 3.8%.
- Another way of looking at regional success is to consider the average annual increase in per capita consumption. This increase only averaged 0.7% for the Middle East during 1980-1997 versus 6.8% for East Asia.
- If one looks at the average increase in GNP per capita for 1996-1997, the most recent year reported by the World Bank, the percentage for the Middle East was 0.8%. It was 6.2% for East Asia, 3.9% for Latin America, and 3.4% for South Asia.

I do not want to drown you in numbers. You can, however, find all the supporting detail you want in either the latest World Bank report on World Development Indicators or the detailed graphic analysis you will find on the CSIS web page at CSIS.ORG. The fact remains, however, that the more indices you examine, the more often the Middle East lags. This is true whether we are talking about manufacturing output, agricultural output, foreign and domestic investment, or productivity gain.

It is also one of the ironies of the Middle East that the IMF found that the oil exporting countries which have done the poorest job of competing with the leaders of the developing world, although they began the 1980s as the wealthiest states.

Part of the explanation for this lack of performance and competitiveness lies in the population problems I have talked about earlier, but a great deal of the explanation lies in the fact that many Middle Eastern states have no enemy greater than their own governments. State interference in the economy, and the failure to consistently and meaningfully implement any given approach to reform in ways that produce large-scale macroeconomic change, have crippled much of the Middle East.

Ironically, it also seems largely irrelevant whether the regime is ruled by a King, Shiekh, President, or some "byblow" from a coup d'etat. It simply does not particularly matter how democratic the regime is, or whether it is technically at peace. The problems lie in economic policy, and not in side issues.

It is also clear if one looks at the economic history of the region, the problem does not lie in a lack of the right policies or repetitive effort to begin reform, but rather in a lack of sustained follow through. The transition that is required is not to formulate the right policies, but rather to execute them fully and consistently over a long period of years.

From a policy viewpoint, I would suggest that we need to stop praising governments for token actions, well-written plans, and good intentions and judge them by their macroeconomic success in competing with the leading developing nations on a global basis. Making a start in privatization, encouraging foreign investment, reducing dependence on welfare and government employment, and economic diversification is not good enough. The peoples of the Middle East deserve action, not promises and words.

Let me also note that these realities have other policy implications:

- Focusing on "Arab" or "regional" economic development schemes is ridiculous. Middle Eastern states trade almost exclusively with nations outside the region because it does not make sense for them to do anything else. Trade goes where comparative advantage lies, and poor states do not grow rich trading with other poor states. Asia and Latin America have also shown that major growth in intraregional trade only follows successful development. Seeking Arab or regional cooperation as a solution to growth is like asking the Middle East to lift itself up by its own bootstraps.
- Other desirable goals like peace and democracy are not a substitute for economic reform and do not bring economic development, and war and authoritarianism do not prevent it. Ironically, a number of the East Asia tigers had their highest growth rates during periods in which they have high military spending and repressive regimes. The same was true of Chile. Waiting for peace or democracy to bring serious structural peace dividends means waiting forever.
- One immediate case at point is the Arab-Israeli peace process. Egypt has little real reason to trade with the Levant; Syrian and Lebanese economic policy is decoupled from that of Israel, the Palestinians, and Jordan. The question of how to shape a successful economic unit that transcends current national and ethnic boundaries may well prove to be as important as all the other "final settlement" issues.
- Tourism brings only limited income to a nation, and a growth in the service sector and offset programs may do little more than increase in dependence on manufactured imports. Balanced growth and diversification are critical.
- For all the complaints about corruption, corruption is often a productive and stabilizing force, as is the black sector of the economy in many Middle Eastern states. One way or another, the money that is called corrupt often tends to get back to the people, and it is the illegal sector of the economy which is often most efficient in meeting market needs the government tries to block.
- The real problem tends to be the burden of massive state spending. It includes excessive arms buys and grandiose state projects -- the "pyramids" that are so beloved by many of the region's technocrats and which lead to over-spending on "first of a kind" plants, massive infrastructure, etc. It includes the cost of a patriarchal system that still has far too many subsidies and welfare, too little taxation, and which disguise vast amounts of real-world underemployment in the form of state jobs.
- Oil wealth is not enough. No level of oil prices can solve even the mid-term problems of most oil exporting states to the extent that it can produce the kind of economic growth that will allow them to compete with the leading developing states of the world. Real per capita income is now only about 35-40% of what it was during the oil boom in the early

1980s, even with oil at over \$20 a barrel. Population growth and over dependence on welfare and foreign labor are outpacing the rises in oil and gas income. Only limited population growth and economic reform can change these trends in most energy exporting states.

