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Speaking Notes: *The Global Crisis and the Middle East – The economic background of the political rebellion in North Africa and the Middle East.*

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Note: This presentation draws upon earlier research by the author available in:
Adam Hanieh, 2011. *Capitalism and Class in the Gulf Arab States* (New York: Palgrave-Macmillan).
Adam Hanieh, 2011. 'Finance, oil and the Arab uprisings: the global crisis and the Gulf states' *Socialist Register 2012: The Crisis and the Left*, Vol 48.
Adam Hanieh, 2011. 'Beyond Mubarak: Reframing the "Politics" and "Economics" of Egypt's Uprising.' *Studies in Political Economy*, Vol. 87.

This presentation examines the impact of the crisis on the ME in a general sense, and attempts to link this to the political challenges that face the Left in the region.

Key themes:

1. The crisis and the uprisings cannot be understood separate from the restructuring of class relations that occurred during the preceding neoliberal period.
2. One of the consequences of these above processes has been a specific insertion of the region into the world market. This has manifested itself in the way that the region experienced the crisis and is a key element in understanding the uprisings.
3. A full understanding of the crisis and its possible trajectories needs to move beyond the national scale and examine the ways in which the region itself has been reconfigured over the last two decades to increasingly operate as a regional system.

There are three parts to this talk:

1. The way in which neoliberalism transformed the region through the 1990s and 2000s.
2. The impact of the crisis on the region itself.
3. The resulting patterns of regional accumulation and the political implications these hold.

1. Neoliberalism through the 1990s-2000s.

The most striking feature of the last two decades has been the generalization of neoliberal policies across most states of the ME.

This occurred in close collaboration with the WB/IMF, regional institutions like the AMF, ADB and other institutions like USAID.

Key among these policies were the liberalization of ownership laws, particularly in the real estate, financial and telecommunication sectors; opening up to foreign investment flows; privatization of state-owned industries; restructuring of tax regimes; and the relaxation of trade barriers.

Egypt was at the head of this process, and was lauded by the WB as the top reformer in the ME and NA for three years in a row between 2005-2008.

The process began in Egypt under Sadat in the 1970s but accelerated in subsequent decades. There are four key points here that are not unique to Egypt:

1. Social relations in rural areas, In 1992, Law 96 of the Egyptian Peoples' Assembly liberalized agricultural rents and allowed for the eviction of tenants by landowners after a five-year transitional period. Rents were raised threefold and – with the encouragement of international financial institutions such as the IMF and World Bank, and US government bodies such as USAID – Egyptian agriculture shifted towards the type of export-oriented production that typifies much of African agriculture today.
2. Dismantling of state-owned companies, ending of guaranteed state employment for graduates. Privatization (wholly or in part) of 209 public sector companies (out of a total of 314) by 2005. The number of workers in these public sector companies was halved from 1994-2001. Even those

companies that remained nominally owned by the public sector were turned into autonomous entities that were forced to compete with the private sector. The consequence of this wave of privatization – hailed by the IMF in 2006 as having "surpassed expectations" – was a massive downgrading of working conditions and the further impoverishment of wide layers the Egyptian population.

3. Reduction of subsidies on food, energy and so forth.
4. Opening up to Foreign investment.

At the national scale these transformations have had a pronounced impact.

They have meant:

1. Hundreds of thousands of Egyptians lost their ability to survive on the land. Many attempted to migrate to elsewhere in the Middle East or streamed into the informal sector of urban centers such as Cairo. This corresponded with seeing labour migration as a national economic strategy.
2. Growth in informal sector (approx 40%). These informal workers live in a society that lacks any decent social provisions for education, health or broader welfare – it is estimated, for example, that one-third of the Egyptian population is illiterate.
3. Concentration of wealth – emerging capitalist classes; military; state elites on one hand / poor on the other (June 2009 study by the Egyptian Centre for Economic Studies found that when the minimum wage was expressed as a percentage of per capita gross national product, it "decreased from nearly 60 percent in 1984 to 19.4 percent in 1991/92 and further to 13 percent in 2007". This measurement of the minimum wage refers, of course, to the formal sector and thus significantly *understates* the real wage rates for the majority of the population. According to official government statistics the number of people living on less than $1.25/day increased from 16.7% to 21.6% from 2000 to 2009. This, in itself, is a significant increase, but official statistics need to be approached with a large degree of caution. The official

