

The Real Middle East Crisis Is Economic

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It would be naive to think that economic growth will solve all of the Middle East's thorny dilemmas; but it would be equally naive to believe that they can be solved without it.

President Obama surprised many recently when he diagnosed the crisis gripping Iraq as partly an economic one, noting that Iraqi Sunnis were "detached from the global economy" and thus frustrated in achieving their aspirations. While Iraq's chaos has many sources, the president is nevertheless on to something; and it's not just Iraqi Sunnis, but the entire Middle East that is detached from the global economy.

The region accounts for just over 4 percent of global imports, less than it did in 1983; Germany alone accounts for 6.4 percent. Its economic stagnation is vividly illustrated by a comparison to Asian economies. According to the World Bank, in 1965, Egypt's per-capita gross domestic product was \$406, while China's was merely \$110.

Today (using constant dollars), Egypt's G.D.P. has increased four-fold to \$1,566, whereas China's has increased thirty-fold to \$3,583. Similarly, Iran and South Korea had roughly the same per-capita G.D.P. in 1965; now South Korea's is \$24,000, whereas Iran's is only \$3,000.

The economies of the Middle East are not only detached from the world's, but from one another. Most exports in North America, Europe and Asia remain within those regions. Two-thirds of exports to Europe are also from Europe. In the Middle East, only 16 percent of exports to the region as a whole are from other Middle Eastern states.

While Western observers focus on political issues in the Middle East, people in the region are themselves preoccupied with economic matters. According to a recent poll, residents of the Gaza Strip overwhelmingly desire calm with Israel and the chance to seek jobs there. In another poll, Iranians listed "expanding employment opportunities" as their top political priority, far higher than "continuing our nuclear enrichment program."

But while Gazans hope for an end to their blockade, and Iranians for an end to sanctions, neither step would provide a silver bullet. Economic malaise is endemic to the region, even in places not suffering from blockades or sanctions.

This should concern Western policy makers. The distinction between economic and political problems is false. Like anywhere, economics and politics are inextricably linked. And economic progress is the key to easing the chronic instability that threatens American interests in the region.

Among oil importers, bloated public sectors are at the heart of socioeconomic woes. In places like Egypt, where the public sector employs around 30 percent of workers, post-revolution governments in search of quick economic fixes have further increased the public work force and salaries. Generous government subsidies, particularly on fuel, encourage overconsumption and favor inefficient, energy-intensive industries. Together with the large public-sector wage bills, these subsidies strain government finances, resulting in deficits, which increase the cost of credit.

These policies, together with obstacles to doing business, inhibit the sort of private-sector activity that would boost growth and employment. Across the region, unemployment -- especially among youth -- is in many cases higher than it was at the outbreak of the Arab uprisings, and economic growth is too slow to reverse the trend.

These problems aren't limited to the oil importers. The International Monetary Fund has warned that oil exporters' years of massive surpluses are nearing an end, as a result of heavy spending and growing populations. This makes them increasingly vulnerable to a decrease in oil prices, which looks increasingly likely as new sources come online internationally.

These economic problems can be fixed, however. In contrast to the region's political dilemmas -- which often seem intractable -- not only is the West able to help, but regional leaders are open to receiving help. Jordan offers an example: Amid the chaos of the Arab uprisings, Amman quietly implemented tough reforms with the assistance of the United States and the I.M.F.

Oil importers need to replace costly fuel subsidies with targeted assistance to the poor and the creation of social safety nets. They also need to ease their dependency on external aid, reduce corruption, and make regulatory changes to encourage private-sector growth. Exporters need to reduce spending and diversify their economies. And both need to shrink their public sectors and modernize their educational systems.

The United States and its allies should not only provide advice in overcoming these challenges but also incentivize regional governments to take it. That means working with regional allies that are seeking to diversify and modernize their economies, and coordinating economic aid and tying it to progress on reform, including the political steps necessary to make reforms successful.

America should also promote greater economic integration by cooperating with wealthy oil producers to invest in the prosperity of their poorer neighbors, and by offering Middle Eastern states better access to Western markets, especially the European Union.

Exhortations for the United States to "do more" overseas are often criticized as veiled calls for the use of military force. But integrating economic statecraft into diplomacy would help broaden America's international role beyond the security sphere in a way that promotes long-term peace and stability.

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Michael Singh is managing director of The Washington Institute. ❖

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