

# **International Markets and Partial Economic Reforms in North Africa: What Impact on Democratization?**

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BRADFORD DILLMAN

In the last 15 years, governments in Morocco, Algeria, Tunisia and Egypt have adopted a variety of economic reform programmes in the face of contradictions in earlier development strategies and pressures from the European Union and the United States. A comparison of the four North African cases calls into question conventional arguments that economic liberalization is strongly correlated with political liberalization. With the exception of Morocco, economic reform has been associated with the maintenance of a high degree of political authoritarianism. The region's two early economic adjusters, Morocco and Tunisia, followed different political routes in the 1990s. Morocco's King Hassan II bolstered pluralism, enhanced respects for human rights, and permitted an opposition-led government to form, while Tunisia's President Zine el Abidine Ben Ali reinforced corporatist authoritarianism by crushing Islamist and secular opposition. Of the late economic adjusters, Algeria almost witnessed a democratic transition in 1991. Yet a coup d'état followed by almost a decade of severe civil strife has left the country with military dominance over a truncated, semi-pluralistic party system. Egypt, another late economic adjuster, underwent some political liberalization under President Hosni Mubarak in the 1980s, but in the 1990s there was a deep erosion of the rights of civil society and a virtual exclusion of the political opposition from parliament.

Why has North Africa experienced little political liberalization despite undergoing significant economic liberalization? Answering this question requires an analysis of the specific nature of economic reforms and their effects on key economic actors. Moreover, it requires an analysis of how state elites have adapted to international market forces while implementing reform policies. This article argues that state elites have accessed resources from the international economy to implement partial economic reforms that sustain their distributional coalitions and thereby inhibit far-reaching

political reform. The global economy and western governments impose constraints on would-be state reformers, but also offer them opportunities. To the extent that elites can tap and control international resource inflows as they undertake structural adjustments that more deeply integrate their economies into global markets, they can strongly shape the nature and extent of internal reforms, as well as the winners and losers from change. By preserving their states as the necessary intermediary between international and domestic economic actors, they have been able to construct and reshape patronage networks in such a manner as to maintain, if not reinforce, their own economic and political power. The ability of state elites to sustain and control large distributional coalitions during economic reform relieves pressures for political liberalization from key domestic constituencies. This article examines how state elites access resources from the European Union – North Africa's main economic partner – and manage patronage networks during selective economic liberalization.

### **Neo-Liberal Economic Reforms and Democratization**

The democratization literature has not had a stellar ability to explain political change in the Middle East and North Africa (MENA).<sup>1</sup> This weakness stems in part from the tendency of democratization theorists to choose their cases on the dependent variable and thereby to neglect to test their explanatory frameworks on countries that have not experienced a democratic breakthrough. Most analyses of democratization in the MENA focus on domestic variables that are presumed to have inhibited far-ranging political liberalization, such as political culture, religion, the level of socio-economic development, and weakness in civil society. Factors internal to North African states, such as elite willingness to engage in high levels of coercion, the lack of democratic credentials of the opposition, and the lack of a large industrial working-class, might also prevent democratization.<sup>2</sup> Sometimes invoked are international geopolitical variables such as war and war preparation, transnational ideological rivalries in the MENA, and western indulgence of friendly authoritarian rulers.<sup>3</sup> Arguably, some states have been spared some democratization pressures owing to the unwillingness of advanced capitalist states to push the human rights issue in the face of conjunctural security problems such as the Gulf War and extremist Islamist movements. The rentier state literature has proved more useful in tying together structural variables at the national and international levels.<sup>4</sup>

Some theorists claim that international forces during the third wave of democratization created an international democratic conjuncture. North

Africa has been as deeply exposed to many of these international forces as Latin America, sub-Saharan Africa and eastern Europe. For example, it has been affected by: reductions in external rents that have caused economic crises and capital flight; deep dependence on trade with advanced capitalist democracies;<sup>5</sup> conditionality attached to International Monetary Fund (IMF) and World Bank loans and US and EU aid; exposure to western satellite-based media; proximity to Europe and direct experience in Europe through migration and elite education; and reductions in regional interstate conflicts in the 1990s. Yet the democratization literature does not adequately account for why these variables apparently had little effect on the prospects for political liberalization in North Africa.

The political economy literature has also addressed the issue of democratization by examining the impact of changes in the global economy on economic reform and political change. Much of the literature focuses on the pressures that states face from the rise of new economic actors, changes in technology and trade, and the demands of leading capitalist nations. Authoritarian governments in developing countries must adapt to these global and domestic pressures by, among other things, liberalizing the economy, encouraging foreign investment and paring down the public sector. To the extent that these types of policy reforms foster greater transparency, accountability and a rule of law, the prospects for democratization should increase.

The political economy literature on internationalization has theorized about the domestic political effects of greater economic openness and cross-border economic transactions.<sup>6</sup> It is dominated by an economic pluralist approach to understanding economic reform that asserts that exogenous changes in the international economy such as price fluctuations, financial flows and trade patterns place constraints on social forces, who in turn place demands on state elites. The result is new policy preferences, new political coalitions and new domestic political institutions.<sup>7</sup> This approach views economic reform policies as the outcome of lobbying by private sectoral interests, whether private companies, business associations, organized labour or political parties. This approach generally fails to acknowledge that state elites have their own autonomous preferences and interests when it comes to mediating the impact of external forces on business and labour. The approach's explanatory power in North Africa is relatively weak, given the characteristics of the private sector and political institutions. The private sector has limited structural power. Private businesses have historically not accounted for the largest share of gross domestic product (GDP) and have been excluded from strategic sectors of the economy. Partly as a legacy of

colonialism and of post-independence economic *dirigisme*, private sector claimants tend to be weak and poorly organized. By contrast, public enterprise cadres and public sector workers are key economic actors who can affect state policy-making. Moreover, North Africa lacks well-developed party systems and mass-based political parties that articulate clear economic policies, particularly neo-liberal policies. Because most elections have been unfree and unfair, state decision-makers have faced no significant voter sanction, except in Algeria in 1991. Thus we cannot assume that state economic policy is formed on the basis of a rational calculation of voter behaviour.

The European Union has based its policies in North Africa on a number of problematic assumptions that are evident in the democratization and political economy literature. One of these assumptions is that economic development will lead to more political liberalization, and eventually democratization. By accelerating economic progress, the EU hopes to open up political processes. As Brynjar Lia notes, 'Curiously, there seems to be a certain degree of Marxist historicism underlying European thinking on Mediterranean security challenges in the sense that one presupposes political liberalization to take place only when the economic "basis" has been put in order'.<sup>8</sup> Yet, the EU is sensitive to the argument of many southern Mediterranean regimes that if it presses too forcefully for rapid economic change, it may actually undermine the prospects for political liberalization. Shock therapy, many argue, would alienate potential supporters of political pluralism and embolden anti-liberal and extremist forces. Thus, the EU, like the US, has adopted an incrementalist-developmental approach to democracy building. It presumes that economic incentives and moderate pressure on governments to enact economic reforms based on the 'Washington consensus' will slowly but inexorably reduce government power, expand the influence of the private sector, and enable the promotion of a rule of law. But as Stephen Larrabee observes, 'EU influence on democratization and other social issues is tenuous at best and likely to bear fruit only in the long run'.<sup>9</sup> The approach may unwittingly play into the hands of authoritarian rulers who are able to sustain a slow, uneven reform process. The risk is that incomplete economic reforms will fail to produce the social-structural conditions that are presumed to be the basis for a democratic transition.