poverty line is set at a very low rate and undercounts the 40% of Egypt's workforce located in the informal sector. Some estimates put around 40% of the Egyptian population earning less than $2/day. The official unemployment rate is recorded at around 9 percent, but again does not properly record the informal sector. The former head of the Economic Analysis Section of the United Nations Regional Office in Beirut, Ali Kadri, estimates 'real' unemployment (including disguised, hidden and under-employment) as surpassing fifty percent. The demographic question is also significant here; in a country where the leadership consists of men aged in their 80s, youth make up more than 90 percent of the jobless.

4. Tightened relationship with world market (reliance on exports, foreign capital inflows, migrant remittances, food prices).
5. Politically – weakening of left, Arab nationalist movements, rise of Islamist movements; some reaction (Egypt)

Of course didn't proceed without resistance (e.g. 1977 Bread riots). 2006-2008 wave of industrial strikes – largest in decades.

Not just Egypt. In 2009, the ME as a whole was noted as the region with the largest jump in reforms of any region in the world, with 17 out of 19 countries.

Slides 1-3: Private-sector involvement in different sectors.

But very important to understand this was true not just at the national scale.

One of the direct results of the decades of NL is the increasing significance of the regional scale.

Key argument is that the nation-state in the ME cannot be understood as a self-contained political economy separate from the ways it intertwines with the broader region. Capitalism in the ME operates increasingly at this regional scale. And located at the core of this regional system are the Gulf Arab States, collected together in the Gulf Cooperation Council.

What this means is that in order to understand the uprisings and ongoing results of the crisis, we need to have a much better sense of how the regional political economy has formed over the last two decades and, connected to this, the way in which class and state formation in the GCC has developed.

There are two key issues to understand about this regional restructuring.

The first is the centrality that normalization with Israel plays in this.

US and European policy has followed a two-pronged track that ties neoliberalism with the normalization of economic and political relations between the Arab world and Israel. For the US, the broader goal has been the creation of a single economic zone from Israel to the Gulf states, linked under the dominance of the US.

One of the mechanisms for reaching this goal has been a series of bilateral Free Trade Agreements (FTAs) signed between the US and Arab states in the region (Morocco, Bahrain, Oman, Jordan, and Egypt) that, over time, would be knitted together in a single free trade area enabling the unfettered flow of capital and goods across the region. No boycott allowed.

In the case of Egypt (and Jordan) the link is more advanced than any other state in the region, and is best shown in the so-called Qualified Industrial Zones (QIZ).

These QIZ provide duty free access to the US market for Egyptian exports. But they contain the remarkable provision that a certain proportion of inputs (around 11%) must be Israeli in order to qualify for duty-free status.

The Egyptian QIZ are concentrated in the textile sector, with 770 companies operating in the zones at the end of 2009. Egyptian exports from the QIZ grew at an incredible 57% annually between 2005 and 2008, more than ten times the rate of Egypt's exports to the US as a whole.

Leaked Wikileaks documents from the US embassy in Cairo recorded that US, Egyptian and Israeli officials met throughout 2009 to discuss further increasing the scope of the QIZ agreement to other industrial zones in Egypt, and noted that Israeli exports to Egypt had increased ten percent in the first quarter of 2009 over 2008 levels. In 2010 QIZ exports made up more than 40% of the vale of all of Egypt's exports to the US.

The QIZ are not solely a means of linking the Egyptian and Israeli economies but have also begun to attract other investors from the Middle East. A January 2010 cable from the US embassy in Cairo stated, "11-12 Turkish-owned garment factories in Egypt are currently exporting to the U.S. through the QIZ program". A spokesperson from the Turkish Ministry of Industry and Trade noted the incentive provided by Egyptian cheap labour in these zones, claiming "low wages (about $100/month on average for factory workers in Egypt) save Turkish companies at least 30% in total production costs".

It should also be noted that similar QIZ exist in the Jordanian context – accounting for more than half of all Jordanian exports to the US (70% in 2007) – with the key difference that many of the workers in the Jordanian QIZ are heavily exploited migrants from Asia.

