

Beyond Oil:

Competitive Authoritarianism and Diversification of the Economy in the Middle East and
North Africa

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Comprehensive Exercise
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Introduction

Although the Middle East and North Africa are often ignored in comparative literature, it is important to understand the political economy of their regimes for several reasons. Many states are slowly incorporating competitive institutions and policies aimed at long-term economic growth, but there remains a wide range of variation in the realization of these institutions, policies, and outcomes. The survival and evolution of competitive institutions will depend heavily on whether or not they can successfully decrease dependence on natural resources. This paper seeks to answer the following question: what role do different democratic institutions play in sustaining the ongoing political and economic liberalization in the Middle East? More specifically, what are the different institutional capacities of these liberalizing regimes to decrease dependence on natural resources? Veto player theory offers a new framework of analysis that focuses on several dimensions of different types of democratic institutions and how they affect policy outcomes. I conclude that increasing the number of partisan veto players in government will create policies aimed at decreasing dependency on natural resources, while increasing the number of institutional veto players will maintain or increase a country's dependence on natural resources.

The Middle East and North Africa in the Past Two Centuries

Although the political economy of the Middle East and North Africa (MENA) has popularly been viewed as backward, the history of the region reflects a centuries-old struggle to compete economically on an international level. Trade with Europe grew steadily throughout the 19th century under Ottoman rule and continued slightly more

sporadically in the first half of the 20th century, generally reflecting the exports of cash crops, natural resources, and fabrics in exchange for capital for infrastructural projects (Owen and Pamuk, 1998). As the mandate system dissolved and the region became more independent, the discovery of oil in the Middle East in the 1930s drastically shifted the focus of the region's economies and directed the political institutions that took over (Yergin, 1993; El Azhary, 1984).

The legitimacy of these regimes, originally classified by Linz to be traditional, sultanistic, or military-bureaucratic, derived heavy support from first oil royalties and then oil income, following the nationalization of oil industries (Linz, 1975; Owen and Pamuk, 1998).¹ In North Africa, in particular, metal reserves provided an additional source of government revenue. This disproportionate wealth from the abundance of natural resources allowed the creation of large welfare states that provided employment, defense, national security, education, health, and infrastructure without taxing the population (Beblawi, 1987; Winkler, 2000; Linz, 1975). Even in neighboring countries like Yemen and Bahrain, the presence of these resources provided large quantities of revenue through labor migration and remittances, direct aid from richer states, and the transit sector, allowing partial welfare states (Beblawi, 1987 and Posusney, 2004).²

Recently, however, dwindling natural resource reserves and increasing debts from maintaining large welfare states have spurred two movements: economic liberalization

¹ Linz cites three traditional sources of legitimacy in Middle East and North Africa: disproportionate wealth or rentier economy, military rule, and traditional social structures (Linz, 1975). However, of the seventeen countries in this study, only five experienced periods of direct military rule, and these periods were short-lived (Owen, 2004). Traditional or pre-mobilized social structures, usually in the form of religious or tribal organizations, may play substantial roles on the sub-national or local levels and may even have a part in national party politics, but no government in this study derives its legitimacy solely from religion. Hence, an abundance of natural resources would appear to be the most important source of legitimacy in the region.

² As in the extreme case of Bahrain, countries may also utilize existing infrastructure of the petroleum sector to import crude oil from other countries, refine it, and export it themselves.

aimed at development of non-oil sectors, and the incorporation of democratic institutions (Owen, 2004; Bellin, 2004; Rivlin, 1999; Owen and Pamuk, 1998; Brumberg, 2002, Carothers, 2002). Figures 1-4 (Appendix A) graphically show the gradual shift towards less dependence on natural resources and more democratic regimes; the average percentage of exports composed of natural resources in the region decreased from 63 percent to 55 percent, while the average polity score rose from -6.25 to -3.75.

The dual transitions the political economy of these countries have undergone takes a number of different forms. Economic liberalization has included a variety of policies, ranging from privatization to building infrastructure to encouraging foreign investment in non-hydrocarbon sectors (Owen, 2004). Similarly, the realization of democratic institutions in the Middle East has varied both in scope and type; some countries, like Saudi Arabia, maintain no democratic institutions, while countries such as Oman have only created an elected consultative council (Majlis al-Shura) with no official legislative capacity. Other countries, including Jordan and Kuwait, have legislatures that are sometime open, although Kuwait still bans political parties. Algeria consistently maintained separate elections for presidents and legislatures for over ten years before allowing a second party to hold political positions. Morocco, on the other hand, has a monarch coupled with a legislature elected by an electoral college, an independent judiciary, and over ten effective parties in the legislature (Owen, 2004 and Europa, 1975-2005). All of these institutional structures will affect the policy-making process and policy outcomes differently. All of the existing institutions, however, will need to be able to promote sustainable economic growth in order to maintain their legitimacy (Haggard and Kaufman, 1995). In the context of these regimes, the hard bottom line of

sustainable economic growth is non-oil sector growth, which will be the compilation of sound fiscal and monetary policies as well as infrastructure development (Mansur and Treichel, 1999).³

As the diversity of liberal institutions grows throughout MENA, it is increasingly important to understand how variation across these institutions affects economic outcomes, specifically, their institutional ability to decrease dependence on natural resources.

Previous Frameworks of Analysis: Rentier State Theory or Third Wave Democratization?

Traditional analysis of political economy in MENA fails to explain the interactions between and stability of evolving economic policies and political forces. Rentier theory holds that large quantities of oil, natural gas, and metal in the region allow states to maintain their legitimacy without the support of democratic institutions because they can provide welfare programs without taxation; in essence, therefore, the only source of change in the region can be drastically diminished reserves of natural resources (Beblawi, 1987; Winkler, 2000; Linz, 1975).⁴ While, as Posusney points out, the empirical evidence in MENA favors a causal link between diminishing rents and political liberalization, the theory offers no framework for the comparative analysis of economic policies in these evolving regimes.

³ For more information on recommended economic policies in the Middle East and economic diversification, see IMF Occasional Papers on Middle Eastern states (Nsouli et. al, 1993; Nsouli et. al, 1995; Maciejewski and Mansur, 1996; Mansur and Treichel, 1999; and Enders et. al, 2002).

⁴ Although Beblawi admits there is no such thing as a pure rentier economy, he cites three main criteria for a state to be considered a rentier state: the state must rely heavily on external rent from a natural resource, only a small portion of the population can be involved in the generation of rent with the rest involved in the distribution or utilization of the rent, and the government must be the primary recipient of the rent (Beblawi, 1987).

A second theory of Middle Eastern political economy relies on the assumption that these countries are transitional states, moving either to or from democracy (O'Donnell and Schmitter, 1986 and Huntington, 1991). Political scientists then use a series of linear scales, such as Freedom House of Polity IV, to analyze political liberalization and subsequent interaction with economic liberalization. These scales, however, fail to reflect the variety of institutions a regime can incorporate in the liberalization process. For instance, Libya and Morocco both maintained Polity IV scores of -7 from 1992 to 1997, despite having very different institutions and producing very different policy outcomes.⁵ It does not matter if one regime is more democratic than another if its institutions are de-legitimized by a failure to produce stable growth (Haggard and Kaufman, 1995). As Levitsky and Way point out, "It may therefore be time to stop thinking of these cases in terms of transitions to democracy and to begin thinking about the specific types of regimes they actually are" (Levitsky and Way, 2002: 51).

Competitive Authoritarian Regimes and Illiberal Democracies

The theory of competitive authoritarianism offers a more comprehensive and realistic explanation for the ongoing political transformations in MENA. First, it notes that there is a dynamic interaction between economic and political change in Middle Eastern states (Levitsky and Way, 2002; Zakaria, 1997). Second, competitive

⁵ Cox and McCubbins' succinct argument that "the diversity of economic policies is rooted in the diversity of democratic institutions" is backed empirically by a comparison of Morocco and Libya (Cox and McCubbins, 1998: 21). Morocco had eight effective parties with a legislature, monarch, and judicial review system, while Libya was dominated by a sole party and the military. As a result, 90% of Libya's exports are from the natural resource sectors, while Morocco decreased dependency from above 60% in 1975 to 17% in 1997. (World Bank, 2006 and Europa, 1975-2003).

authoritarian states are not necessarily in transition to or from democracy, but rather may continue to exist as a mix of authoritarian and democratic institutions (Levitsky and Way, 2002; Ryan and Schwedler, 2004; Carothers, 2002; Zakaria, 1997). Third, it expands the comparable qualities of MENA regimes from a numerical scale to at least four arenas of democratic contestation and allows for different combinations of all four: the electoral arena, the legislative arena, the judicial arena, and the media (Levitsky and Way, 2002). Hence, any attempt to link institutional structures with economic policy outcomes should look beyond amount of natural reserves or level of democracy, although both are relevant, to analytic frameworks that look at more institutional variables.

Tsebelis's veto player theory provides one possible framework through which to discuss competitive authoritarian regimes and economic outcomes (Tsebelis, 2002). His theory covers the first three arenas of democratic contestation by aggregating the number of political institutions as well as the number of political parties and defining them as institutional veto players and partisan veto players, respectively. The number of institutional veto players incorporates all institutions set up by the constitution that can block policy change, addressing both the judicial dimension (is there an independent judiciary with judicial review?) and the legislative dimension (how many houses are there that can block policy and is there an executive with veto power?). Meanwhile, the number of partisan veto players is partially an outcome of the electoral dimension, while impacting legislative representation and bargaining in the legislative arena.

