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CAN FINANCIAL AID PROMOTE REGIONAL PEACE AGREEMENTS? THE CASE OF THE ARAB-ISRAELI CONFLICT

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The Project 'Europe and the Middle East'

The Middle East peace process and the Mediterranean initiative of the European Union have been an incentive for the Bertelsmann Foundation, Gütersloh, Germany, and the Research Group on European Affairs at the Center for Applied Policy Research, University of Munich, to involve themselves intensively with the future of the relationships between the regions south and north of the Mediterranean. The partners co-operated in 1994 to institute the project 'Europe and the Middle East', thereby completing their involvement with various European problems. The project aims to mediate between the two regions, providing concepts facilitating the development of more intensive relationships. At the same time the project is an attempt to build bridges between political theory and practice. In order to formulate constructive policies for the development of intensified transregional relations, the world of politics should make use of academic approaches and concepts. On the other side, academics of political science benefit from contact with practical application.

The basis for the project are the annual 'Kronberg Middle East Talks', at which representatives from science, economics and politics exchange ideas on current topics of Euro-Mediterranean relations. These conferences are prepared by a cycle of workshops, which deal with questions related to international security, economic development and the governmental and social transformation of the region.

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Introduction¹

In addition to Eastern Europe, the EU has also discovered the non-EU countries of the Mediterranean area, as a neighbouring region of strategic interest for the EU, since the end of the East-West conflict. The conference of Barcelona, held in November 1995, definitely evidenced this new perception held by the EU. The long term goal of the EU Mediterranean program is to create a free trade area between the members of the EU and the so called MENA (Middle East and North Africa) countries. Furthermore, the EU stated that the gap between the standards of living, of the EU countries on the one hand and the MENA countries on the other, is to be diminished. Apart from these socio-economic goals, the EU also underlined the aim of political development in the Middle East² which is, to date, a region characterized by authoritarian regimes and a high number of unsettled conflicts.

Although it may be a matter of controversy as to what exact political goals the Western governments pursue in the Middle East and what political structures they really attempt to alter, there should be no doubt that the EU is interested in settling the Arab-Israeli conflict. The aim of the EU is to have the parties involved in the conflict refrain from using non-peaceful means to settle arguments, and to accept one another as legitimate actors within legitimate borders. Aside from promoting peace as a means within itself, the EU intends to lay the political foundations of economic development (in the form of economic liberalization) in the Middle East. The diplomatic trip undertaken by the French President Jacques Chirac in October 1996 underlined this same goal.

One should investigate what means the EU possesses that enable it to change the structure of the Arab-Israeli conflict as is requested. One mean, and perhaps the most important, is that of political aid³. Can financial aid donated by the EU--or other governments of the Western world--influence the behavior of the parties involved in the Arab-Israeli conflict? In order for this connection to work effectively, the Western governments must be able to link the donation of financial aid to a certain conflictual behavior. Furthermore, the offer of financial aid must be appealing enough that the state bureaucracy receiving the aid is willing to make concessions to the conflict antagonist. Thus, this paper primarily deals with the question of whether or not the allocation of external financial aid can indeed promote regional peace

¹ I want to thank Andrea Falke and Oliver Schlumberger for their comments on earlier drafts of this paper. Furthermore, I owe thanks to the members of the Middle East Department, Institute of Political Science, University of Tübingen, especially Markus Löwe and Peter Pawelka.

² Sometimes the term *Near East* is used to denote the Arab countries sharing a border with Israel plus Israel itself; then, the term *Middle East* refers to the Gulf region. However, in this article the more common usage of *Middle East* is preferred, which includes Israel and its neighbors.

³ For some research purposes, it is useful to carefully discriminate between different types of financial aid, e.g., whether the aid is donated for military or civil ends, or whether the aid is linked to development projects or not. However, since the issue of how the financial aid is used by its recipients is beyond the scope of this paper, the term *financial aid* can be used synonymously with the term *political aid*.

agreements. The case study chosen-- the Arab-Israeli conflict--is the most important politically driven conflict, at the international level, inside the region of the Middle East.