The QIZ act, in other words, as a mechanism of generalizing normalization with Israel in the broader Middle East through the platform of cheap Egyptian labour. Therefore – significance of Palestine is not just a question of rights, but linked to neoliberal restructuring in the region.

In short, these regional processes indicate the impossibility of separating 'economic' and 'political' aspects of the current uprisings. The demand to cut ties with Israel and abrogate the regional agreements signed by Sadat and Mubarak are tightly connected to any struggle against the logic of neoliberalism and US power in the region. The authoritarian nature of the Egyptian state is a direct outcome of these regional processes and, for this reason, the struggle for greater political freedom is inevitably entwined with questions of confronting US dominance of the region and the particular role Israel plays in sustaining that dominance.

Second aspect of the regional economy is the centrality of the GCC states.

Very rapid internationalization of GCC-based capital, particularly following the rising surpluses that began in 1999 and peaked in 2008.

Slide 4: GCC Originating M&A
Slide 5.: GCC outward FDI stock (% of South)
Slide 6: Value of GCC-based Greenfield investments as % of south

What this reflects is the important process of class-formation that has taken place in the GCC over the last two decades or so.

Over this period, large conglomerates have arisen – often established by merchant families or individuals close to the ruling family – that are strongly interpenetrated with the state structures.

These conglomerates are generally active across all moments of the circuit of capital – the productive circuit (construction, energy-rich commodities such as aluminium, steel, concrete); the commodity circuit (agents and distributors of imported commodities, malls and shopping centers); and the financial circuit (banks, investment and private equity companies).

Of course the bulk of the GCC's surplus capital has been invested outside the ME. The vital role of Gulf petrodollars in US and European markets are indicative of this.

But, over the last two decades, they have directed much of their resources to other states in the ME. Viewed from the regional scale – the GCC has been a main beneficiary of the last decade or so of privatization, de-regulation and market opening.

Taking advantage of policies of privatization and liberalization, GCC-based capital has become the major component of external capital flows in most countries across the region.

A few quick statistics illustrates this:

Slide 7: FDI in MENA Region

In the 2008-2010 period, the GCC taken as a whole was the top-ranked source of FDI for Egypt, Jordan, Lebanon, Libya, Palestine, Tunisia and ranked second in Morocco and Syria. More than the US, UK, China or any European country.

And in 2010, GCC-based capital was responsible for the single largest FDI projects announced in Algeria, Lebanon, Libya and Tunisia.

These are very striking figures. And they do not include portfolio investment flows in the region's stock markets or other forms of 'development loans' that flow to the ME from the Gulf.

It should also be noted that, contrary to common misconceptions, these flows are not necessarily directed by sovereign wealth funds or state-owned GCC companies. A large proportion of these flows come from privately owned GCC capital.

Internationalization of the state.

What this indicates, is that NL as a regional project is a project of class power that both strengths national capital, and simultaneously strengthens the position of the GCC within the region as a whole.

It is possible to go further, and to make the argument that the region's capitalist classes are themselves more and more tied to the reproduction of capitalism in the Gulf itself. Indeed, in many cases, particularly in situations of large diaspora capital such as Palestine and Lebanon – these capitalist classes have based much of their activities in the Gulf states and even, in some cases, such as the Hariri family in Lebanon, hold Gulf citizenship (Saudi in the case of Hariri).

To summarize

1. Increasingly regional nature of capitalist accumulation, dominated by GCC-based capital. ME political economy moves broadly in tune with the GCC region as its core.
2. Normalization with Israeli economy
3. NA dependent upon exports to EU; migration flows.

2. Impact of the crisis

Non-GCC states:

Neoliberalism made the country much more exposed to the crisis itself – massively widening the levels of inequality and, simultaneously, undermining potential mechanisms of social support.

Precisely because of the highly polarized outcome of neoliberalism, the effects of the global crisis were sharply concentrated on the most vulnerable layers of ME society.

Slides 8- 10:

Transmission mechanisms:

1. Drop in exports
2. Drop in remittance levels (proxy of wealth distribution)
3. Drop in FDI
4. Rise in food and energy prices
5. Difficulty of surviving due to erosion of social networks
6. Alongside ostentatious wealth, sp. Rulers.