Veto Players and Natural Resources

Based on a review of the relevant literature, I argue that increasing the number of partisan veto players in Middle Eastern and North African countries will decrease dependency on natural resources, while increasing the number of institutional veto players will protect the status quo and maintain or increase dependency on natural resources. Unlike rentier state theory or analysis of transitional countries, veto player theory differentiates between the types of institutions hybrid regimes employ and makes propositions about economic policy outcomes (Tsebelis, 2002).⁶ The definitions of institutional and partisan veto players are the same as Tsebelis's: institutional veto players are those set up by the constitution, such as legislative houses, executive offices, judicial review, or federalist systems, while partisan veto players are set up by the political system (Tsebelis, 2002). Because there is such a large range of organizations that call themselves parties in some of the countries, numbers of partisan veto players are compared by using Laasko and Taagepera's equation for effective number of parties by seats in the legislature (Laasko and Taagepera, 1979).⁷

Tsebelis argues that the higher the total number of veto players in a regime is, the harder it will be to change the status quo. In MENA, the status quo is heavy dependence on natural resources (Tsebelis, 2002). Haggard and Kaufman further this theory by arguing that the more fractionalized a transitioning government is, the harder it will be for them to cope with an economic crisis (Haggard and Kaufman, 1995). However, they

⁶ Although veto player theory has not been applied to Middle Eastern and North African regimes before, there is precedence for using it in the context of semi-authoritarian states. Henisz and Mansfield, as well as Frye and Mansfield, conduct studies of reforming states in Eastern Europe. (Henisz and Mansfield, 2006 and Frye and Mansfield, 2003). Also, Tsebelis, the originator of veto player theory, points out that authoritarian regimes may have more than one veto player (Tsebelis, 2002: 77)

⁷ Formula for effective number of parties: $N = 1/\sum s_i^2$ where s_i is the proportion of seats in the legislature of the i -th party.

differentiate between the capacity of a government to handle crises and its ability to promote long term growth, positing that different institutions may be more conducive to one than the other.⁸ This paper does not look at crisis capacity but rather at long term growth; as a result, the empirical evidence finds that a large number of effective parties does not produce policy gridlock. Moreover, a large number of partisan veto players are absolutely necessary for policy change in reforming authoritarian regimes. This finding is supported by Crepaz and Moser, Henisz and Mansfield, and Frye and Mansfield, among others (Crepaz and Moser, 2004; Henisz and Mansfield, 2006; Frye and Mansfield, 2006).

Crepaz and Moser argue that partisan veto players do not produce gridlock for three theoretical reasons, supported by an empirical study of welfare reform. First, a large number of partisan veto players creates a more representative government and brings a larger diversity of economic interests into the legislative arena (Crepaz and Moser, 2004). Second, partisan veto players do not face the same high transaction barriers to bargaining that institutional veto players do, because they may interact with each other on a personal level. Finally, although Tsebelis counts them as separate veto players, they are still part of the same institution and to some extent, judged as one body, so they all have incentives to pass legislation. Henisz and Mansfield similarly argue a higher number of veto players is absolutely necessary to policy reform; otherwise, the old elites will remain in power; in MENA, some countries have maintained the same elite body for the past two centuries (Henisz and Mansfield, 2006; Owen and Pamuk, 1998).⁹ They maintain, however, that

⁸ For further reading, see Cox and McCubbins (2001); Linz and Valenzuela (1994); and Tsebelis (2002).

⁹ “where few veto points exist, it is more likely that the same political actors that supported autarky will remain in power (Henisz and Mansfield, 2006: 192). Tsekov makes a similar argument about reforming authoritarian regimes, positing that “the role of veto players for stability suggests that the success of

creating more political institutions will produce too much policy gridlock to effectively involve new actors, while allowing new parties in government has the advantage of maintaining low transaction costs to bargaining.¹⁰

The dependent variable is dependence on natural resources, which is defined in the following analysis as the percentage of merchandise exports that are composed of oil or metal exports, the two main natural resources of the region. As discussed previously, effective economic diversification must be the result of the combinations of macroeconomic policies these countries employ as it is vital to maintaining growth. Indicators like exchange rate stability or the size of the public sector, while important, are only pieces of this goal (Mansur and Teichel, 1999; Nsouli et. al, 1995; Nsouli et. al, 1993; Enders et. al, 2002).¹¹

There are two potential problems with the argument presented in this paper. The first is the possible correlation between revenue from natural resources and the presence of more democratic institutions. As oil reserves and revenues fall, governments must find a new source of legitimacy. Many have turned to democratic or more competitive institutions to this end. However, a fall in revenues from natural resources should not be correlated with any particular type or set of institutions, which is why this study's different expectations of institutional and partisan veto players is important. Additionally,

political and economic reform in these societies is dependent upon the dismantling of old elites and the advent of new political actors," who, short of a complete overhaul of the system, must be phased in (Tsekov, 2004: ii).

¹⁰ An important assumption in the context of my argument is that, given the dependence of these countries on natural resources, oil and metal companies will be represented in the very first, or the oldest, veto player. One argument against this theory is that the majority of these countries are members of OPEC, and that policy is not beneficial to domestic oil companies. However, OPEC is on a separate policy dimension than economic diversification, so OPEC membership does not imply that countries will place oil interests as a high priority when they do not come into conflict with foreign policy and, in the cases of most Gulf States bordering Saudi Arabia, national security.

¹¹ For further reading on comprehensive economic reforms in the Middle East, see the following IMF Occasional Papers: Nsouli et. al (1993); Nsouli et. al (1995); Maciejewski and Mansur (1996); Chalk et. al (1997); Nashashibi et. al (1998); Mansur and Treichel (1999); and Enders et. al (2002).

my empirical analysis will control for level of democratization to make sure it is the types of institutions that matter and not simply the overall level of democracy.

The second issue involves the concept of dual transitions and the interaction between political and economic liberalization. Expanding other sectors of the economy generally creates new classes and new demands for representation, which in turn support an increased number of parties. Through the examination of several case studies in the following section and the use of a lagged model, I will prove that at least a moderate number of parties (at least over two) is necessary for initial diversification reforms to remain in place and to become effective.

Statistical Methods

To support my argument, I have run a time-series cross-sectional study of seventeen Middle East and North African countries between the years of 1975 and 2003.¹² Running this type of quantitative analysis is particularly relevant to this case, as it gets rid of serial auto-correlation while allowing for analysis of multiple countries over multiple years. The data yields 478 cases, although the sample size is reduced by about 100 in each of the regressions due to missing data. As discussed previously, my main independent variables are institutional and partisan veto players. Institutional veto players range from 1 to 4 in this dataset and represent the number of constitutionally empowered institutions, including legislative houses, executive offices, judicial review, and federalism. Partisan veto players are operationalized by effective number of parties

¹² Oman, United Arab Emirates, Bahrain, Kuwait, Lebanon, Jordan, Israel, Syria, Turkey, Egypt, Algeria, Libya, Tunisia, Qatar, Saudi Arabia Yemen and Morocco.

by seats in the lower house, ranging from 0 to 13.32. Both these variables were hand coded using the Europa World Books (Europa Publications, 1975-2003).

The main dependent variable is the natural log of the percentage of total merchandise exports composed of fuel or metal exports. Before the natural log was taken, the range was from 0 to 99.95, with a mean of 43.74 and a standard deviation of 38.40. Afterwards, the range changed to -.57 to 4.60. The natural log was taken to make the distribution less skewed.¹³

Control variables originally included the amount of oil produced per year, the average international oil price, a dummy variable for whether or not the oil company was nationally owned, the polity IV score, inflation, percentage of Gross Domestic Product (GDP) composed of exports, foreign aid as a percentage of Gross National Product (GNI), whether or not the country experienced a crisis, and whether or not the country was under military rule. The polity IV score was included to make sure that any correlations in the model were not simply based on an overall trend towards democracy, while annual oil production was included to verify that the correlation would not simply be one between how much oil a country produces and natural resources as a percentage of exports.¹⁴

Three models were also run with a one year lag of the natural log of the percentage of merchandise exports composed of fuel or metal to show causality, and two more were run to test the individual impacts of partisan veto players, institutional veto players, and oil production on the dependent variable.

¹³ Figures 1 and 2 (Appendix B) show the two histograms

¹⁴ Annual metal production was not an available statistic; however, annual oil production by itself with both oil as a percentage of exports and oil and metal as a percentage of exports and neither the coefficient or the r-squared value changed drastically. The coefficient rose from .00000429 to .000011, while the r-squared value went from .125 to .145

Results

Table 1 displays the results of four of the ten time-series panel-corrected standard error models. Model 1 contains both institutional and partisan veto players, as well as all the controls and a lag of the dependent variable. The model explains a substantial amount of variation in the dependent variable (75.7 percent). Institutional and partisan veto players are significant at the .01 level. As expected, institutional veto players increase dependence on natural resources while partisan veto players decrease dependence. Models 1 and 2 (Figure 3, Appendix B) confirm that institutional and partisan veto players remain significant and in the right directions when run alone, causing 27.3 percent of the variation by themselves. There were no multicollinearity problems.¹⁵

Other significant variables in the positive direction include annual oil production, whether the oil company is nationally owned, and inflation. It is intuitive that the more oil a country produces, the larger the portion of its exports will be composed of natural resources. Similarly, it is intuitive that if the government directly controls at least half of the oil companies in the state, it will want to continue to focus investment in that sector.