Since 1995, the European Union has placed great hope in its ability to foster change in North Africa via the Euro-Mediterranean Partnership (or Barcelona Process). Yet given that the promotion of democracy and civil society has a low level of priority compared to the promotion of political

and security co-operation and economic development, the Barcelona Process may not produce the kinds of political changes in the Mediterranean basin that the EU desires. In June 2000, the European Council adopted a Common Strategy on the Mediterranean Region, in which it pledged to 'promote the strengthening of democratic institutions and the rule of law', 'support and encourage efforts to promote good governance', and 'stress the importance of promoting and protecting human rights'. Promotion of 'good governance' is seen as a method of reinforcing the 'rule of law' so necessary to a potential democratic regime. To the extent that a stronger judicial system, a more transparent customs regime and a more efficient and predictable bureaucracy can be nurtured, better governance will presumably facilitate private investment, expand the availability of information and reduce opportunities for corruption. While the intent is laudable, there is little evidence that modest EU efforts have had or will have much impact on overall administration, which is profoundly tied to the nature of a country's political culture, social structure and political system. Moreover, as Jacqueline Coolidge and Susan Rose-Ackerman have pointed out, where countries are ruled by autocratic rent-seekers, partial administrative reforms such as those related to taxes and customs may simply increase the efficiency of rent-seeking and hamper growth, particularly when the state controls key domestic natural resources and access to foreign aid.<sup>10</sup> Good governance, which is profoundly difficult to define or assess, is a problematic policy in that it is based on a presumption that one can significantly alter a process of governing before changing governors themselves. The risk is that the EU may have underestimated the resilience of existing political elites and may be promoting a policy that is simply a euphemism for working with more efficient authoritarian regimes.

That the EU has not pressed forcefully for democratization can be seen in Algeria, Tunisia, Egypt and in the Palestinian Authority. What progress toward political reform that has occurred in Morocco, Lebanon and Jordan has much less to do with Europe than with purely domestic dynamics in these countries. The democratization deficit in Europe's Mediterranean policies has a number of causes. Southern European countries in particular are willing to tolerate the authoritarian excesses of some southern Mediterranean regimes. Presently, EU association agreements are in practice delinked from human rights progress. The EMP's state-to-state framework excludes Islamists from participation in dialogue. Moreover, European governments have for years been arresting Islamist activists in exile in Europe. Like many of their southern partners, European states are afraid that democratic elections would lead to Islamists gaining significant power in political

systems. Instead, they want a 'status quo oriented policy that aims at securing the "stability" of pro-Western regimes, a policy reminiscent of US containment policies in the Third World during the Cold War'.<sup>11</sup>

The Barcelona Process can be seen as part of Europe's response to American hegemony in the Middle East. The US-European geopolitical rivalry in the Middle East has a long history, and was particularly apparent during the 1956 Suez crisis and the Algerian war of independence. In the 1990s, tensions emerged over a range of issues, including US dual containment of Iran and Iraq, arms sales, sanctions, Israel's 1996 'Grapes of Wrath' campaign in Lebanon, the Helms-Burton Act imposing trade sanctions and other American efforts at extraterritoriality. 'Atlanticists' in the EU have faced a challenge from 'Nationalists' who want to resist US unilateralism and exclusionism, find a more independent foreign policy, and reconstruct 'their former colonial empires in the image of the US informal empire in Latin America'.<sup>12</sup> France, which fears being displaced in the MENA, has been the leading force for exerting European influence in the region. Spain and Italy have also pushed hard for expanded European economic influence.

In sum, the EU's democracy promotion policies may have important limitations in North Africa. To the extent that rivalry with the United States and other geopolitical considerations undergird the EMP, the EU may have more interest in regime stability than change. The promotion of a rule of law and human rights has generally been a residual interest subordinate to the promotion of economic development and European economic interests. Moreover, the EU may have a misplaced faith in the ability of incremental, partial economic reform to induce democratization, given the continued weakness of the region's private sector, the manipulation of elections, and elite willingness to use large-scale coercion. Fortunately, Morocco is becoming something of an exception. Finally, it appears that the effects of the EU's specific democracy promotion initiatives have been largely counterbalanced by the structural impact of its official economic policies and the policies of its leading market actors. European investors and governments have assiduously avoided supporting the most powerful domestic forces (including mainstream Islamists) demanding economic transparency and political accountability. Not only have individual European governments often pursued bilateral policies with North Africa at odds with the declared political goals of the Union as a whole, but Europe's private companies and investors have pursued individual interests whose collective impact may not be supportive of the democracy-promoting goals of the Union.

### **Partial Reforms and International Resource Inflows**

From a theoretical perspective, one can explain some of the limits to the EU's approach to democratization by examining the range of opportunities available to North African policy elites to extract advantages from the international system and thereby patch together supportive and dependent political-economic coalitions during partial economic reform. International economic forces alter the structure of constraints and opportunities facing policy-makers. State elites seek to use resources available from the international economy to shape and sustain a coalition of winners from economic reform whose members may not have an interest in political democratization. Moreover, to explain the process of economic policy outcomes, it makes more sense in North Africa to start with a focus on supply-side forces, that is the preferences and calculations of top government decision-makers, rather than social, demand-side forces. State elites appear to be motivated by the desire to maximize economic resources available to the state budget and extra-budgetary resources over which they have discretionary power. Moreover, they seek to maintain dependent distributional coalitions that are large enough and cohesive enough to prevent threats to the political power of these elites. Top decision makers are motivated less by the desire to minimize the number of losers from economic change than to maintain a set of economic winners that is politically loyal.

Joel Hellman's analysis of post-communist transitions in eastern Europe and the former Soviet Union provides important insights into the relationship between partial economic reforms, political change and international inflows that one also sees in North Africa.<sup>13</sup> As opposed to comprehensive reforms or an absence of reforms, partial economic reforms initially create the largest concentrated gains for winners and largest diffuse losses for most of society. Transition from a command to market economy produces enormous rent-seeking opportunities, as there are market distortions and continued misallocation of resources. People in a position to arbitrage between the reformed and unreformed sectors of the economy make large gains. Over time, the concentrated gains of winners should decrease steadily as the market, bolstered by price liberalization, hard budget constraints on state enterprises, privatization and better public sector governance, eliminates arbitrage opportunities and spreads welfare gains to society.