But simultaneously, widening regional differentiation due to the different way that the crisis manifested itself in the GCC region.

Slide 11: Current Account differential

In the GCC itself, although there were a few high profile financial casualties due to the heavy indebtedness of some large conglomerates, the crisis had the principal effect of strengthening the position of the Gulf's dominant classes. The nature of class formation in the GCC permitted the spatial displacement of crisis onto migrant workers and, coupled with state support to the largest Gulf financial and industrial entities, meant that Gulf elites were largely shielded from the worst impacts of the economic downturn.

This strengthening of GCC capitalism contrasts with the dramatically worsening of living standards in the rest of the Middle East.

This differentiated experience of the crisis across the region indicates not only the relative strengthening of the largest GCC conglomerates and ruling families within the Gulf itself, but also the widening gap between GCC and other Middle East states.

In other words, the Gulf's dominant position within the region as a whole was sharply accentuated in the wake of the crisis.

What this means is that the interests of the ruling classes in the Gulf are even more sharply counterposed to the vast majority of the Middle East as a whole.

3. Conclusions and Political Implications

First a general summation of these regional trends:

1. Need to see the region as an integrated unity. Results of NL mean that it is impossible to treat the national and regional scales as two distinct political spheres – what appears at first glance to be 'national' struggles that are contained within individual nation-states, inevitably grow to confront the construction of these broader regional hierarchies.
2. Process of uneven and combined development, widening gaps internally, and between GCC and the remaining region. There has been a differential impact of crisis – GCC able to meliorate relative to rest (note class structure).
3. This process of regional transformation needs to be situated within and alongside the continued hegemony of US and Western imperialism within the region. This of course is based upon the centrality of the ME region to imperialism as a whole – stemming from the region's huge oil reserves and petrodollar surpluses. Imperialism is articulated in and through the GCC states.
4. State structures reflect this process. The social structures that characterized political rule in Egypt, Tunisia and elsewhere are themselves part of how the GCC – linked to the domination of broader imperialist powers – established its place atop the hierarchies of the regional market.
5. Position of Israel is part of this process of NL restructuring.
6. Linkages between cap classes.

This is the context in which the Arab uprisings have unfolded.

Not a solely a q. of political form of the state (e.g. dictatorships) but linked to the transformation of social relations – insertion into the world market; concentration of wealth; uneven and combined development.

Of course the slogans and demands of the uprisings did not explicitly target the GCC states in this manner, but contained within their logic is an implicit challenge to the regional order as it has developed over the last two decades. The struggles against dictatorship that the uprisings represented are, simultaneously, intertwined with the way that capitalism has developed across the region and, in this sense, are also struggles *against* the Gulf.

This explains the furious attempts by the GCC states to hold back and derail these uprisings – their absolute centrality to the counter-revolutionary wave that is being unleashed today in the region.

The example of the NATO-led invasion of Libya is a clear example of this, with Qatar and the UAE in particular playing a very important role in this invasion. Sending troops, money and equipment and – perhaps most importantly – providing the political legitimacy for this attack.

There are many other examples, with unfortunately no time to discuss the details – but we can see it in the billions of dollars that are being promised to the new regimes in Egypt, Tunisia; the military interventions by the GCC in Bahrain; the offer to Jordan and Morocco to join the GCC; and the centrality of the GCC to attempting to moderate and steer the uprisings in Syria and Yemen. It is also confirmed by the announcement that the US would be moving much of its military capabilities in Iraq to the GCC states – which is, of course, already the headquarters for the military interventions in Central Asia and the ME as a whole. And perhaps most significantly, the increasingly bellicose threats against Iran. Indeed, the question of Iran is just as much a question of the GCC as it is of Israel.

Question of MENA cannot be solved within the framework of the single nation-state – need to embrace a regional struggle and seek a regional transformation. Doesn't mean a return to pan-Arabism!

In the current period:

1. Points of counter-revolution (IMF/WB loans); intervention in Syria, Iran?
2. Recognize the weakness of the Left but also reasons for optimism (e.g. workers movement in Egypt, Tunisia, isolation of Israel, difficulties in reconstituting state structures).
3. Renewed crisis?