Due to the fact that in the frame of this short paper it is not possible to work on all aspects of the Arab-Israeli conflict in great detail, I have chosen to concentrate on the parties most important to the conflict. As a result, this paper focuses upon the Israeli-Palestinian, as well as on the Syrian-Israeli, conflict. In addition, the conflict between Jordan and Israel will be taken into account. From the perspective chosen in this article, the most important difference of the Palestinian-Israeli conflict, on the one hand, and the Syrian-Israeli conflict, on the other, is the fact that the parties involved in the former conflict have already made substantial progress on behalf of a settlement, whereas the parties involved in the latter conflict have not. Therefore, the character of the research presented in this paper differs along the two main cases: As far as the Israeli-Palestinian conflict is concerned, the nature of the results are more analytical, whereas the findings regarding the Syrian-Israeli conflict are more exploratory.

Theoretical Considerations

The point of leverage for influencing the foreign policy of the Arab states lies in their dependence upon external financial means to keep their political systems stable. More cautiously stated: If an actor depends upon external financial means, it becomes worthwhile to consider the following hypothesis: The behavior of the actor in question can be altered by either enhancing or curtailing the respective stream of financial means coming from outside.

The premise of this hypothesis relies upon the fact that the Arab states truly *depend* upon external financial means for internal stability. Indeed, research conducted by rent theorists shows that most of the ruling state bureaucracies of the Middle East depend upon external financial means--or rents--in order to keep their political systems stable. Rents can be defined as financial means that are not a result of capital investment or labor⁴.

The classical or orthodox rent theory confines the term *rent* to an income derived from the sale of a primary good. Different concepts of rents exist within this school of thought; howe-

⁴ The term *rent* is not used in a pejorative sense (see Hazem Beblawi and Giacomo Luciani, eds., *The Rentier State* (London: Croom Helm, 1987); Claudia Schmid and Peter Pawelka, "The Modern Rentier State in the Middle East and its Strategies of Crisis Management" (paper prepared for delivery at the 22nd Annual Meeting of the Middle East Studies Association of North America, November 2-5, 1988, in Los Angeles, USA). True, there are researchers who use the term in a negative sense (e.g. Erich Weede, *Economic Development, Social Order, and World Politics: With Special Emphasis on War, Freedom, the Rise and Decline of the West, and the Future of East Asia* (Boulder: Lynne Rienner, 1996), but even these researchers normally do not blame the recipients for collecting the rent. Such an assessment would be in-appropriate, since a rent economy is often the result of imperialistic penetration. The crucial question is how the rent income is used. Whether rent income is automatically spent in a non-productive, wasteful manner or whether there is a chance to promote economic development with the help of rent income is a controversially discussed issue (see Hartmut Elsenhans, "OPEC and Oil Crisis: Turning Point in the North-South-Relationship or Exacerbation of Underdevelopment? Observations on the Political and Economic Chances of the Rentier-State," in Klaus Jürgen Gantzel and Helmut Mejcher, eds., *Oil, the Middle East, North Africa and the Industrial States* (Paderborn: Schöningh, 1984), pp. 279-296).

ver, most concepts focus upon the so called differential rent. This kind of rent refers to the difference between the production cost plus an average profit rate--the opportunity costs--and the effective price. According to this definition, most of the income earned through oil exports by the Gulf states is rent income: Political economists, like Alan Richards and John Waterbury, figured out that even after the decline of the oil prices in the 1980's, clearly more than 90% of the oil income is rent income⁵.

However, governments directly involved in the Arab-Israeli conflict, namely Israel and the Arab states which share a border with Israel plus the Palestinian Liberation Organization (PLO) and the Palestinian Authority (PA), respectively, are not major oil exporters. Nevertheless, according to non-orthodox rent theorists, these actors are also recipients of rent income, namely political rents⁶. The most prominent case of political rents are government-to-government transfers, provided there is no economic equivalent (investment, labor). As far as the government-to-government transfers of the Gulf states to the non-oil-exporting Arab states, as well as the financial aid donated by the Western states to Israel and the Arab states, are concerned, this precondition is clearly fulfilled.

There should be no doubt that all actors of the Arab-Israeli conflict are recipients of political rents. Nevertheless, a point of controversy arises within the degree to which these actors depend upon this source of income. However, only if the shrinking or canceling of the rent is really harmful to the recipient, can one expect the rents to be useful as a mean of substantially influencing the recipient's foreign policy.

Therefore, the general precondition for the opportunity of promoting regional peace agreements through financial means is the dependence of the recipient upon the rent. Since *dependence* is a highly abstract term, it should be asked which concrete factors determine this dependence, especially since some conditions are found in-between the extremes of dependence and independence: In most cases, it would be unrealistic to expect a political system to completely break down after a rent has been canceled. Thus, a differentiation must be made between the degrees of dependence. To achieve this, one must ask how attractive the recipient finds the financial means that the potential or actual donator has to offer.