However, winners during initial stages of reform in post-communist states seek to prevent further reform that would diminish their concentrated gains. They try to block policies that eliminate market distortions that form the basis of their rents. Winners from early market reform who are shielded

from the electorate serve as veto players over further reforms, producing lower GDP growth rates and higher inequality in the long term. This inefficient outcome may be sustained for some time if winners have access to external resources. Their stripping of the assets of state enterprises, which may cause social losses as purchasing power is undermined, can be compensated by the attraction of foreign joint venture partners with cash, technology and access to export markets. Rent-taking from stock markets and privatization is facilitated by sufficient foreign direct investment (FDI) and portfolio equity flows. Official concessionary loans help foreign contractors build infrastructure that serves the needs of winners. Also, official and commercial loans that pump money into the state-dominated banking system help state banks continue to provide credits to winners during incomplete reform. If the veto power of winners over policy cannot be broken at the ballot box, and slow reform creates relentless structural pressures and high social costs, elites can sustain this inefficient outcome through a mix of coercion and supplementary external resources that allow governments to support subsidies and minimal social needs, continue public infrastructure investment and maintain banking solvency.

On a continuum of choices ranging from no reform to comprehensive neo-liberal reform, North African leaders have mostly pursued partial reform. In none of the North African states have radical policy reform movements emerged to carry out the kinds of deep, rapid, co-ordinated economic reforms seen in eastern Europe and Latin America. Despite some devaluation, debt-rescheduling, gradual tariff reductions and a freeing of prices, there has been no far-reaching banking reform, public sector restructuring or privatization. In recent country reports, the IMF has circumspectly criticized North African regimes for stalling on deeper liberalization.<sup>14</sup>

Partial market-oriented reforms, even when imposing losses on large segments of society as in Egypt, Algeria and Morocco, can serve the economic and political objectives of North African elites as much as populist and state socialist policies did in the 1960s and 1970s. These elites have sought access to European and other international economic resources that can be injected into the patronage networks that they manage. By determining the winners in a distributional coalition, they have sought to affect the desire and capacity that winners have to pursue political change. Winners during North African reform have managed to garner concentrated gains due to direct government transfers, state-provided rent-seeking opportunities, shielding from external economic competition, tolerance of illegality, and other government-granted privileges.<sup>15</sup> Ruling elites have sought to insure that winners do not have a significant interest in

democratization or comprehensive economic reforms. Threatening to withhold state support from members of a distributional coalition can sometimes generate as much loyalty as distribution of aid itself. Eva Bellin finds that in late-developing countries where the private sector's profitability is highly subject to the state's discretionary support and where the private sector fears political mobilization by the poor (for example via Islamist movements), private capitalists have little enthusiasm for democratization.<sup>16</sup> In these same countries, where organized labour is highly dependent on the state and has an 'aristocratic position' (as is true in Egypt, Algeria and Tunisia), it is not committed to democratization. Until state dominance of credit allocation through the banking system is significantly reduced in North Africa, private sector enthusiasm for deep political reform will likely remain limited.

Although partial reform is economically not ideal, it has been a dominant strategy, as comprehensive reform would create higher social costs in the short term, provoke serious divisions between regime members, and create autonomous sources of economic power. North African regimes (except Algeria's) have been able to generate reasonably high growth rates and attract sufficient external resources to expand distributional coalitions and co-opt potential troublemakers. Moreover, partial reform has not substantially decreased the state's discretionary authority over economic privileges. In other words, economic liberalization has not limited the government's ability to use selective distribution of economic privileges and punishments as an instrument of political control. A strong, autonomous private sector and solid market institutions have yet to emerge.<sup>17</sup> Moreover, those neo-liberal reforms that are actually implemented provide political incumbents with an opportunity to re-regulate by creating new market-governance institutions.<sup>18</sup> After implementing reforms, incumbents have created new mechanisms to regulate actors, expand regime power and expand coalitions. Unless the European Union can substantially increase the capacity of North African social actors to contest re-regulation strategies, neo-liberal reforms may simply bolster governance of the market by authoritarian elites.

### **European Resource Inflows**

While Europe is not the only source of external resources for Egypt and the Maghreb, the European Union collectively has been the predominant source of capital inflows and the main trading partner of its southern Mediterranean neighbours. Its dominant structural impact on North Africa is for the most part

complemented by the United States, Japan and Arab states. Data from the World Bank's *Global Development Finance* provide important indicators of the level of net resource flows into North Africa.<sup>19</sup> The World Bank measures net long-term resource transfers as loan disbursements plus net foreign direct investment (FDI), equity flows and grants, minus loan repayments. The transfer figures indicate the level of international resources that have flowed into or out of a country in a given year. There is significant variation across the four North African countries. Algeria has fared the worst. From 1990 to 1998, net transfers amounted to a staggering \$-15.5bn, mostly due to repayments of private commercial debt. The country gained almost nothing from private net FDI and portfolio equity flows.<sup>20</sup> Before 1997, net transfers from official sources (countries and multilateral institutions) were either positive or only slightly negative, meaning that new official loan disbursements and grants were offsetting large repayments on commercial loans.

From 1990 to 1998, Morocco's net transfers were \$-4.6bn, mostly due to repayments of official debt since 1992. While private net transfers were \$-1.2bn in 1992, they were highly positive in 1997 and 1998. Net FDI and portfolio equity flows from 1990 to 1998 were \$5bn, while grants over the same period totalled \$4.8bn. Egypt has fared very well in terms of net transfers, which totalled \$17bn from 1990 to 1998, owing to official debt forgiveness and high private inflows. Net FDI and portfolio equity flows were \$9.9bn, while grant inflows were \$23bn. Tunisia also had modestly positive net transfers from 1990 to 1998 of \$879m, and positive private resource inflows offset net repayments on official debt. Net FDI over the period was \$3.3bn but there were no portfolio equity inflows. Grants amounted to \$1.9bn.

In aggregate terms, Algeria and Morocco have been burdened with high debt repayments, which in Morocco have been partly offset by considerable private inflows from Europe. Yet Algeria has had trouble attracting compensating private inflows. Interestingly, these two countries with the greatest resource inflow constraints have experienced more political liberalization. Egypt and Tunisia have been spared a high debt burden, and while both are attracting considerable private and official flows, Egypt has benefited enormously from official grants. In these two cases, little political liberalization has occurred in a context of positive inflows. It would seem that positive net transfers better allow Egyptian and Tunisian elites to sustain large distributional coalitions. Nevertheless, what is common across all four countries is that the bulk of official and private inflows are filtered through the hands of government elites. Foreign aid, loans, official concessionary finance, foreign direct investment, remittances and tourism receipts from Europe are potentially important resources that governing

elites can access or channel. Debt rescheduling, debt forgiveness, and debt-to-investment conversions organized by western governments, the IMF and World Bank, and the Paris and London Clubs, can also provide large concentrated benefits to regimes and their economic allies.

Grants from the European Union through the MEDA I programme (1995–99) were significant but disbursement was slow. Of total commitments to the four North African countries of €1.9bn, only €482m (a quarter) was actually paid out during the period.<sup>21</sup> If the new MEDA II credits (2000–06) are administered like MEDA I aid, they will primarily finance public infrastructure, public administration reform, public sector reform and social development projects. Existing political elites in the south have much to gain from MEDA, even if the use of the funds for graft and patronage can be minimized. Moreover, it is political elites that will determine how the relatively small amount of MEDA credits that reach the private investors is distributed.<sup>22</sup> Europe has yet to operationalize the political conditionality associated with its MEDA credits. In effect, partial economic liberalization and market reforms backed by EU MEDA grants and associated loans from the European Investment Bank may have illiberal effects on southern Mediterranean economies, leading to a re-concentration of economic power.