Control variables that were significant in the negative direction include the Polity IV and aid as a percentage of GNI. The polity variable confirms two separate theories. First, rentier theory's assumption is verified that the less a country can rely on oil, the more it will try to create legitimate democratic institutions. Also, the more diverse the economy becomes, the more socio-economic groups will emerge and seek political representation (Linz, 1975 and Denoex and Maghraoui, 1998). Aid goes in the expected

¹⁵ Appendix B, Figure 6 reports both tolerance and variance-inflation factor (VIF) scores. All tolerance scores are well above .20 and VIF scores are all below 4, indicating that there are no significant multicollinearity issues.

direction, as a large percentage of aid flows from organizations like the IMF and the World Bank, who generally give these countries conditionality agreements designed to promote long-term growth policy (Owen, 2004).

Variable	Model 3	Model 4	Model 7	Model 8
Lag of dependent variable	.311*** (.046)		.314*** (.046)	
Institutional Veto Players	.183*** (.062)	.275*** (.069)	.192*** (.039)	.282*** (.041)
Partisan Veto Players	-.026*** (.010)	-.057*** (.010)	-.026** (.010)	-.057*** (.012)
Annual Oil Production	7.97e-7*** (4.33e-7)	1.06e-6*** (3.75e-7)	8.51e-7** (3.87e-7)	1.13e-6*** (2.89e-7)
International Oil Price	-.004 (.005)	-.002 (.006)		
Is the oil company nationally owned?	.824*** (.113)	.976*** (.138)	.797*** (.114)	.943*** (.129)
Polity Score (0-20)	-.075*** (.007)	-.107*** (.006)	-.073*** (.007)	-.105*** (.005)
Inflation	.001** (.001)	.007* (.001)	-.002** (.001)	.002** (.001)
Exports (% of GDP)	-.002 (.002)	-.003 (.002)		
Aid (% of GNI)	-.025*** (.007)	-.035*** (.008)	-.024*** (.007)	-.033*** (.007)
Was there a crisis?	.039 (.083)	.154* (.090)		
Was the country under military rule?	.356 (.340)	.256 (.292)		
Constant	2.10*** (.272)	3.03*** (.267)	1.91*** (.174)	2.89*** (.132)
R-Squared	.757	.681	.755	.676
N	325	340	336	347

* - Significant at .1 level
** - Significant at .05 level
*** - Significant at .01 level

Standard errors in parentheses

¹⁶ The other seven models are reported in Appendix B, Figures 3-5.

Model 2 removes the lag with no significant changes, although the crisis variable becomes significant. The coefficient is positive, which is counter-intuitive. In some of these cases, crises left countries unable to export oil at the same levels because political and economic resources were focused elsewhere; in some cases, fighting even took place on oil fields.¹⁷ While oil exports may fall during crises, other exports may also fall, and it is possible that countries may find oil the easiest to continue producing.

It should also be noted that control of natural resources was often the basis for the crisis, and the increased necessity to access these reserves may be correlated with periods of increased dependency on natural resources. Still, this was a relatively weak variable that dropped out in later models after other insignificant variables were removed.

Models 5-8 (Figure 4, Appendix B) removed insignificant variables in each round. Model 3 and 4 (above) retain institutional and partisan veto players, annual oil production, national ownership, polity IV scores, inflation, and aid. The r-squared dropped slightly to .755 with the lag and .676 without, indicating that this is a relatively well-specified model. Except for inflation, which is significant at the .05 level, all variables in models 8 are significant at the .01 level.

Models 9-11 (Figure 5, Appendix B) lag the percentage of exports composed of fuel and metal exports by a year and use this lag as the dependent variable in order to test a causal link. The results of these models are only slightly less successful than the previous models, proving that the link between veto players and economic liberalization is not merely a correlation. The r-squared dropped to .292 with all the control variables

¹⁷ The Gulf wars in Kuwait are the main example of fighting taking place around oil fields (Owen, 2004).

and to .239 after the insignificant variables were removed, but institutional and partisan veto players remained significant and in the correct directions. These results show that increasing the number of partisan veto players in one year will decrease dependence on natural resources in the next year. Similarly, increasing the number of institutional veto players will increase dependence on natural resources in the next year.

Interestingly, Polity IV scores and national ownership of oil companies remained significant, but aid and oil production were both dropped in favor of international oil price, which increased dependency on natural resources. International oil prices probably became significant due to their impact on expectations of future prices; as oil prices increase, companies may increase their future production to take advantage of the high prices.

As expected, these models indicate a very significant correlation between both types of veto players and dependence on natural resources. In concurrence with Crepaz and Moser's theory, they are significant in opposite directions; institutional veto players work as Tsebelis predicted, causing gridlock in the system and protecting the status quo, while increasing partisan players allows the entrance of new players into the political arena.

Although Models 9-11 indicate some causality between veto players and natural resources, there is certainly interaction between political and economic liberalization momentums. The following section will detail several case studies, qualitatively analyzing this dynamic link.

Case Studies

Morocco: The Dynamics of Broad Representation and Diversification

Morocco provides an exemplary case study for the functioning of partisan veto players in the Middle East. In the 1970s, the country was very dependent on the export of phosphates for state revenue (Denoeux and Maghraoui, 1998).¹⁸ Coupled with a phosphate price boom in the latter half of the decade, vast metal reserves allowed the king to vastly expand the size of the public sector and welfare programs without raising taxes. While this gained the government short-term popularity for creating jobs and providing health care and education, by the end of the 1970s the government was no longer able to afford these programs (Hinnebusch, 1996 and Bouhouche, 1998).¹⁹ Between 1980 and 1983, the government went through a series of failed reforms. At this point, however, Morocco had already begun political liberalization and engaged two and a half political parties. By 1983, the government made plans to start a new reform program, designed, among other things, to expand non-metal sectors through privatization of public companies and the lifting of price controls (Denoeux and Maghraoui, 1998). Preliminary success created initial demand for increased representation through more political parties in the 1984 elections. The number of partisan veto players doubled, and reforms continued and maintained themselves throughout the 1980s and 1990s, significantly reducing the percentage of exports composed of metal exports from 59.4 percent in 1975 to only 7.1 percent in 2003 (World

¹⁸ In 1975, nearly 60% of Morocco's exports were composed of metal exports (World Bank, 2006)

¹⁹ Hinnebusch and Bouhouche provide case studies of Libya and Algeria, respectively, that conclude as long as governments face no political or fiscal pressure, they will expand the public sector and welfare programs in order to garner immediate political support, as opposed to investing in long term programs. In the cases of Egypt and Syria, fiscal pressure was only enough to push governments to withdraw spending from the public sector, but veto checks and dismantling of the old elite are required to produce long term reform (Owen, 2004 and Denooux and Maghraoui, 1998).

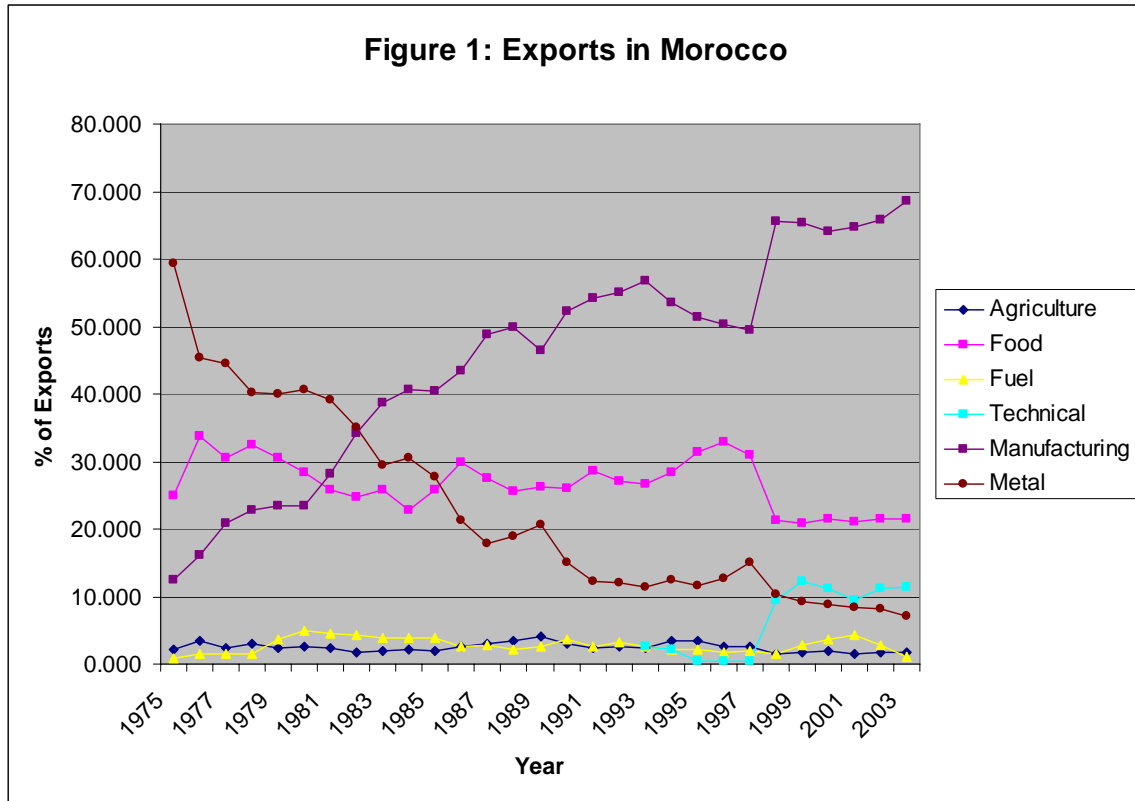
Bank, 2006).²⁰ Manufactured exports increased from 12.5 percent to 68 percent, and by 2003, while technology exports rose to 11.3 percent, one of the highest percentages in the entire Middle East.²¹ Figure 1 (below) shows Morocco's exports graphically.