Financial means, naturally, are always seen as appealing by state bureaucracies, since money is a notoriously scarce re-source. Nevertheless, if the flow of the financial means is linked to a certain behavior, even state bureaucracies become particular. The degree of particularity depends upon the importance (or attraction) of the financial means. The amount of the rent in absolute terms is only one--and not even the best--indicator for importance or attraction. Two

5 Alan Richards and John Waterbury, *A Political Economy of the Middle East: State, Class, and Economic Development* (Boulder: Westview Press, 1990), p. 61.

6 See Beblawi and Luciani, eds., *The Rentier State*; Schmid and Pawelka, "The Modern Rentier State in the Middle East and its Strategies of Crisis Management."

other indicators exist that may be more appropriate: First, one must ask how important the rents are in relation to other sources of income. Second, it is important to note that the recipients of rents may differ along the alternatives they can choose: If a recipient of rents has access to other sources of potential or actual rent income, or if there are other potential or actual donors who are willing to offer rents under more pleasant conditions, it will be more difficult for the donor to influence the behavior of the recipient⁷.

However, since different degrees of dependence exist, and since a political system rarely collapses, as a result of the cancellation of a rent, one must consider the following: Which additional factors influence the possibility of effectively linking the donation of financial aid with an alteration of the recipient's policy? Provided the rent donor holds a true interest in altering the behavior of the rent recipient, two additional factors influence the outcome. First, how hesitant is the recipient in accepting the policy alteration as desired by the rent donor? Second, is the donor able to control the rent, as well as the behavior of the rent recipient?

The first factor asks how "unpleasant" the donor's conditions are, as viewed by the recipient. In a world of formally sovereign nation states, any conditioning of state behavior by a foreign power is not appreciated. However, some conditions may be more or less acceptable. In general, effectively linking the donation of financial aid to a substantial alteration of the internal structure of the political system seems to be more difficult than convincing a state bureaucracy to change its foreign policy. The reason behind this is that a change of the internal political structure affects the power basis of the ruling state bureaucracy, whereas an alteration of the foreign policy normally does not. However, if social groups opposed to an alteration of the foreign policy carry too much influence inside the political system, the chance to make the state bureaucracy of the respective country change its foreign policy, sinks.

However, although an alteration of foreign policy is less "unpleasant" than an alteration of internal policy, it does not mean that an alteration in the area of foreign policy is achieved without difficulties. This is due to the fact that the recipient views a policy alteration as "unpleasant", not only since it may affect the relationship of the rent receiving state bureaucracy towards its society, but also its relationship towards the conflict opponent⁸. Therefore, the structure of the conflict must be examined on an international level. The larger the gap between the positions of the recipient of the rent and its conflict opponent is, the more "unpleasant" the recipient will view a substantial policy alteration. Thus, the smaller the zones of agreement between the actors are, the more intractable the conflicts are, and the less deve-

7. An important historical example is Egypt in the 1950's and 1960's when it managed to receive fairly high political rents from the USA, as well as the Soviet Union, without allowing its behavior to be influenced in the way the superpowers had desired.

8. The concept of two-level games has been developed by Robert D. Putnam, "Diplomacy and Domestic Politics: The Logic of Two-Level Games," in *International Organization*, Vol. 42, No. 3 (Summer 1988), pp. 427-460.

loped the likelihood to steer the foreign policy of one or both actors towards a compromise is⁹. As is shown below, the Arab-Israeli conflict was intractable until 1967. Ever since the June War 1967, the structure of the conflict has been gradually moving towards a widening of the zones of agreement. Beginning with the early 1990's, the Arab-Israeli conflict has become--although far from being easy to settle--a conflict whose zones of agreement are so large that, in principal, it can no longer be ruled out that the parties are able to reach a settlement.

The second factor, which shows two aspects, focuses upon the rent donator's capacity to control the rent payment, as well as the behavior of the rent recipient. A first aspect is that effectively linking the donation of a rent with an alteration of the rent recipient's policy requires the donator's ability to verify (or control) the recipient's policy. The task of verifying the performance of a government in the field of internal policy, e.g. human rights policy, is extremely difficult, especially if few or no social organizations, that are allowed to unhinderedly observe the performance of the government, exist within the respective country. In comparison to internal policy, it is much easier to verify the conflictual behavior of a government in an international conflict. The main reason behind this is that in an international conflict, a conflict opponent exists who is eager to prove any violation of an agreement. Therefore, reasonable information regarding the behavior of a government on behalf of its foreign policy are more "cheaply" available than on behalf of its internal policy.