European governments have played a leading role in helping regimes deal with debt burden by supporting rescheduling, forgiveness and debt-to-investment conversion, and extending large trade credits. After the 1991 Gulf War, the Paris Club of bilateral donors agreed to forgive a large proportion of Egypt's debt to official creditors. Spain, like other European countries, has extended large commercial credits, including \$900m to Algeria in 1996 and \$1bn to Morocco from 1996 to 2001.<sup>23</sup> France played a leading role in refinancing Algeria's short-term debt in the early 1990s. In addition to major commercial credits extended to Algeria in the 1990s, the French government helped persuade the IMF in 1995 to extend a \$1.8bn extended credit facility. It also lobbied the Paris and London Clubs (for commercial debt) in 1995 and 1996 to reschedule debt worth \$10bn. As Philip Naylor points out, 'French intervention in multilateral financial circles, even if self-serving given the size of its own loans, prevented Algeria's economy from suffering a meltdown'.<sup>24</sup> Most recently, Spain converted some Moroccan debt to equity held by Spanish companies. France agreed to convert \$61m of Algerian debt to French investment, and Algeria began negotiating with Spain and Italy to convert some of its debt into foreign investment. In 2000, Italy converted \$100m of Moroccan debt to investment, while France converted FF 700m. In 2001, Germany converted \$34m of Egyptian debt for investment in water projects.

European foreign direct investment is often made through joint ventures between multinational companies and public enterprises, bolstering the resources, if not the solvency, of ailing state companies.<sup>25</sup> Moreover, a considerable amount of foreign portfolio investment has flowed to state companies and financial institutions listed on stock markets. Large direct investors have generally preferred joint ventures with public entities rather than with domestic private capitalists. French, Italian, Spanish and German companies have been the dominant European investors in North Africa. By 2000 there were some 700 Spanish companies in Morocco; at the same time Italy had become the second most important source of FDI in Tunisia after France, and there were more than 600 Italian firms in Tunisia. Investments in Algeria by Italy's ENI alone will amount to \$500m by 2004. Germany's MAN AG has also taken an interest in Algeria, setting up a joint venture in 2000 with Algeria's state company Asmidal and an American petrochemical company to invest \$370m in an ammonia plant. In the same year, Germany's Henkel invested \$15m in a joint venture with Algeria's state-owned Enad to produce detergent. This later type of medium-sized investment has been replicated throughout the region between European companies and state companies in pharmaceuticals and consumer goods sectors. Not uncommonly, the joint ventures have dominance over their market sectors, generating important gains for state enterprises and increasing the price of market entry for domestic private investors.

European investment in the tourism sector has also been quite significant in the last decade and is set to expand further. Some of this investment has been in conjunction with state-owned companies or quasi-public entities. The Egyptian, Moroccan and Tunisian governments have benefited directly and indirectly through an expanded tax base, revenues to state-owned airlines and balance of payments support. In the late 1990s, Morocco attracted tourism investment projects worth \$900m, and most of the projects were led by foreign investors.<sup>26</sup> In 1999, tourism receipts rose to \$2bn. Tunisia's and Egypt's tourism receipts had reached \$1.6bn and over \$3.5bn respectively by the same year.

The majority of private international investment inflows to Algeria, Egypt and Tunisia in the 1990s were in the hydrocarbon sector. The European fixation with oil and gas is likely to continue for the next decade. The direct rents to governments and state oil companies in these three countries have been enormous. Since 1986, Algeria has signed at least 46 partnership agreements with world oil companies, many of which are Anglo-American. In many cases, companies have made advance payments to the state for oil and gas exploration rights. The Algerian government in

early 2001 drafted legislation that would open up the hydrocarbons sector to even more foreign investment. In 2000, Sonatrach's revenues reached \$22bn. Investments and agreements in 2000 and 2001 give an indication of the increasing importance of European hydrocarbon investments. BP-Amoco announced it would invest \$1.6bn in an Algerian gas field in partnership with Sonatrach. France's BNP Paribas opened a \$87m credit line to Sonatrach for imports of French goods. Sonatrach and France's Gaz de France (GDF) committed themselves to a 13-year partnership. Sonatrach already supplies 25 per cent of France's gas needs. Sonatrach, GDF and Malaysia's Petronas signed a \$2bn agreement on gas exploration, development and production sharing, preceded by payments of \$45m by GDF and Petronas simply for access rights. Sonatrach also formed a joint venture with six European energy giants – Cepsa, GDF, Endesa, ENI, TotalFinaElf and BP – to develop a new gas pipeline from Algeria to Spain. Finally, a top adviser to the Irish president claimed that Ireland was willing to invest \$2bn in Algeria's hydrocarbon sector.

Tunisia and Egypt have not escaped the interest of European hydrocarbon giants since the mid-1990s. In 2000, British Gas announced that it would invest \$450m in an extension of Tunisia's Miskar gas field, where it had already invested some \$600m in the 1990s.<sup>27</sup> In 2000, the Egyptian government announced a \$10bn plan to expand petrochemical production over 20 years with the help of foreign investors.<sup>28</sup> State-owned companies are already the major petrochemical producers in Egypt. Royal Dutch Shell signed a \$2.5bn agreement with the state-owned Egyptian General Petroleum Corporation (EGPC) to develop gas fields and build a gas liquefaction plant, and it was considering another project worth \$1.7bn.<sup>29</sup> BP and ENI agreed to construct a \$2bn liquefied natural gas plant in association with EGPC.<sup>30</sup> Moreover, Egypt negotiated with international oil companies to change the pricing of gas supplied to EGPC under production-sharing agreements, saving the government a projected \$250m a year.<sup>31</sup>

Since 1999, telecommunications has joined hydrocarbons as a major sector for European investment. Privatization receipts and sales of cellular phone licenses are pumping large amounts of money directly into the hands of state elites. In 1999, Méditel, a consortium of Spain's Telefónica, Portugal Telecom and Moroccan investors, paid \$880m for Morocco's second GSM mobile telephone licence. Méditel has since proceeded to raise \$616m in project financing with loans from the International Finance Corporation and export credit agencies in Sweden and Spain.<sup>32</sup> Mostapha Terrab, head of Morocco's National Telecommunications Regulation Agency, has publicly complained that his government is using telecoms

licence revenue as a 'cash cow' rather than reinvesting profits.<sup>33</sup> In late 2000, the French-Canadian media giant Vivendi paid \$2.1bn for a 35 per cent share of Morocco's partially-privatized Maroc Télécom, allowing the government to maintain its 2001 budget targets. Since 2000, Egypt has been preparing to sell off 20 per cent of TelecomEgypt through an initial public offering expected to raise up to \$1.4bn in privatization revenue for the state treasury. By early 2001, France Telecom had acquired a 71 per cent majority stake in the Egypt's MobiNil, the country's largest mobile phone operator. By the same time, Tunisia had contracted with France's Société de Banque Française et Internationale (SBFI) to prepare a tender for a second GSM mobile network. Algeria also sought help from France's BMP-Paribas to prepare an international tender for a GSM licence.