Without comparing Morocco to other countries, an argument of causality between partisan veto players and economic diversification is hard to prove. The reform plan was initiated in 1983, a full year before the number of partisan veto players increased substantially. Morocco was facing significant pressure from both external agencies like the World Bank as well as the internal need to prove the legitimacy of the government.²² Compared to countries like Egypt, however, it is clear that part of the success of these reforms was due to bringing new parties into the political arena and increasing the representativeness of the government as a whole. Egypt faced similar internal and external reforms and launched several reform attempts, but these reforms never achieved the success or even longevity of Morocco's (Owen, 2004). By 1997, Morocco had nationalized almost 50 percent of nationally owned companies that were slated for sale, while Egypt had barely nationalized 25 percent (Owen, 2004). In 2003, the state remained over three times as dependent on natural resources. The number of partisan veto players in Egypt has yet to rise even to two, although both Morocco and Egypt both have three institutional veto players. Despite similar pressures, the two governments have performed differently because of their numbers of partisan veto players.

²⁰ See Appendix C, Figure 1 for a graph of Morocco's veto players over time

²¹ Only the UAE (10.1% of exports) and Israel (18.1% of exports) also achieve levels above 10% in the region

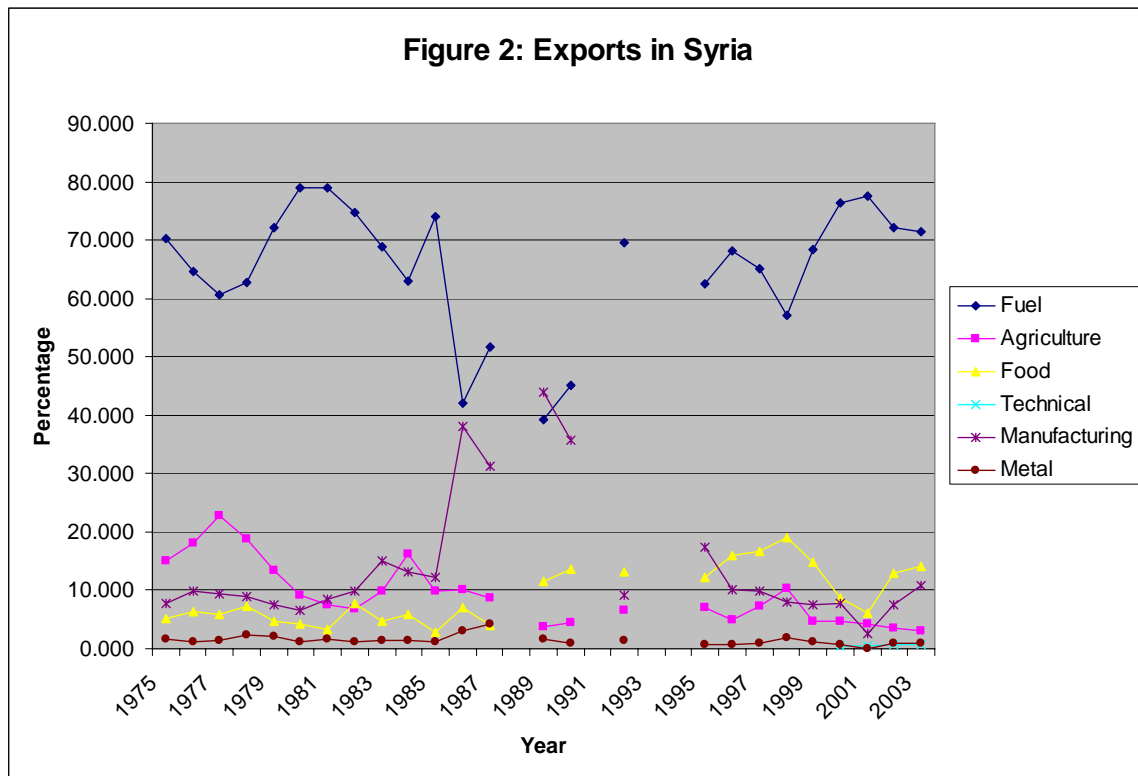
²² Later in the 1980s, partisan veto players and economic diversification certainly became mutually reinforcing, as reform programs opened and expanded new sectors of the economy and created demands for representation among new socio-economic groups, particularly in growing urban sectors (Denoeux and Maghraoui, 1991)



Syria and Algeria: The Failure of One-Party States

Syria and Algeria both provide cases in which the continuity of the old elite hindered economic reform. Like Egypt, Syria has maintained a relatively low number of partisan veto players but has created three institutional veto players. Although about a third of the seats in Syria’s legislature go to independents, the country only officially recognizes one party (Europa Publications, 1975-2003). The dominant party, the Ba’ath party, mobilized around 500,000 members throughout the past few decades. As Hinnebusch points out, all these members have a stake in the “populist status quo,” in which the state uses oil revenue to provide public sector jobs and welfare programs (Hinnebusch, 1996). The inability of the political independents to mobilize leaves the entrepreneurial middle class disenfranchised and unable to push liberal economic reforms

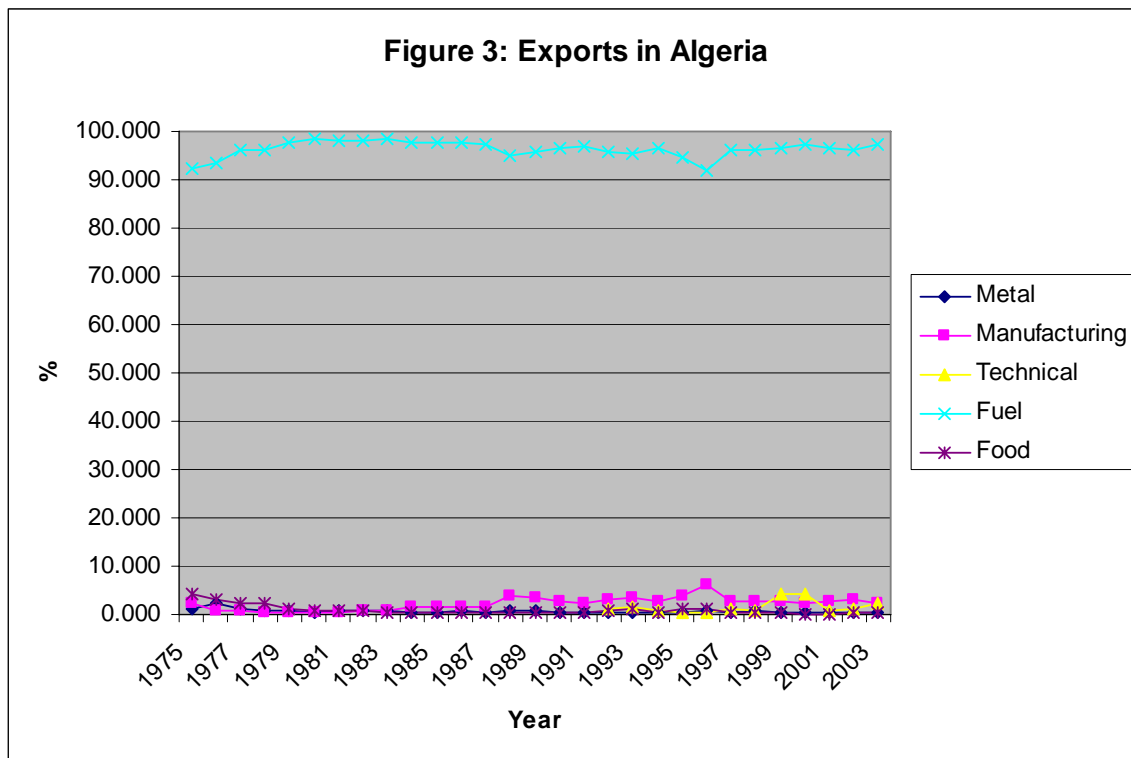
through the legislation;²³ under these conditions, the economy continues to remain heavily dependent on oil exports (World Bank, 2006). Figure 2 (below) shows the composition of exports in Syria's economy, which continues to be largely dominated by fuel exports.



Algeria provides an even stronger example of a state that has more than one institutional veto player but whose capacity to reform economic policy is limited by having only one party, albeit a very fragmented one. Fragmentation, however, does not replace mobilized political parties. New political actors are still excluded; as Zoubir writes, the claim of the Front of National Liberation (FLN) has “rested almost exclusively

²³ “The regime’s exclusion of significant sectors of the bourgeoisie, urban middle class, and Islamic petite bourgeoisie deprives it of the broad legitimacy that would allow democratization at a reasonable risk”(Hinnebusch, 1996: 155)

on historic rather than democratic legitimacy” (Zoubir, 1998: 31).²⁴ Fragmentation only exacerbates the inability of the country to produce solid economic reforms, because no one leader has been able to dominate the government for very long and reforms are therefore very short-lived (Bouhouche, 1998). Reforms that focus on long-term growth, especially those of the 1970s and 1980s, lasted only as long as the current head of government.²⁵ Newly elected leaders immediately turned to the policy of public sector expansion in order to garner immediate political support in the face of fragmented opposition from political elite and the army.²⁶



²⁴ “The nature of the Algerian political process since 1954...has been a constant cycle in which each leader imposes the rules of his own game, makes decisions on most matters, resists challenges, and topples his opponents from power” (Bouhouche, 1998: 7).

²⁵ For a detailed outline of Algeria’s reforms, see Murphy, 1999.