The additional aspect of the donator's ability to control the rent refers to the question whether the donator has the ability to shrink or even cancel the rent. At a glance, this precondition may seem to be trivial--which it is not, as is shown by two main reasons. First, it is difficult to condition the payment of some types of rents, especially economic rents such as the oil rent. Since a world oil market with numerous buyers exists, even a powerful actor like the US-Administration experiences difficulties when trying to prevent the state bureaucracy of the Islamic Republic of Iran from collecting the oil rent. However, political rents are much easier to condition. Despite this fact--second--the state bureaucracies of the donators are not always free to choose whether political rents are spent or not. The relation between the USA and Israel provides the most important example: Since powerful social groups that favor American political rent payments are present within the American political system, it is difficult for any US-Administration to effectively influence the behavior of Israel through the threat of shrinking the financial aid¹⁰.

⁹ On conflict theories see Louis Kriesberg, *Social Conflicts* (Englewood Cliffs: Prentice-Hall, Inc., 2nd ed., 1982); C.R. Mitchell, *The Structure of International Conflict* (London: MacMillan, 1981).

¹⁰ Thus, the US-Administration is forced to play a two-level game.

The case of the Arab-Israeli conflict

The Structure of the Arab-Israeli Conflict

Until the 1970's, the gap between the positions of the actors involved in the Arab-Israeli conflict was so large that virtually no compromise was possible. Israel was never ready to negotiate the territory it had been granted by the United Nations in 1948. The same holds true for those parts of Israel's territory that it had conquered that same year during the first Arab-Israeli war. The Arab states, on the other hand, denied the legitimacy of Israel as a whole: Their clear preference was to transfer all the land, claimed by Israel as its state territory, to some form of Arab rule. In these times, the conflict positions of the Arab states and Israel were caught in terms that are typical for zero-sum games. In this situation, the chance of promoting peace agreements, among the parties involved in the Arab-Israeli conflict, by offering financial means would have been very low.

A gradual change in the structure of the conflict began as a consequence of the disastrous Arab defeat in the June war in 1967. Realizing they had no chance of transferring even a minor part of the state territory of Israel to any kind of Arab rule, the Arab governments began to recognize that there was virtually no other choice than to come to terms with Israel's existence. Somehow paradoxically, a reinforcing moment for this Arab change of perception was that the June war produced new conflict objects. It was crucial for the PLO that suddenly a Palestinian territory existed that was neither claimed by Israel as an integral part of its state territory nor ruled by an Arab state. From the perspective of the Arab states, it was of great importance that Israel had conquered territories of the two most militarily powerful Arab States: the Golan heights of Syria and the Sinai peninsula of Egypt. As a result, Israel suddenly had to offer something in exchange for its goal of being recognized by the Arab states.

The Arab change in positions was officially performed at the Arab League Summit Statement in Fez, Morocco, in 1982: Instead of denying Israel's right to exist in principal, the Arab states only demanded "Israel's withdrawal from all Arab territories occupied in 1967, including Arab Jerusalem."¹¹ The PLO confirmed the implicit recognition of Israel in the context of the proclamation of an independent Palestinian state in 1988. Like the Arab League in 1982, the PLO demanded Israel's withdrawal from the territories occupied in 1967. These were clear signals of the readiness to recognize Israel as a legitimate state within the borders before the June war of 1967.

¹¹ Arab League, "Arab League Summit Statement, Fez, Morocco, 6 September, 1982," in Yehuda Lukacs, ed., *The Israeli-Palestinian Conflict: A Documentary Record, 1967-1990* (Cambridge: Cambridge University Press, 1984), p. 478.

In response to the Arab accommodation of realistic goals and the implicit recognition of Israel, Israel also changed its objectives. Neither the Labor Party nor the Likud Party consider the territories occupied in 1967 as non-negotiable. However, to date, a big issue among the Israeli political parties is what concrete concessions would be acceptable. Ironically, the Lebanon invasion of 1982 brought along a reinforcement of Israel's change in position. Although Israel was successful in destroying the PLO militarily and was, in the short run, able to marginalize the PLO geographically, the longterm political results were a strengthening of the PLO. This was mainly due to the Intifada, led by the PLO ever since the foundation of the *Unified National Leadership of the Uprising* within days of the start of the Intifada in December 1987. Aside from this, Israel had to face the rise of a politically more threatening alternative to the PLO: the Hamas.