While a significant portion of European FDI is in conjunction with public enterprises, another fact often overlooked is that a large proportion of North Africa's FDI is actually privatization receipts. Unlike 'traditional' FDI, investment through privatization sends money directly into the state's coffers and has relieved North African governments of the burden of financing some infrastructure projects, particularly in power generation and telecommunications. A World Bank official noted recently that 60 per cent of all FDI in the MENA is coming in the form of privatization revenues, and only 10 per cent of the region's privatization potential of \$100bn has been tapped by governments.<sup>34</sup> In Tunisia, for example, 40 per cent of the estimated FDI of \$650m in 2000 came from the privatization of a state cement company.<sup>35</sup> Starting in 2001, Tunisia intends to privatize 41 public enterprises worth some \$1.3bn. Egypt, Morocco and Algeria have also announced ambitious privatization strategies for 2001. The upshot is that through FDI in the form of privatization, the mostly unaccountable governing elites in the region will continue to have large amounts of rents to distribute to loyal coalitional members.

While FDI, loans, grants and privatization receipts are the dominant sources of resource inflows, states have also tapped several other sources. Oil, gas and phosphate exports by state monopolies are important sources of budget revenue. Tunisia and Egypt have also turned recently to sovereign bond issues. In 2000, the Tunisian government raised Td 600m in a bond issuance in Japan. Half of the investors were European or American.<sup>36</sup> In late 2000, the Egyptian government began preparations to launch a \$500m Eurobond offering with the help of major European banks. Worker remittances, which in the Maghreb mostly come from Europe, have also provided indirect benefits to governments in that they help with the balance of payments, and a proportion of the remittances placed in North African

banks have been used to finance government debt. From 1990 to 1998, worker remittances averaged about \$2bn a year in Morocco, well over \$3bn a year in Egypt, and rose from a yearly average of \$500m to \$700m in Tunisia. In 1999, Tunisia's worker remittances reached \$858m. Since 1994, remittances to Algeria have averaged over \$1bn a year.

### **The Risks of Partial Reform**

Accessing external resources is not without risks for North African elites. Most importantly, the international economy may not provide enough resources to maintain broad and viable distributional coalitions. There can be large contractions in external resources due to changes in the international system as a whole. Large-scale defection by domestic actors via capital flight can also reduce the capacity of elites to manage the economy. Many exogenous factors have at various times reduced resource inflows, placing constraints on budgets and forcing negotiations with creditors and European governments. The vagaries of oil prices, the Asian financial crisis, swings in the value of the dollar, and conditions in international capital markets are but a few of the market constraints. The United States and Europe, at the bilateral and multilateral levels, have sometimes threatened resource penalties to force policy changes. Available rents, especially FDI, have at times been reduced due to a state's failure to reform or implement reforms well. Moreover, in comparison to its investment flows to all developing countries, European FDI to the MENA has been very limited. For example, in 1998 FDI inflows to North Africa from all countries were only 1.6 per cent of all inflows to developing countries. In the same year, FDI inward stock in North Africa was only 2.4 per cent of total stock in developing countries.<sup>17</sup> While European FDI generally helps regimes, the continuing inability of North African elites to redirect a significantly higher proportion of international investment to their economies reduces their incentive to reform.<sup>18</sup>

States have also faced a number of problems in their strategies to manage winners and losers during partial reform. They have faced unmitigated pressures to cut expenditures, lay off workers, reduce subsidies, expose companies to foreign imports, and shed some rent-taking opportunities through regulatory reform. All of these types of measures penalize sectors of society that may have the capacity to generate significant political opposition. While elites have sought controllable winners, they have also tried to avoid creating large, concentrated losers from economic reform that have the will and capacity to mobilize politically. To the extent

that 'outcasts' from a distributional coalition have been able to find allies in the government or the military, they have sought to thwart reforms and challenge segments of the state elite. This scenario has created regime divisions that private actors and social forces have sought to take advantage of to extract concessions from government officials.

Excessive concentration of gains (rent-taking) amongst winning members of distributional coalitions continues to endanger macro-economic growth and the ability to access external resources in the future. Moreover, partial reforms may ultimately be unsustainable in the face of continuing fiscal crisis. Regimes in North Africa have faced fiscal problems measured in terms of high budget deficits that result from excessive expenditures and strict limits on revenue collection. Customs revenues are set to decline steeply as the Euro-Mediterranean free trade area comes into existence. To the extent that unresolved fiscal constraints force governments to raise alternative revenues and cut spending more, divisions in distributional coalitions should emerge.

The severity of risks has varied across the region and over time, depending on which groups have remained in distributional coalitions and which outcasts have faced the largest concentrated losses. Algeria's military regime has faced great risks from contractions in external resources and from a reform strategy that has produced great economic decline. Social losses have been high, with large numbers of outcasts amongst public sector cadres, public sector workers and small businesses. Morocco has also faced resource constraints and a mixed growth rate due to periodic drought. Despite the *makhzen's* ability to sustain a stable distributional coalition amongst reform winners, civil servants and labour have faced losses, and small businesses are coming under pressure from the looming import competition from Europe via the Euro-Mediterranean Partnership.<sup>39</sup> Egypt has been fortunate to have large positive transfers from the international system and strong economic growth, reducing the number of outcasts from reform and allowing for some new groups to be brought into the distributional coalition. Nevertheless, the Islamic banking sector was shut down, and segments of public sector labour, civil servants and small businesses are under threat of large losses. Tunisia has fared quite well, with sufficient external resources, manageable debt and sustained high growth. Outcasts are not concentrated in major social sectors, and their losses are selective and smaller than elsewhere in the region. Large gains to society have significantly limited social mobilization. In all of the countries, winning members of distributional coalitions tend to be military officers, private sector oligopolists, public sector joint venture partners of foreign

investors, exporters, importers and public sector cadres who have arbitrage opportunities. Nevertheless, each country has also had losers within these groups, as well as within the public bureaucracy and the import-substituting private sector. The greatest pressures for political change have come from some of the biggest losers: Islamists, low ranking civil servants, public sector workers, the urban lumpenproletariat and small- and medium-sized businesses hurt by trade liberalization, credit restrictions and exchange rate changes. Many of these groups have been subject to large-scale state coercion and repression for well over a decade.

How have Egyptian and Maghrebi elites dealt with political risks posed by limits on international resource inflows, reaction by reform losers (outcasts) and fiscal constraints in general? One strategy to avoid large losers has been to proceed slowly and selectively with reforms. Ideally, economic growth will allow losers to find compensating economic activities. Elites have also tried to disperse losses during economic reform as widely as possible throughout society. Outcasts from state patronage networks – whether individuals, companies or sectors – have sometimes been counterbalanced by new groups – whether offshore exporters, new commercial bankers, investment fund managers or new private entrepreneurs – admitted into distributional coalitions. In other words, specific economic groupings can be sacrificed as long as overall distributive coalitions remain viable through the extension of privileges to new entrants. To the extent that regimes are not beholden to any specific sectors, elites can rearrange privileges as long as systemic clientelism is maintained.