²⁶ “The institutions in place did not represent the real interests of the state; their actual function was to give the illusion of legitimacy and to prolong the power of the regime” (Zoubir, 1998, 32).

As Figure 3 (above) shows, the country's reliance on oil remains virtually unchanged since 1975; all other sectors have yet to compose even 10 percent of total exports. Oil, foreign banks, and mines were all nationalized in 1971 and remained at least 50 percent nationally owned through 2003.

Algeria and Syria both provide the extreme examples of one-party states that are largely dominated by the old elite, despite a democratic heading on their political institutions. Syria has allowed partial mobilization of political independents in the legislature, giving the country slightly more success in its economic reforms, but both countries are at least two decades behind Morocco in their economic policies.

United Arab Emirates (UAE): The Federalist Exception?

The UAE provides a very interesting case study for this paper because its reforms have been among the more successful in the Middle East and North Africa, but the state only recently incorporated limited elections.²⁷ Despite the lack of partisan veto players, the UAE has achieved a much more diverse economy than Algeria or Kuwait, both of who have comparable annual oil production levels.²⁸ Fuel exports still remain about 70 percent of oil exports, but technology exports have reached 10 percent, a level that is second only to Morocco and Israel in the Middle East. Total manufacturing exports comprise around 24 percent, with food exports making up the remaining difference. Although these numbers are not as impressive as Morocco's, Morocco only receives about 30 percent of its GDP from total exports, while UAE receives almost 80 percent

²⁷ The first elections in the UAE took place in December, 2006 for a strictly consultative Federal National Council. The elections were indirect and only filled half the seats of the council; the other 20 were appointed. (F. Clifton White Applied Research Center on Democracy and Elections, 2006).

²⁸ In 2003, Algeria produced 163,271 kt of energy, Kuwait produced 120,722 kt, and the UAE produced 159,162. The only country that produced more than these three was Saudi Arabia (World Bank, 2006).

(World Bank, 2006). The UAE's economic success has not just been limited to exports, either; Dubai's tourism sector has also achieved immense success.²⁹

Initially, these numbers would appear contradictory to the proposition that a high number of partisan veto players are necessary for successful economic reforms in the Middle East. However, the UAE's history makes it an exceptional case. The state was officially formed in 1971 as a federation of seven separate emirates. Originally, Qatar and Bahrain were supposed to compose two more emirates, but both states left during the federation talks. Among all nine potential emirates "early patterns of rivalry, underlaid by historical, tribal, dynastic, and personality factors, began to take shape" (Khalifa, 1979: 30). Unlike other states in the Middle East and North Africa, the UAE is a very new state composed of seven emirates that were previously distinct entities. Their legislative rules stipulate that for any new legislation to pass, both the leaders of Dubai and Abu Dhabi must concur, in addition to at least two of the other five leaders (Khalifa, 1979). In essence, the legislative process is dominated by seven separate dynasties that represent the interests of seven separate geographical regions; although these same dynasties have been in power for centuries, the convergence of the emirates essentially brought in six new voices into the government of each individual region. Joint economic policy could not focus on oil production, as only Abu Dhabi and Dubai contained competitive quantities (Al-Shamsi, 1999). Although the UAE has no parties yet, the federation and the legislative rules within it create the same sort of competitive atmosphere as a large number of veto players, but veto players who negotiate on a more personal level than

²⁹ By 2005, Dubai had the highest average revenue per hotel guest in the world as well as the highest hotel occupancy rate (Jones, 2006).

institutional transactions. In this case, the federal-authoritarian system functions in a similar way as a government with a large number of parties.³⁰

Jordan: Institutional and Partisan Widening

The numbers of veto players and economic time frame of Jordan also initially appear contradictory to the theory presented in this paper. It was the rise of institutional veto players, not partisan veto players, which initially coincided with successful economic reforms towards diversification. However, for the bulk of the 1970s and 1980s, Jordan was a state with a monarch, appointed assembly, and no political parties, so the incorporation of an elected legislature in 1989 represented the first step towards allowing new political elites in the government, while the lift of the ban on political parties in 1991 represented the second. Despite the continuity of the monarchy in Jordan, the elected legislature has been economically successful for the past decade.

Although the liberal economic policies of the British mandate in Jordan allowed the country to maintain separate political and economic elites on the eve of the oil boom, increasing political instability across the region gradually increased the government's role in the economy for two reasons. First, Jordan's position relative to the ongoing Israel-Palestine conflict made it the recipient of a large amount of government-controlled aid; second, the regional instability led to the entrepreneurial middle class inviting government intervention for economic stabilization (Knowles, 2005). By 1982, 40 percent of GNP was produced by the government, and the middle class had essentially disappeared (Knowles, 2005). Like most of the other MENA economies, the slump in oil

³⁰ Unfortunately, because this is a unique case in the region, it is hard to study this point further in this paper. However, it does raise some interesting questions about the potential benefits of federalism in semi-authoritarian regimes.

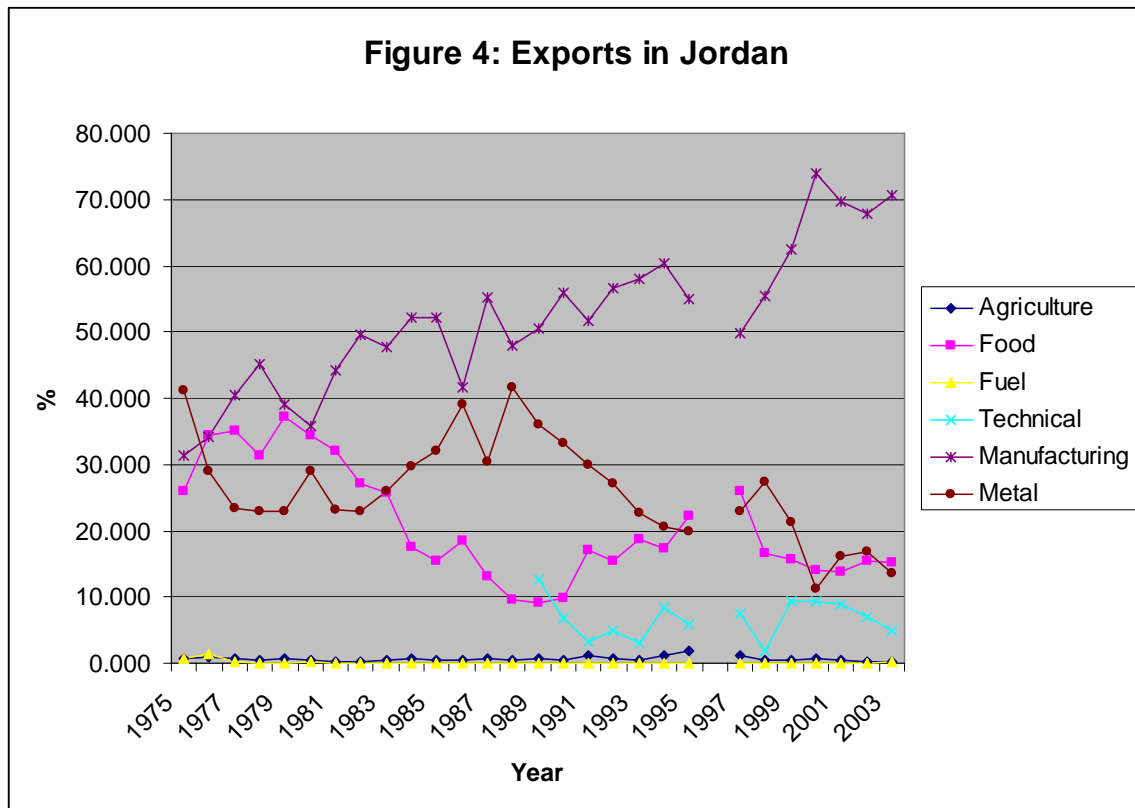
prices, combined with high government spending, created an unsustainable situation characterized by high debt and the need for economic reform.

Although rhetorical reforms began in 1982 and 1983, dependence on natural resources did not substantially decrease until the reconvening of the elected legislature in 1989 (Knowles, 2005 and Europa Publications, 1957-2003). In fact, from 1982 to 1988, the percentage of exports composed of fuel and metal rose from 22 percent to 41 percent (World Bank, 2006). Additionally, private gross fixed capital formation dropped from a three-quarters share to a two-thirds share from 1984 to 1989 (Knowles, 2005). The government at this moment was composed of a king and an appointed National Assembly; the elected legislature had been dissolved in 1974.³¹ A number of economic consultative councils were formed throughout the 1980s that included both leading members in the economy and in the appointed National Assembly, but these councils had no real legislative power. Thus, the 1989 elections represented the first step towards incorporating new political elites in the legislative process, even though political parties were still banned. The second step came in 1991, when the king approved a new charter that allowed for the formation of political parties. Finally, 1993 ushered in a new legislature with 2.79 effective parties and 7 total parties represented (Europa Publications, 1975-2003).³² As Figure 4 (below) shows, by 1993, the percentage of exports composed of natural resources dropped back to 22 percent, and by 2003 the percentage had dropped as low as 11 percent. Equally importantly, technical exports fluctuated between 5 and 10

³¹ The legislature was briefly reconvened in 1976, but shut down again in the same year (Europa Publications, 1975-2003).

³² Figure 2 (Appendix C) graphically shows the timeframe for the changes in institutional veto players, partisan veto players, and polity scores.

percent towards the end of the century, while total manufacturing exports rose to 70 percent of total exports (World Bank, 2006).