Before I turn to social change, let me again emphasize that I am talking about solvable problems and not a failed region. The issue is not that the Middle East is an economic failure and some nations are relatively successful. The issue is rather that most nations have failed to produce the sustained rises in per capita income of the size the region needs. Put differently, the policy challenge is make the Middle East competitive on a global basis. The region lags behind other regions and other leading developing nations in many areas. There are no prizes for regional good intentions or eccentricities in geoeconomics.

Given the population trends discussed earlier, it should also be clear that there is real urgency in moving forward. Economic policy must do more call for more than another round of plans and good intentions, and judge success in terms of serious macroeconomic progress. Policy also must not confuse economic growth with other policy goals like peace and democracy and regional cooperation. They are all desirable forms of progress, but the linkages between progress in one area and another are tenuous and movement in one area does mean progress in the others.

The Problem of Social Change

The final issue I would like to discuss is social change. This is an extremely complicated subject, but the point I would like to conclude with is that societal transitions must deal with a great deal more than such issues such as Islam, human rights, and democratization. The transitions in social change are inevitably related to the population pressures and economic problems I have just outlined.

Let me focus on three key social consequences of the region's population and economic pressures:

- The Middle East is already largely urbanized. It was about 25% urbanized in 1960. It was 37% urbanized in 1970 and 48% urbanized in 1980. It is about 58% urbanized today, and it will be 70% urbanized by around 2015, with hyperurbanization in at least half the states of the region. Nearly a quarter of the entire population in the region will live in cities of one million or more. It is the future of Middle Eastern cities and their ability to meet social needs that will determine much of the region's stability and success. The challenge is to reshape cities to support sustained economic growth and to provide the proper living conditions for the young and the poor.
- The Middle East faces a "youth explosion," and one that is creating a new population that has little direct memory of past struggles and revolutions. The region's population growth has been so rapid that something like 40% of the population is 14 years of age or younger. This figure is 52% in Gaza, 48% in Libya and Yemen, 44% in Iran and Iraq, 46% in Syria, and 43% in Syria and Jordan. This youth has to be served in terms massive increases in housing, jobs, and infrastructure. The proliferation of people cannot be ignored anymore than the proliferation of weapons of mass destruction.
- Middle Eastern agricultural output has experienced extraordinarily low productivity gain in recent years, averaging only 1.7% during most of the 1990s, versus 5.5% during the 1980s. At the same time, the amount of arable land per capita has shrunk by more than a third during the last 15 years. It was 0.29 hectares per person during 1979-1981 and only 0.21 hectares in 1994-1998. Further, although agriculture has dropped from 37% of the male labor force in 1980 to under 27% today, nearly twice as many people still work in agriculture than is justified by the size of agriculture as a percent of the region's GNP.

There are tremendous population and economic pressures that act to push people off the land and away from agriculture that are accelerating with time. Efficient agriculture and the efficient use of water also require steadily larger and more capital intensive farms to provide basic output and far more skilled farmers with high levels of crops to grow specialty products. To put it bluntly, the faster unskilled and undercapitalized farmers are driven off the land, the better.

All of these transitions mean the region must come to grips with massive secular change. The Middle East cannot retreat to the tent and the village, any more than Americans can now grow up to be cowboys and pioneers. It must cope with the fact it is becoming a region of cities and cities that can be remarkably poor if policymakers do not come to grips with reality. Everyone in the Middle East needs to firmly understand that no one has any choice other than to deal with secular problems and issues. The Middle East is not the victim of "Western materialism." It is changing to deal with unavoidable new demographic and economic realities.

To be more specific, I believe that Middle East policy must look harder at the full range of social transitions needed to deal with it population and economic problems. These transitions include political change, urbanization, education, and what is generally called "women's rights."