Private sector elites have a limited capacity to threaten the political privileges of incumbent reformers. Egypt's private sector, based on a crony capitalist model of co-optation and oligopolies, has seen its political power diluted by its weak industry associations and vulnerability to the still large public sector. Facing a state-controlled banking system and corporatist organization, the Tunisian business class has been prepared to remain very quiet as long as President Ben Ali's policies have successfully promoted economic growth. Algeria's employers' associations are weak and fragmented, while businesses in general are at the mercy of the state-controlled banking system. Only Morocco's business class has built up enough autonomy to challenge the regime on key policies, and many of its members have gained seats in the legislature in the most recent elections.<sup>40</sup> The Confédération Générale des Entreprises du Maroc, reflecting the views of modernist businessmen in medium-sized firms, has lobbied with some success for administrative reform and greater economic transparency.<sup>41</sup> Employers' associations in the other countries have an increasing incentive

to seek political change, and many of their members lobby the government over specific issues like customs, taxation, credit and exchange rates. There are a growing number of businessmen who are 'outsiders' in relation to traditional employers' associations. They include emigrant-returnees, some exporters, medium-sized firm owners, and Islamist-leaning businessmen who have emerged out of liberalization programmes. Yet in the case of Tunisia's new returning emigrants, their clear disaffection with the Ben Ali regime is 'hidden' and they tend to avoid political activity or participation in business associations.<sup>42</sup>

Many private and public players, both winners and losers, have accepted loyalty and quiescence in exchange for side payments or in the hope of future patronage. North Africa's *mise à niveau* (industrial upgrading) programmes, backed by EU and World Bank funds, are examples of the kinds of side payments given to businesses in return for their acceptance of regime policies, especially lower tariff barriers with the EU. These programmes can make or break businesses, and they extend state involvement in the affairs of many private businesses. Tunisia has been the most aggressive in its upgrading programme.<sup>43</sup> By late 2000, 70 per cent of export-oriented firms were in the programme compared to 23 per cent of large, non-exporting businesses.<sup>44</sup> The Tunisian government claimed that 63 per cent of small- and medium-sized businesses had signed up for the upgrading programme and that Td 1.6bn had been invested in 1,609 businesses.<sup>45</sup> From 1995 to 1999, the EU pledged €250m to Egypt's Industrial Modernization Programme, through which the Ministry of Industry will help some 5,000 companies become more competitive. Morocco's upgrading programme only started in 1998, and by late 2000 27 proposals worth Dh 156m had been approved. In early 2001 the Algerian Ministry of Industry and Restructuring announced plans to start a corporate upgrade programme for small- and medium-sized businesses.

There are many other types of side payments, rents and compensations that states can distribute to ensure the viability of a winning coalition and dampen reaction from losers or potential losers. These resources are generated by government decisions and feed clientelistic networks in a context of incomplete market reform. Some are largely independent of the official budget and are controlled by a small handful of people. As such, measuring fiscal constraints or crises simply in terms of yearly budget figures does not provide a full picture of the resources over which elites have discretionary power. These resources include investments of state enterprises, state bank credits, bribes and advance payments by foreign investors, elite revenues and commissions derived from government

spending, stakes of political elites in private businesses, social funds controlled by leaders, military grants and other funds not recorded in the state budget, and proceeds of legal and illegal importing.

These resources have been relatively large in North Africa and have been somewhat immune to the economic reforms pushed by the European Union. For example, Morocco's Hassan II Fund for Economic and Social Development, controlled by the central bank governor and Mohammed Kabbaj, one of the king's advisers, announced in 2000 that it would grant Dh 16bn for various social projects. This huge 'slush fund' controlled by the *makhzen* received more than Dh 7bn from the sale of the second GSM licence and will get money from the partial privatization of Maroc Télécom.<sup>46</sup> Tunisia has a Fonds de Solidarité Nationale (FSN) to which workers and enterprises contribute annually on a semi-involuntary basis. Used ostensibly to fund anti-poverty projects, the FSN is controlled by President Ben Ali through a secretary of state without oversight by the cabinet, government or judiciary.<sup>47</sup>

More importantly, public banking systems have remained the locus of clientelism and control of economic actors. From 1991 to 1997, Algeria pumped massive resources equal to 15 per cent of GDP into the public banking system to recapitalize banks and cover foreign exchange losses.<sup>48</sup> In late 2000, Algeria's minister of privatization, Hamid Temmar, and Central Bank Governor, Abd al-Wahab Keramane, admitted that some \$10.3bn, equal to 23 per cent of GDP in 2000, had been spent on support for government enterprises, whose total bad debt still amounted to 85 per cent of GDP.<sup>49</sup> After a decade of financial restructuring, which was essentially an exercise in massive clientelistic resource distribution, state enterprises were still unprofitable and sustained by overdrafts from state banks, which still controlled 95 per cent of the financial system's total assets and deposits. In Tunisia, the state-owned Banque de l'Habitat still provides 80 per cent of home mortgage lending.<sup>50</sup> Despite a restructuring of public banks and an associated clean-up of public enterprise debt begun in 1999, Tunisia's public banks still control 60 per cent of total banking assets. Plans in early 2001 to merge and partly privatize three Tunisian banks would leave half of the new bank's stock under government control, and the new entity would still account for 28 per cent of the country's banking activity.

Morocco's mostly state-owned real estate and tourism bank, Crédit Immobilier et Hôtelier, was recently subject to a government investigation into corruption. The bank had lost some \$1.3bn in bad loans, many of whose recipients, according to a list published by parliament, were senior politicians, trade union leaders and associates of the late King Hassan II.<sup>51</sup>

In 2000 the government was forced to launch a Dh 5bn rescue package. Egypt's massive public sector banks, insurance companies, and other public agencies have significant stakes in joint venture banks that have domestic and foreign private investors. Although in 1994 the government had ordered public banks to reduce their stakes in joint venture banks to below 20 per cent, in 2000 the Central Bank permitted them to increase holdings.<sup>52</sup> This is part of Egypt's re-regulation strategy that preserves a state role in governing semi-private financial actors.

### **Challenges for the European Union**

This article has argued that with access to European Union and international resources, regimes in North Africa have undertaken partial economic reforms that have not led to deep political change. When regimes maintain direct or indirect control over large capital inflows during structural adjustment, they appear capable of resisting demands for a truly transformative political pluralism. While Algeria and Morocco, facing more significant resource inflow problems in the 1990s, have faced the greatest pressures for democratic politics, they, like their more fortunate neighbours Tunisia and Egypt, have been able to sustain distributional coalitions and suppress often considerable challenges from society.

Global markets and European governments pose challenges, but they also offer opportunities. External resources channelled through governments, state-controlled institutions or state allies in distributional coalitions have generated new sources of rent, allowed many ailing public enterprises to offset otherwise fatal structural problems, and facilitated the task of re-regulation of economic actors disguised as liberalization. With outside help, executive authorities have had a higher capacity to limit the growth of private sectoral interests and relative autonomy that would encourage both private and public sector actors to switch from being co-opted allies of authoritarianism to demanders of inclusive pluralism and democracy.