Yemen: Lessons for the Future

Yemen remains something of a paradoxical case, in which oil discoveries were actually a driving factor in the unification of the Yemen Arab Republic (YAR) and the People’s Democratic Republic of Yemen (PDRY). The unification subsequently provided the ground for more than forty political parties to emerge in a more democratic Yemen (Enders et. Al, 2002).³³ Simultaneous discoveries of oil fields by both nations in the late 1980s in adjacent areas led first to bilateral agreements to demilitarize the border zone, and eventually to a call for a unified constitution. At this point, the YAR had a

³³ Prior to the transition, the Polity score of the PDRY was -7, while the YAR maintained a score of -5. Post transition, Yemen’s polity score rose to -2 with the inclusion of an elected legislature (Marshall et. Al, 2004).

moderate and private oil sector, while the PDRY maintained a public sector with heavy investment from and exports to the Soviet Union, with total oil exports comprising between 10 percent and 30 percent of all exports in the 1970s and 1980s. Unsurprisingly, the percentage of exports composed by fuel exports jumped to over 90 percent following unification and the rapid development of the oil sector, despite having a relatively small amount of reserves (Enders et. Al, 2002). Although the country has avoided the dangers presented by a large public sector by initiating a substantial privatization effort, particularly of previous PDRY industries, the state has already fallen into the traps of large public debts and over-reliance on a rapidly depleting reserve.³⁴

Despite these problems, Yemen seems well-poised to launch successful economic reforms towards economic diversification. Germany has already forgiven all of Yemen's external debt and Russia has partially expunged it, setting the precedent for negotiating with other lenders. Although implicit subsidies on petroleum products rose as high as 13 percent in 1996, they have since declined (Enders et. Al, 2002). More importantly, however, Yemen has a strong tradition of civil society, which is evidenced by the rapid and robust emergence of political parties following unification despite a very narrow economy (Carapico, 1998).³⁵ Both elections in the 1990s produced 2-3 effective parties, with many more participating in the elections. The initial ability to produce competitive amounts of oil may have been too tempting for a relatively poor country to refuse, but subsequent reforms appear to be relatively successful and durable.

³⁴ The IMF predicts Yemen will only be able to produce 40 million barrels a year by 2020, compared to over 140 million barrels in 2001 (Enders et. Al, 2002).

³⁵ For further reading on the development of civil society in Yemen see Carapico (1998)

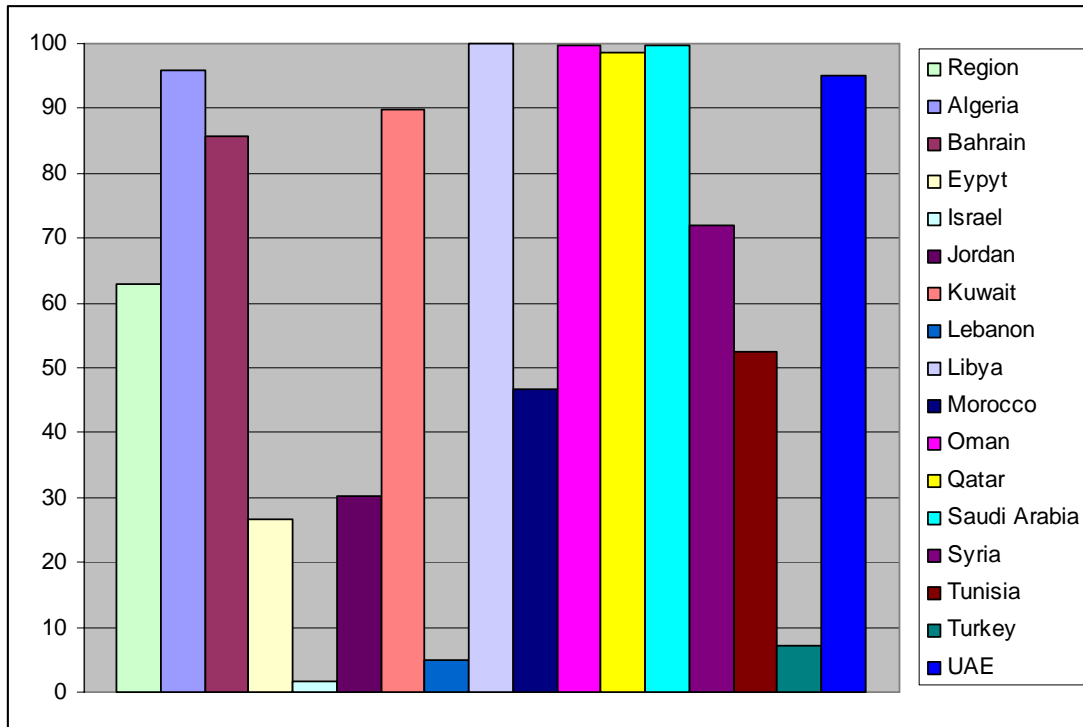
Conclusions

This study has sought to fill one of the many gaps in comparative studies of MENA. Through qualitative and quantitative analysis, I have established not only that veto player theory can be applied to the region but also that the theory functions as well in semi-authoritarian regimes as in democracies. Moreover, this paper supports Crepaz and Moser's challenge of Tsebelis's claim that there are no substantial differences in the functioning of partisan and institutional veto players. Finally, I have shown a strong correlation between partisan veto players and dependence on natural resources in MENA.

The results of this paper, while interesting, should be expanded in future research. First, this study was limited to MENA, but it should be expanded to other oil and natural resource exporting countries in order to assess whether this is merely a regional phenomenon. Second, partisan and institutional veto players should be applied to a variety of other dependent economic variables, especially commercial and trade openness, as other indicators of long-term growth policy. Third, the separate effects of institutional and partisan veto players in this study, as well as others, indicates that more studies should be conducted across all types of regimes and variables to confirm that there is a persistent difference between the two variables. Finally, veto player theory is only one analytical framework that can be applied to the competitive and authoritarian regimes. As the earlier sections of this paper discuss, studies on the regimes in MENA should be expanded to comparative studies of a variety of democratic factors, particularly electoral, legislative, and judicial rules.