- In regard to political change, I would suggest that the combination of population and economic pressures that I have listed indicate that the patriarchal bargain, and state-driven welfare state, that characterized virtually all Middle Eastern regimes is now becoming unaffordable and unsustainable. Economies must become more productive in ways that can only occur if the government gets out of the way, if the state sector shrinks, if the government role in welfare and subsidies declines, and the private sector is given far greater freedom and independence of action. The "iron rice bowl" is no more sustainable in the Middle East than it is in China.
- Experience indicates that economies that are shaped by market forces are far more effective than state-dominated economies, but economic reform must evolve through experiment and over time. The recent economic crisis in Asia is a warning, however, that stable economic reform requires Middle Eastern governments to become more transparent. Economic development and the growth of the private sector require honest economic report, public budgets, and public plans whose success is reported regularly. The cost-effectiveness of all major state programs and investments must, at a minimum, be debated to the extent that it is clear they are better than relying on market forces. Economic reform has a social dimension. Realistic and public discussion is needed of population growth, productivity, the efficiency of employment, reliance on imports and foreign labor, and economic impact of education.
- Economic change also requires new forms of human rights that serve economic rather than political interests. Human rights moves beyond protection of the individual and concepts of political freedom. It must also involve property rights, the equivalent of a uniform commercial code and new concepts of law.
- We tend to forget in the US that we are not a democracy, but rather a republic based on the separation of powers and a rule of law. There is no reason that any Middle Eastern state should be a mirror image of the US, but there are good economic reasons to assume that truly successful Middle Eastern economies must be based on a comprehensive and reliable rule of law that protects property rights and freedom of commercial operations. This requires far more effective protection than is generally available today.
- Economic change cannot occur at the scale and pace required without a new emphasis on economic productivity. Education requires a focus on the areas required to educate citizens to compete. It cannot be rote, "Islamic" in ways that reject commercial values, or "liberal" in the sense that it trains political science majors instead of an effective work force.
- Economic modernization requires free and open communications and access to data bases and the Internet. This is also a transition that cannot wait. The young can only

- really learn and adapt by doing, and delays of even a few calendar years can mean a lag of "generations" in technology.
- Social values have to emphasize productivity as well as limits on population growth. The interpretations of Islam and social custom cannot return to the past, and states cannot afford to pursue impractical concepts of socialism and social welfare. Globalism has many ramifications, but one is that if Asia can sell an appliance or cloths cheaper in the Middle East than Middle Eastern states, then Asia will export and develop and the Middle East will not. Protectionism and social custom can enshrine poverty, but they cannot prevent it.
 - The role of women is one key aspect of this productivity. Some 55% of the female labor force in the Middle East is still employed in agriculture at a time when the percentage of male workers has dropped by more than a third. Only 11% works in manufacturing, versus 30% in Europe.

Quite aside from human rights, Middle Eastern states cannot afford to waste or degrade the output of half their labor force. The issues involved in the role of women go far beyond issues like literacy and social rights men. They involve the entire economic future of Middle Eastern nations. They involve the ability to provide a level of productivity throughout the nation that will allow Middle Eastern states to compete with other developing regions. They involve the ability of both men and women to make intelligent choices about birth rates and the nature of the family.

Conclusions

Let me conclude by saying that I have not raised these transitions with the belief that they represent some brilliant new set of insights or involve a revisionist new approach to the Middle East. Many here today have long discussed these issues. Many Middle Eastern governments have at least begun to address the problems involved, and some have made substantial progress.

I do believe, however, that the future of the Middle East will be shaped at least as much by the policy decisions shaping the transitions in these areas as by the outcome of its various political and security crises. I also believe that the region's success will be ultimately be judged largely by its global competitiveness with other developing regions, and its ability to integrate itself into a stable global economy.

More than that, I put no faith in interesting new beginnings and good intentions. The pressures and problems I have cited are scarcely fatal, but they are acute enough so that progress can only be measured in terms of basic national and regional change, not plans, speeches, or dreams.

Note: All of the figures and statistics used in this analysis are drawn from The World Bank, World Development Indicators, 1999; The CIA World Factbook, 1998, and Anthony H. Cordesman, Economic Stability and Instability in the New Middle East, April 6, 1999, WWW.CSIS.ORG