The European Union faces a quandary in its attempts to promote democracy in North Africa. Its incrementalist-developmental approach to democracy-building, based upon offering economic carrots with little political conditionality, may serve to perpetuate existing regime structures. Neo-liberal economic reforms promoted by the EU may be beneficial for the region over the long term, but their incomplete implementation has allowed a re-concentration of economic power and continued government domination of the market. As Joel Hellman has discovered in post-communist states, where the winners from initial reform are shielded from

mass politics and the demands of losers, there are less comprehensive reforms and fewer social gains.

An important lesson seems to be that political reform prior to economic reform would allow North African society to tame winners better and prevent monopolization of external resources by governing elites. Exposing existing distributional coalitions to mass politics and electoral pressures would be likely to make economic reforms more comprehensive and equitable. The EU might best promote the long-term success of democracy in the region through a 'big bang' approach to political reform based on a push for free, fair and inclusive elections. Arguably one lesson from eastern Europe and much of Latin America is that competitive elections, which fundamentally change the composition of policy-makers, are the necessary precondition for successful market-oriented reform and civil society development. This 'politics first' approach to reform is fraught with risks for the EU and its partner regimes in the southern Mediterranean. Incumbents would strenuously resist pressures for political reform, and the biggest initial winners from true liberalization would probably be mainstream Islamists. Europe's interest in stable hydrocarbon supplies, reduced immigration and greater security might be at stake. A fundamental political transformation appears unlikely unless the EU begins to show more serious concern about southern regimes when they stage sham elections. To date, conspicuously absent from EU policy is a focus on the role of elections in democratization. Political conditionality through the new MEDA II credits, an expanded role for the European Parliament, support for human rights groups, and official European dialogue with secular and Islamist opposition parties are all political measures which would further reform. Fake political reform as witnessed in Egypt and Tunisia for over a decade does not deserve European support or encouragement. But when genuine reform is initiated from within the region, as in Morocco since the early 1990s and in Algeria from 1988 to 1991, Europe must be a more active supporter, which also makes credible the threat of massive economic penalties for a reversal of political liberalization. While the big bang of democratization is mostly a complex internal process, European political pressure can provide important support.

The Euro-Mediterranean Partnership has proven to be an inappropriate framework for promoting political reform and deep economic reform, partly because its aims are too disparate and ambitious. A continuation of this 'economics first' approach may have a counterproductive effect on Algeria, Egypt and Tunisia. It is unrealistic for the EU to believe that its limited official economic assistance, channelled mostly through North African governments,

will have any significant impact on socio-economic change. The promotion of free trade, European investment and debt relief, without a credible EU interest in democratization, are prescriptions for incomplete, inequitable reform.

Perhaps the most realistic strategy for the European Union is a combined emphasis on both economic and political change. Through its self-generated political opening, Morocco has provided an opportunity for the European Union to utilize co-ordinated policies and resources to help bring the country to full democracy. Morocco deserves special consideration and much more political devotion from the European Union. On the other hand, intransigent elites in Algeria, Egypt and Tunisia are unlikely to change without more economic and political 'sticks' in the European policy repertoire. Individual European states cannot promote political reform simply through their bilateral relations with North Africa and without associated pressure from the US, whose economic and political interests in the Maghreb are similar to those of Europe. The EU needs a co-ordinated policy that ties the flow of economic resources from individual states to the overall political aims of the EU. Aid needs to be channelled more directly to private actors. Considerable pressure should be exerted on Tunisia, Egypt and Algeria for fundamental reform of the banking sector, which, if successful, would unravel clientelistic networks, empower private actors, accelerate reform of public enterprises and facilitate privatization. Moreover, a credible commitment to dramatically lowering barriers to North African agricultural exports would accelerate economic growth while enhancing the EU's bargaining power over southern regimes. Europe must convince North African regimes that it is willing to sacrifice some of its short-term economic interests for the sake of promoting democracy. If it continues its passive, muted response toward controlled electoral campaigns, rigged elections and the suppression of some of the biggest opposition parties in Algeria, Tunisia and Egypt, southern regimes and opposition parties will not be convinced of the credibility of its democracy promotion policies.

#### NOTES

1. See Lisa Anderson, 'Democracy in the Arab World: A Critique of the Political Culture Approach', in Rex Brynen, Bahgat Korany and Paul Noble (eds.), *Political Liberalization and Democratization in the Arab World: Volume I Theoretical Perspectives* (Boulder, CO: Lynne Rienner, 1995).
2. Many analyses assume that mainstream Islamist parties promote beliefs that are incompatible with democracy. Yet some mass-based, deeply-rooted Islamist parties share characteristics with early pro-democracy movements in Latin America, eastern Europe, and the former Soviet Union: they engage in extensive patronage activities; promote a rule of law and human rights; and stress the importance of fair elections.

3. European support for (and indulgence of) authoritarian regimes in North Africa is stressed in François Burgat, *L'islamisme en face* (Paris: La Découverte, 1996); Nicolas Beau and Jean-Pierre Tuquoi, *Notre ami Ben Ali: l'envers du 'miracle tunisien'* (Paris: La Découverte, 1999); and Gilles Perrault, *Notre Ami le Roi* (Paris: Gallimard, 1992).
4. See Kiren Aziz Chaudhry, *The Price of Wealth: Economics and Institutions in the Middle East* (Ithaca, NY: Cornell University Press, 1997); Dirk Vandewalle, *Libya since Independence: Oil and State-Building* (Ithaca, NY: Cornell University Press, 1998); and Terry Lynn Karl, *The Paradox of Plenty: Oil Booms and Petro-States* (Berkeley, CA: University of California Press, 1997).
5. Since 1991, the EU's share in the total trade of the Maghreb has been over 65 per cent, higher than its share for Latin America and eastern Europe or any other region. See Roberto Aliboni, 'Change and Continuity in Western Policies Towards the Middle East', in Laura Guazzone (ed.), *The Middle East in Global Change: The Politics and Economics of Interdependence versus Fragmentation* (New York: St. Martin's Press, 1997).
6. See Helen Milner and Robert Keohane, 'Internationalization and Domestic Politics: An Introduction', in Robert Keohane and Helen Milner (eds.), *Internationalization and Domestic Politics* (New York: Cambridge University Press, 1996), pp.3–24.
7. Examples of this approach include Ronald Rogowski, *Commerce and Coalitions: How Trade Affects Domestic Political Alignments* (Princeton, NJ: Princeton University Press, 1989); Jeffrey Frieden, *Debt, Development, and Democracy: Modern Political Economy and Latin America* (Princeton, NJ: Princeton University Press, 1991); and Stephen Haggard and Sylvia Maxfield, 'The Political Economy of Financial Liberalization in the Developing World', in Keohane and Milner, op. cit., pp.209–39.
8. Brynjar Lia, 'Security Challenges in Europe's Mediterranean Periphery – Perspectives and Policy Dilemmas', *European Security*, Vol.8, No.4 (Winter 1999), p.33.
9. F. Stephen Larrabee, *NATO's Mediterranean Initiative: Policy Issues and Dilemmas* (Santa Monica, CA: RAND, 1998), p.33.
10. Jacqueline Coolidge and Susan Rose-Ackerman, 'High-Level Rent Seeking and Corruption in African Regimes: Theory and Cases' (Washington, DC: The World Bank, 1997), pp.46–8, [www.worldbank.org/wbi/governance/pdf/wps1780.pdf](http://www.worldbank.org/wbi/governance/pdf/wps1780.pdf) [accessed 19 March 2001].
11. Lia, op. cit., p.48.
12. James Petras and Morris Morley, 'Contesting Hegemons: US–French Relations in the "New World Order"', *Review of International Studies*, Vol.26, No.54 (2000), pp.49–67.
13. Joel Hellman, 'Winners Take All: The Politics of Partial Reform in Postcommunist Transitions', *World Politics*, Vol.50, No.2 (1998), pp.203–34.
14. See International Monetary Fund, 'Algeria: Recent Economic Developments', IMF Staff Country Report No.00/105 (Washington, DC: International Monetary Fund, 2000); International Monetary Fund, 'Tunisia: Staff Report for the 2000 Article IV Consultation', IMF Country Report No.01/36 (Washington, DC: International Monetary Fund, 2001); and International Monetary Fund, *Egypt: Beyond Stabilization, Toward a Dynamic Market Economy* (Washington, DC: International Monetary Fund, 1992).
15. Oliver Schlumberger stresses this point in describing the resilience of patrimonialism and the 'wasta' system in Arab economies. See Oliver Schlumberger, 'Arab Political Economy and the European Union's Mediterranean Policy: What Prospects for Development?', *New Political Economy*, Vol.5, No.2 (2000), pp.247–68.
16. Eva Bellin, 'Contingent Democrats: Industrialists, Labor, and Democratization in Late-Developing Countries', *World Politics*, Vol.52, No.2 (2000), pp.175–205.
17. Similar arguments are found in Béatrice Hibou and Luis Martínez, 'Le Partenariat euro-maghrébin: un mariage blanc?', *Les Etudes du CERJ*, No.47 (Nov. 1998), pp.1–39.
18. This argument is developed in Richard Snyder's analysis of Mexico's re-regulation dynamics. See Richard Snyder, 'After Neoliberalism: The Politics of Reregulation in Mexico', *World Politics*, Vol.51, No.2 (1999), pp.173–204.
19. The following data come from: *Global Development Finance 2000 CD-ROM*, Vol.2, Country Tables (Washington, DC: The World Bank, 2000), pp.66, 214, 394, 554; *Global Development Finance: Country Tables* (Washington, DC: The World Bank, 1999), pp.56, 56, 204, 388, 548.