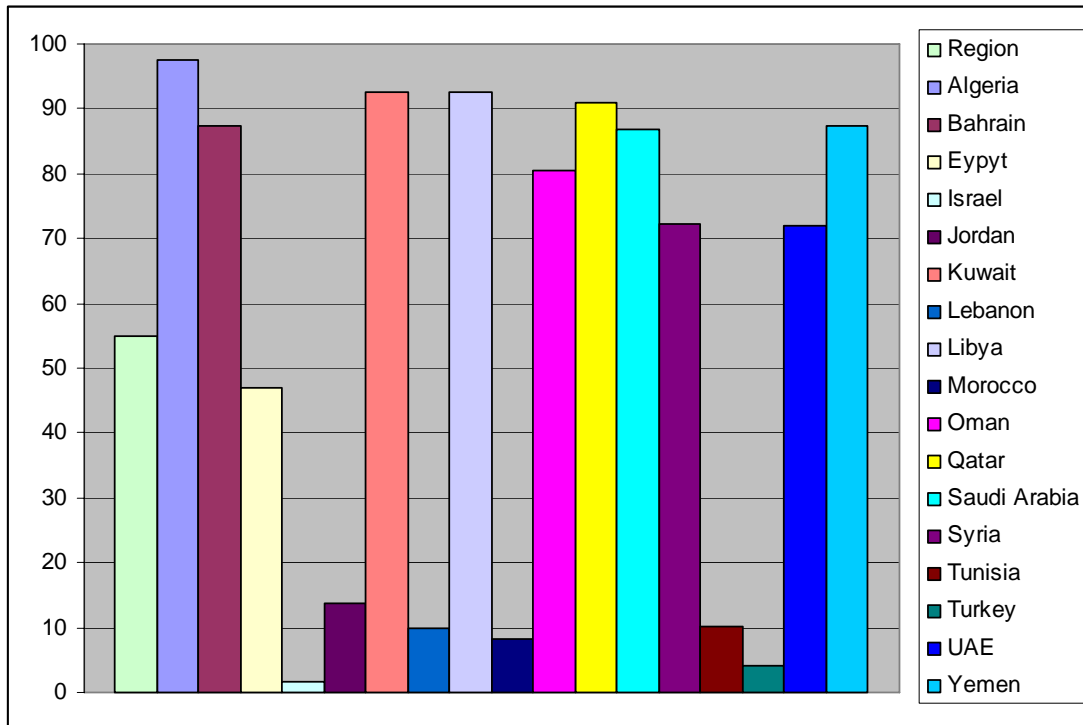
Appendix A: Charts and Figures

Figure 1: Percentage Exports Composed of Natural Resources, 1976



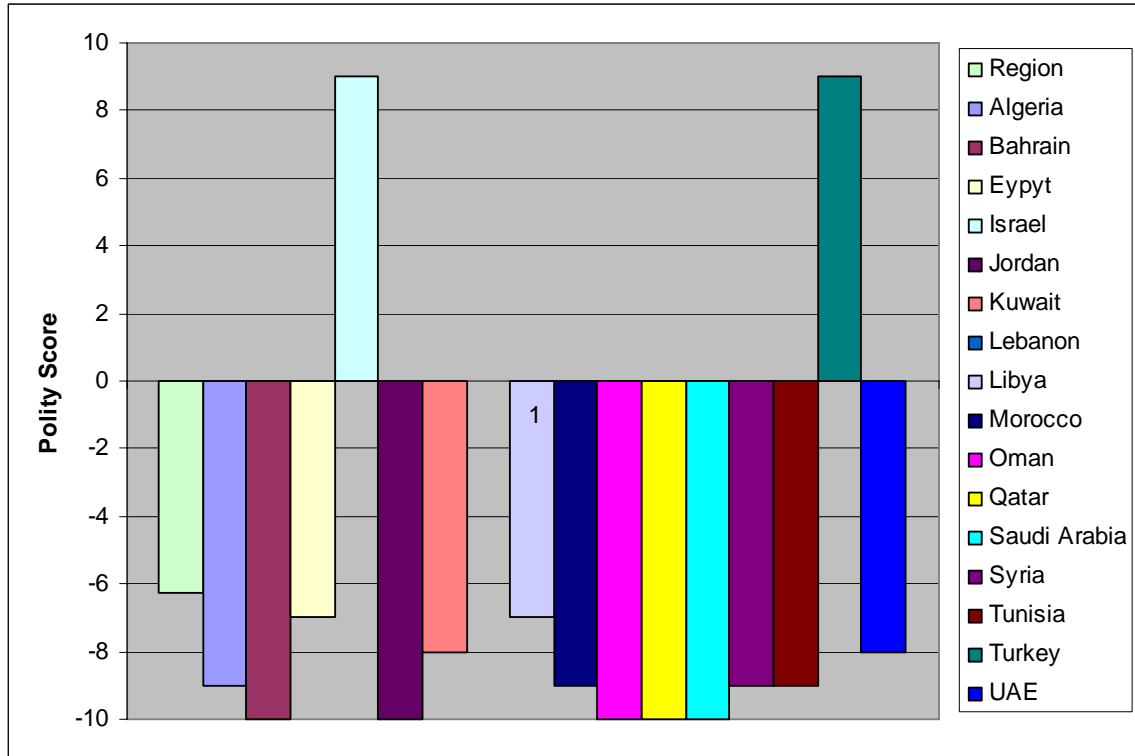
Source: World Bank, 2006

Figure 2: Percentage of Exports Composed of Natural Resources, 2003



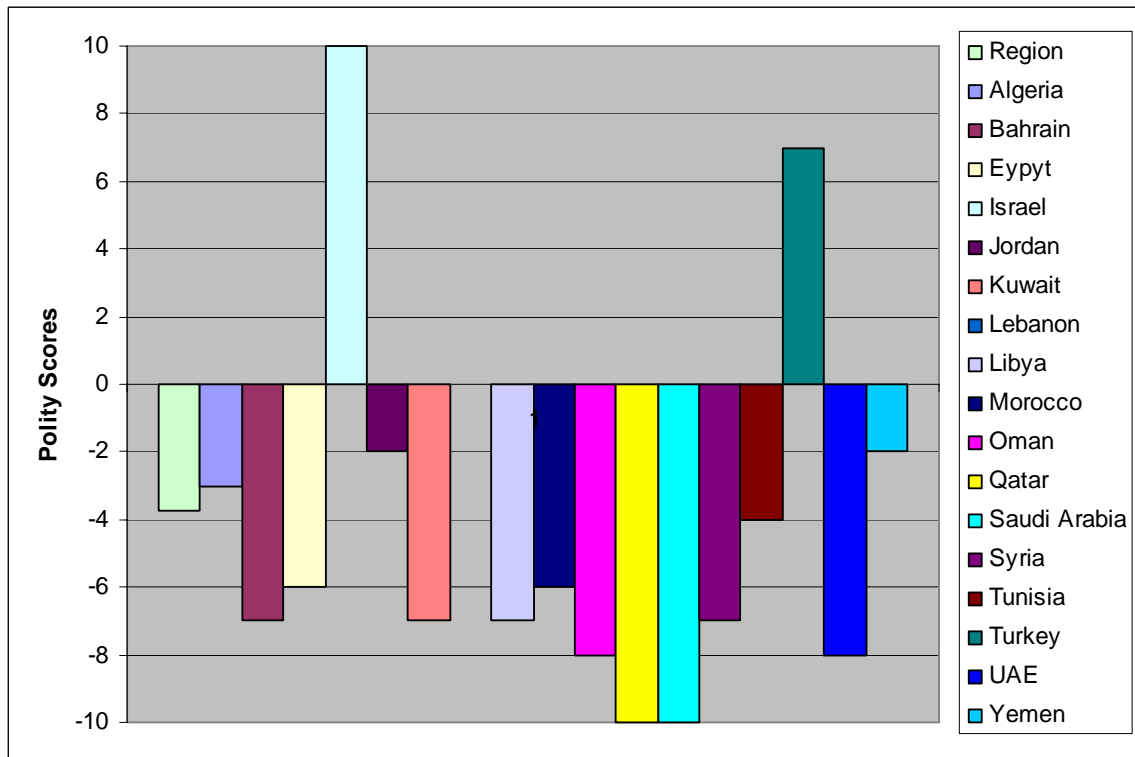
Source: World Bank, 2006

Figure 3: Polity Scores, 1975



Source: Marshall et. al., 2006

Figure 4: Polity Scores, 2002



Source: Marshall et. al., 2006

Appendix B: Regression Analysis

Figure 1: Histogram, Percentage of Exports Composed of Fuel and Metal Exports

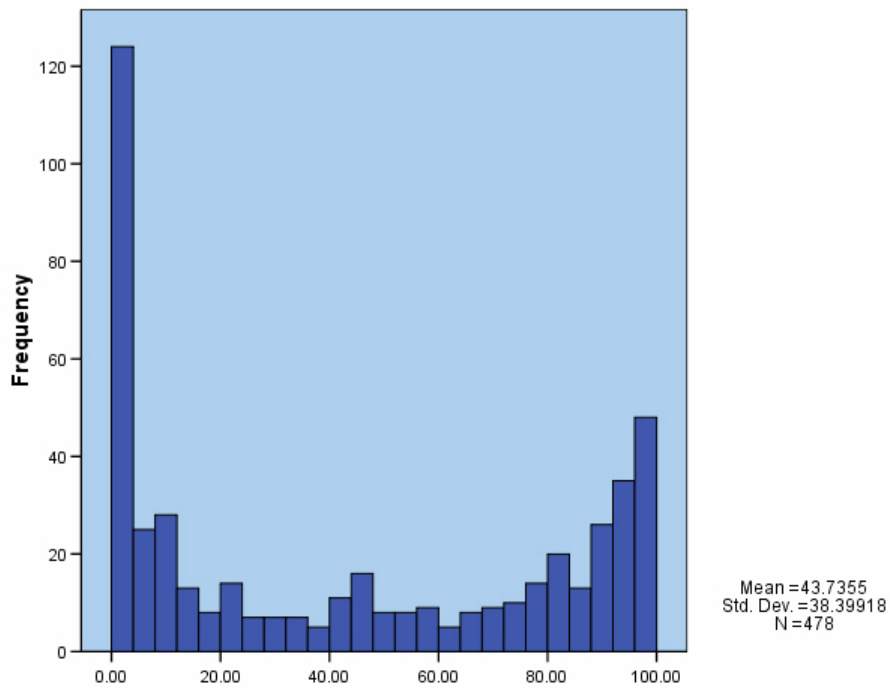


Figure 2: Histogram, Natural Log of Percentage of Exports Composed of Fuel and Metal Exports

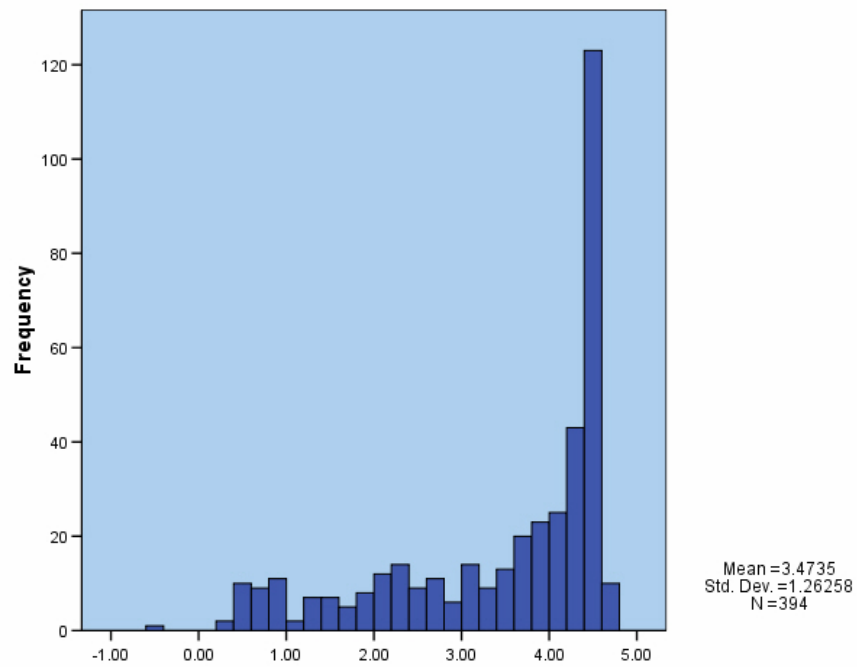


Figure 3: Regression Results, Natural Log of Percentage of Exports Composed of Fuel and Metal Exports (Models 1 -4)

