Bad Thinking

by Patrick Clawson **(/experts/patrick-clawson)**

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Articles & Testimony

President Bush will attend a trio of summits this June: the G-8 meetings, in Sea Island, Ga.; the EU-U.S. powwow in Dublin; and the NATO gathering in Istanbul. Bush is proposing that the centerpiece of these summits be the Greater Middle East Initiative, which he first mentioned in January's State of the Union address. The proposal -- leaked to Al-Hayat in London -- originally focused on the Arab countries' "freedom deficits." But faced with criticism from governments opposed to the promotion of democracy, the administration is backing away from its proposal. That is generally unfortunate: The Middle East badly needs more freedom. But a good side effect would be the burial of the proposal's economic ideas, which are at the cutting edge of 1960s economic policy -- more aid and third-world solidarity.

To start with the problem: The freedom deficit in Arab countries has become so obvious that even U.N. agencies acknowledge it. The U.N. Development Program, a den of old-fashioned lefties, commissioned a group of Arab intellectuals to prepare the "Arab Human Development Report." The first such report -- there have been two so far -- concluded that "the region is hampered by three key deficits," the first of which is freedom. (The other two are women's empowerment and knowledge.) This should come as no surprise: Not one of the 22 Arab countries has a democratically elected government, a record unmatched in any other region of the world.

As the same report says, "human freedom encompasses much more than political freedom"; it extends to economic freedom too. Arab countries score on the low side in the Heritage Foundation's Index of Economic Freedom -- and they do that well only because tax rates are low in the oil-rich countries. Despite that, the Middle East has more than its share of weak performers: Out of 155 countries ranked, Libya is 154th, Iran is 148th, and Syria is 138th.

The lack of economic freedom has of course meant poor growth. Once the richest area on earth, the Arab Middle East has been in relative decline for centuries, and the slide downward has accelerated in recent decades. As recently as the 1940s, the Arab side of the Mediterranean was arguably as advanced as the European side: Alexandria was more prosperous than Athens; Greece, not Egypt, was torn by radical violence; and Beirut was head-and-shoulders above Naples. (This depressing comparison is made eloquently by Clement Henry and Robert Sprinborg in their Globalization and the Politics of Development in the Middle East.) The decline of the Arab countries began as the effects of socialist policies adopted in the 1960s and '70s began to be felt, and was made worse by over-reliance on oil income. According to the World Bank, income per person declined from $16,000 to $11,050 in Saudi Arabia between 1982 to 2002 and from $2,350 to $1,720 in Algeria -- and that is before factoring in the effect of inflation, which cut the value of the dollar almost in half. The situation was not much better in once-promising non-oil economies like Jordan. In inflation-adjusted dollars, as of 2002 not a single Arab country had maintained the income level it had in 1982.

So much for the problem; now, what was the U.S. government's proposed solution? The leaked proposal stated, "At Sea Island, the G-8 should forge a long-term partnership with the Greater Middle East's reform leaders and launch a coordinated response to promote political, economic, and social reform in the region." A few of the economic initiatives it proposed -- such as "microfinance," loans for very small businesses -- are unobjectionable. But the main economic proposals are irrelevant or downright pernicious.

The most foolish proposal was the Greater Middle East Development Bank. In the words of the leaked paper, "The G-8, along with creditors in the [Greater Middle East] . . . , could establish a new regional development institution modeled on the European Bank for Reconstruction and Development (EBRD) to help reforming countries finance basic development priorities." But haven't we seen this before? In 1994, President Clinton proposed a Middle East Bank for Cooperation and Development. It was greeted with considerable skepticism by European countries arguing -- correctly -- that the region was awash in finance and needed better economic policies, not more loans. But the United States persisted, and in February 1996 a charter for what was called MENABANK was signed by 19 governments. The Clinton administration soon realized that the bank addressed no particular need and faced many obstacles, and so made little effort to secure congressional approval and funding for it. In other words, the U.S. government has already made itself look rather silly by twisting arms for a bank only to drop the idea -- why repeat the experience?

Then there was the proposed "Trade Initiative." The paper argued, "Intra-regional trade in the Middle East is extremely low, comprising just 6 percent of all Arab trade. Most [Greater Middle East] countries trade with countries outside the region, and have built preferential trade agreements far away rather than next door." The paper went on to propose a wide variety of measures to encourage inter-Arab trade. On one hand, it is true that Arab countries have little economic interaction with one another. In a study initiated by the Egyptian Center for Economic Studies, Denise Konan estimates that gains to Egypt and Tunisia from freer trade and capital flows among Arab countries would be at least 10 percent of national income.

But, on the other hand, all this talk about inter-Arab trade smacks of the third-world solidarity nonsense heard from socialists for decades. Why should Arab countries concentrate on the small Arab market? All told, their combined national income is less than 5 percent of the $12 trillion European market next door. Plus, contrary to the dreams of the pan-Arabists, the economic reality is that there is no "Arab world": The Arab states do not have all that much in common. Then there is the simple matter of geography: There is no economic reason for Morocco to trade with Iraq when most of Europe is closer, or for Saudi Arabia to make use of a trade hub thousands of mile away in Tunisia. It is wrong to describe Europe as a region "far away," when in fact most Arabs live closer to the EU's shores than they do to Mecca. And it is unwise to send a document with such a description to the European G-8 countries: It merely confirms the European complaint that we ignorant Americans do not understand that the Arab countries are their neighbors.

If the Bush administration's economic proposals were bad, the objections to the summit paper by European and Arab governments were worse. They did not like the proposed modest political reforms and insisted that, instead of democracy, the Arab-Israeli conflict be the focus of any Middle East initiative. But the best hope for Arab development is for Arab regimes and peoples to let the conflict fade into proper perspective as but one of the Middle East's many continuing wars. In fact, the Arab-Israeli conflict directly affects only Israel and its immediate neighbors, leaving largely untouched the other 70 Arab countries. A cynic could even argue that the conflict has been a moneymaker for the frontline states: Most of the $50 billion in U.S. aid to Egypt since the Camp David treaty was motivated by the desire to cement the peace.

What would be a better solution to the Arab economic predicament? The key is to tackle head-on the freedom deficits. To see why Arab economies underperform, the best place to start is with the Palestinians. They have many valuable assets: a well-educated labor force, entrepreneurs used to acting without state aid, and large markets right next door in Israel. Add to this the largest flow of economic aid per person in the world -- six times more than Europe received under the Marshall Plan. And yet the Palestinian economy has shrunk by at least a quarter since the Palestinian Authority was created in 1993. What the Palestinians need is not aid but better political leadership. The greatest barrier to Palestinian growth is terrorist violence, which forces Israel to impose closures and curfews. The Palestinian economy could grow rapidly if given a non-Marshall Plan: more peace and better governance, without aid money that props up failing leaders and reduces the urgency for needed political actions like ending the violence.

Welcome as President Bush's Greater Middle East Initiative is, the now-withdrawn economic plank had too little to do with economic freedom and too much to do with the policies that failed in the past.

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