20. The IMF contradicts World Bank data on direct investment. It estimates that from 1996 to 1999, FDI to Algeria amounted to \$1.5bn. See IMF, 'Algeria', p.84.
21. Commission of the European Communities, 'Annual Report of the MEDA Programme 1999' (Brussels, 2000), p.8. [http://europa.eu.int/comm/external\\_relations/med\\_mideast/euro\\_med\\_partnership/meda/report\\_1999\\_en.pdf](http://europa.eu.int/comm/external_relations/med_mideast/euro_med_partnership/meda/report_1999_en.pdf) [accessed 15 Feb. 2001].
22. Schlumberger, op. cit., pp.261, 268.
23. Jesús A. Núñez Villaverde, 'The Mediterranean: A Firm Priority of Spanish Foreign Policy?', *Mediterranean Politics*, Vol.5, No.2 (2000), p.136.
24. Philip C. Naylor, *France and Algeria: A History of Decolonization and Transformation* (Gainesville, FL: University Press of Florida, 2000), p.246.
25. EU investors often choose joint ventures with public enterprises out of necessity. In many sectors there are simply no domestic private companies of any significance. Public companies are also better able to contribute investment capital. Most importantly, public partners minimize risks to foreign investors from arbitrary ministerial decisions, bureaucratic blockages and haphazard judiciary outcomes.
26. *Maghreb Weekly Monitor*, No.97 (24 Dec. 2000), p.19.
27. *Jeune Afrique/L'Intelligent*, No.2095 (6–12 March 2001), p.80.
28. *Middle East Economic Survey*, Vol.43, No.46 (13 Nov. 2000), p.A7.
29. *Ibid.*, p.A18.
30. *Middle East Economic Survey*, Vol.44, No.13 (26 March 2001), p.A20.
31. *Middle East Economic Survey*, Vol.43, No.39 (25 Sept. 2000), p.A15.
32. *Middle East Economic Survey*, Vol.43, No.43 (23 Oct. 2000), p.B7.
33. *Maghreb Weekly Monitor*, No. 99 (18 Jan. 2001), p.7.
34. *Middle East Economic Survey*, Vol.43, No.48 (27 Nov. 2000), p.B5.
35. IMF, 'Tunisia', p.13.
36. *Maghreb Weekly Monitor*, No. 92 (22 Sept. 2000), p.10.
37. Economic Research Forum. *Economic Trends in the MENA Region, 2000* (Cairo: Economic Research Forum, 2000), ch.2. [www.erf.org.eg/html/economic\\_00/html/table2\\_13.html](http://www.erf.org.eg/html/economic_00/html/table2_13.html) and [www.erf.org.eg/html/economic\\_00/html/table2\\_14.html](http://www.erf.org.eg/html/economic_00/html/table2_14.html) [accessed 15 Jan. 2001].
38. Southern Mediterranean regimes are unlikely to attract much more FDI without addressing socio-political factors such as independent legal systems, foreign property rights and good governance (which rests upon political participation and accountability). See George Joffé, 'Foreign Investment and the Rule of Law', *Mediterranean Politics*, Vol.5, No.1 (2000), pp.33–49.
39. The *makhzen* refers to the de facto power structure in Morocco, associated for many years with the role of Driss Basri at the head of the interior ministry. See also Haddadi, this collection, p.159.
40. See Myriam Catusse, 'Les entrepreneurs marocains, nouveaux défenseurs du trône? Sur la construction sociale et politique d'une catégorie libérale', paper presented at the XVIIIth World Congress of the International Political Science Association, 1–5 Aug. 2000, Quebec, Canada.
41. Guilain Denoeux, 'The Politics of Morocco's "Fight Against Corruption"', *Middle East Policy*, Vol.7, No.2 (2000), pp.165–90.
42. See Jean-Pierre Cassarino, *Tunisian New Entrepreneurs and Their Past Experience of Migration in Europe* (Aldershot: Ashgate, 2000).
43. For a comprehensive overview of this programme and how the Tunisian regime has used it to re-regulate the private sector, see Cassarino, *ibid.*
44. *Maghreb Weekly Monitor*, No.93 (13 Oct.2000), p.7.
45. *Maghreb Weekly Monitor*, No.95 (2 Dec. 2000), p.8.
46. *Maghreb Weekly Monitor*, No.92 (22 Sept. 2000), p.6.
47. Beau and Tuquoi, op. cit., pp.148–9.
48. IMF, 'Algeria', p.38.
49. *Middle East Economic Survey*, Vol.43, No.46 (12 Nov. 2000), p.B6.
50. IMF, 'Tunisia', p.9.
51. *Middle East International*, No.643 (9 Feb. 2001), p.18.
52. *Middle East Economic Survey*, Vol.43, No.44 (14 Aug. 2000), p.B6