Time Series Panel Corrected Standard Errors				
Variable	Model 1	Model 2	Model 3	Model 4
Lag of dependent variable			.311*** (.046)	
Institutional Veto Players	.113* (.060)		.183*** (.062)	.275*** (.069)
Partisan Veto Players	-.288*** (.029)		-.026*** (.010)	-.057*** (.010)
Annual Oil Production		4.29e-6 *** (2.08e-7)	7.97e-7 *** (4.33e-7)	1.06e-6 *** (3.75e-7)
International Oil Price			-.004 (.005)	-.002 (.006)
Is the oil company nationally owned?			.824*** (.113)	.976*** (.138)
Polity Score (0-20)			-.075*** (.007)	-.107*** (.006)
Inflation			.001** (.001)	.007* (.001)
Exports (% of GDP)			-.002 (.002)	-.003 (.002)
Aid (% of GNI)			-.025*** (.007)	-.035*** (.008)
Was there a crisis?			.039 (.083)	.154* (.090)
Was the country under military rule?			.356 (.340)	.256 (.292)
Constant	.381*** (.121)	3.22*** (.037)	2.10*** (.272)	3.03*** (.267)
R-Squared	.273	.125	.757	.681
N	381	394	325	340
* - Significant at .1 level ** - Significant at .05 level *** - Significant at .01 level				

Standard errors in parentheses

Figure 4: Regression Results, Natural Log of Percentage of Exports Composed of Fuel and Metal Exports
(Models 4-8)

Time Series Panel Corrected Standard Errors				
Variable	Model 5	Model 6	Model 7	Model 8
Lag of dependent variable	.312*** (.046)		.314*** (.046)	
Institutional Veto Players	.195*** (.040)	.290*** (.044)	.192*** (.039)	.282*** (.041)
Partisan Veto Players	-.026** (.010)	-.056*** (.011)	-.026** (.010)	-.057*** (.012)
Annual Oil Production	8.31e-7*** (3.86e-7)	1.08e-6 *** (2.97e-7)	8.51e-7** (3.87e-7)	1.13e-6*** (2.89e-7)
International Oil Price				
Is the oil company nationally owned?	.803*** (.111)	.958*** (.127)	.797*** (.114)	.943*** (.129)
Polity Score (0-20)	-.073*** (.007)	-.015*** (.005)	-.073*** (.007)	-.105*** (.005)
Inflation	.005** (.001)	.002* (.001)	-.002** (.001)	.002** (.001)
Exports (% of GDP)				
Aid (% of GNI)	-.024*** (.007)	-.034*** (.007)	-.024*** (.007)	-.033*** (.007)
Was there a crisis?	.076 (.080)	.204* (.091)		
Was the country under military rule?				
Constant	1.90*** (.176)	2.84*** (.131)	1.91*** (.174)	2.89*** (.132)
R-Squared	.756	.679	.755	.676
N	336	347	336	347
* - Significant at .1 level ** - Significant at .05 level *** - Significant at .01 level				
Standard errors in parentheses				

Figure 5: Regression Analysis, Lag of Natural Log of Percentage of Exports Composed of Fuel and Metal Exports (Models 9-11)

Time Series Panel Corrected Standard Errors			
Variable	Model 9	Model 10	Model 11
Institutional Veto Players	.346 (.083)***	.299 (.106)***	.497 (.075)***
Partisan Veto Players	-.317 (.035)***	-.136 (.033)***	-.146 (.032)***
Annual Oil Production		1.06 e-06 (9.80 e-07)	
International Oil Price		.033 (.011)***	.018 (.010)*
Is the oil company nationally owned?		.480 (.182)***	.560 (.144)***
Polity Score (0-20)		-.083 (.009)***	-.090 (.009)***
Inflation		-.001 (.001)	
Exports (% of GDP)		-.009 (.006)	
Aid (% of GNI)		-.010 (.013)	
Was there a crisis?		.146 (.212)	
Was the country under military rule?		-.727 (.658)	
Constant	2.68 (.184)***	2.38 (4.59)***	1.87 (.341)***
R-Squared	.139	.292	.239
N	448	376	448
* - Significant at .1 level ** - Significant at .05 level *** - Significant at .01 level			Standard errors in parentheses

Figure 6: Collinearity Statistics

Variable	Tolerance	VIF
Institutional Veto Players	.527	1.898
Partisan Veto Players	.546	1.832
Annual Oil Production	.662	1.510
International Oil Price	.917	1.090
Is the oil company nationally owned?	.452	2.213
Polity Score (0-20)	.462	2.163
Inflation	.705	1.418
Exports (% of GDP)	.495	2.019
Aid (% of GNI)	.777	1.287
Was there a crisis?	.959	1.042
Was the country under military rule?	.925	1.081

Appendix C: Veto Players in Case Studies

Figure 1: Veto Players in Morocco

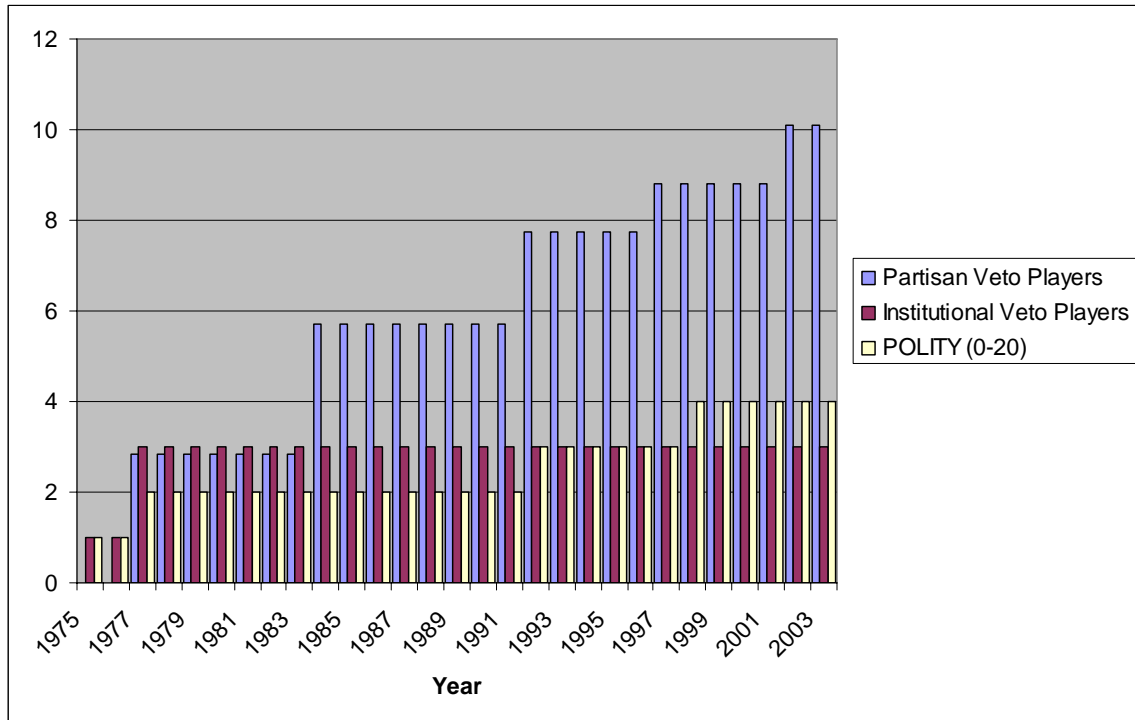
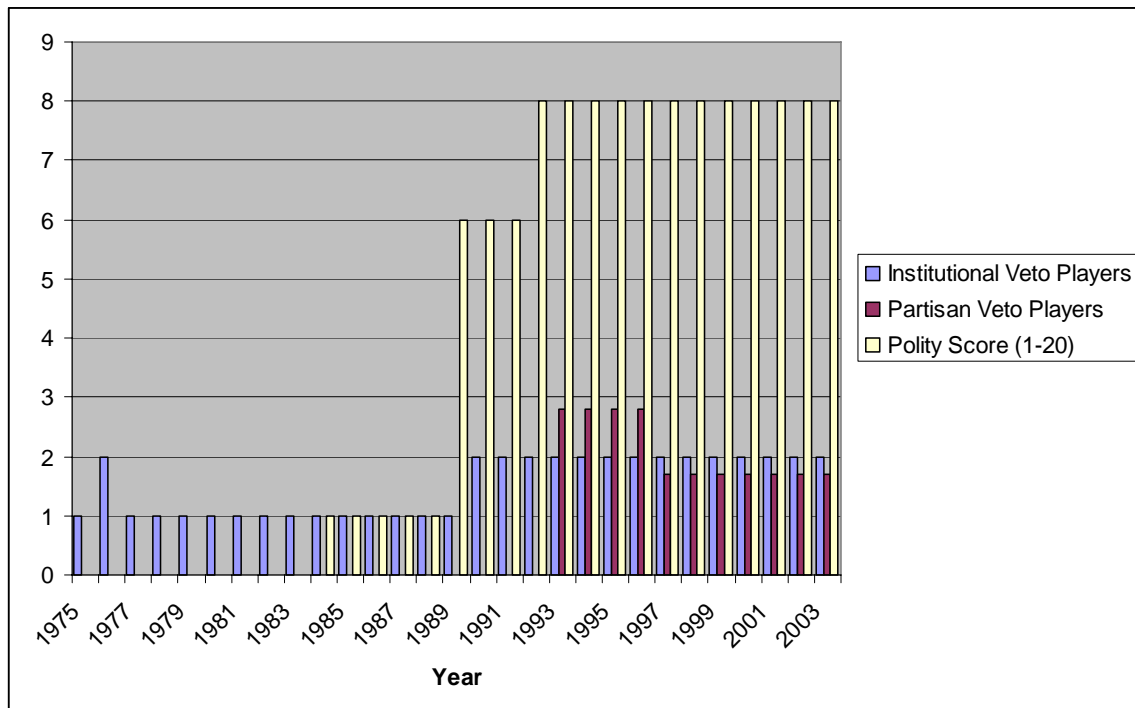


Figure 2: Veto Players in Jordan



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