Ever since the late 1980's, and as a direct result of the structural change of the Arab-Israeli conflict, a compromise can no longer be ruled out. However, the zones of agreement are not that large that a compromise could be easily achieved. Nevertheless, there is a chance. It is therefore worthwhile to ask whether or not foreign aid could be used as an instrument to promote peace agreements between the actors of the Arab-Israeli conflict.

How "unpleasant" are peace agreements from the actors' point of view?

Although Israel, as well as the Arab actors, (ab)use the Arab-Israeli conflict in order to enhance legitimacy towards their societies, deciding how to behave in the Arab-Israeli conflict does not constitute a component of the basic structure of the political system. However, this assertion must be qualified, especially on behalf of the conflict between Israel and the PLO. The reason behind this is that Israel, Jordan, the PA, and Syria differ on behalf of the basic character of their political systems as well as on behalf of the acceptance of the peace process inside their societies.

Within Israel as well as in the territory governed by the PA, powerful social groups exist that reject any real compromise, namely the radical Israeli right (including the movement of the religiously motivated settlers) and the radical Islamic fundamentalists, respectively. This accounts for a major difference with the Jordanian-Israeli conflict, which is not a major issue in either Israel or Jordan. In the latter case, the opposition movement to the peace treaty is much too weak to challenge the principal decisions made by the government. However, as far as the Israeli-Palestinian peace process is concerned, the Israeli government, as well as the PA, are exposed to a complicated two-level game: On the one hand, they have to find a compromise with the opponent on the governmental level, while, on the other hand, they have to legitimize potential compromises vis-à-vis their societies.

According to polls taken in 1995 in the West Bank and the Gaza Strip, a clear majority of Palestinians supported the continuation of the negotiations between Israel and the PLO. A poll conducted in October 1995 by the *Jerusalem Media and Communication Center* (JMCC) in

East-Jerusalem reported that 72,7% of all Palestinians residing in the West Bank and the Gaza Strip supported the recent peace process¹². The findings of the other major opinion research institute, the Nablus-located *Center for Palestine Research and Studies* (CPRS), confirm this backing for the peace process. Moreover, the Palestinian elections held in February 1996 resulted in a clear victory of the Palestinian peace camp. This is evidenced by Yasir Arafat being elected President ("Ra'ees", as it is put in Oslo II) with an overwhelming majority, and by the political party headed by him, Fatah, achieving a comfortable majority in the Council, the parliament of the PA. Nevertheless, clear reservations exist within the Palestinian society as far as the acceptance of further concrete concessions in favor of Israel is concerned. According to a poll conducted by the JMCC in June 1995, a clear majority of the residents of the West Bank and the Gaza Strip was opposed to giving up the 1948 lands in return for a final solution stipulating a Palestinian state in the West Bank and the Gaza Strip with East Jerusalem as its capital¹³. There can be no doubt that, to date, the state of "Palestine" is much worse than is expressed in the implication of this question. Moreover, the current Israeli government headed by Benjamin Netanyahu clearly expressed that Israel is not willing to accept a fully sovereign Palestinian state, let alone a Palestinian state with East Jerusalem as its capital. Due to this discrepancy between the expectations of the Palestinians and the reality that they are exposed to, it is not astonishing that rumors and violent actions directed against the Israeli military presence in the West Bank and the Gaza Strip took place in the fall of 1996, reminding some observers of the era of the Intifada. However, despite the emerging violence, an impressively strong following for the peace process still exists: In September 1996, 70% of the Palestinian population in the West Bank and the Gaza Strip were still in favor of the peace process. However, the opposition has more than doubled since June 1996 (from 12% to 25%)¹⁴.

The backing of the Israeli-Arab peace process in the Israeli society is lower than often assumed. The election in Israel in May 1996 gave the impression that the Israeli society is divided into two camps, one that favors the peace process and one that opposes it. This may be an adequate description of the peace process in general, but it falls short when applied to the Israeli-Palestinian peace process. This can be best illustrated by figures taken from polls conducted before the Israeli society was so tragically disturbed by the assassination of Rabin, as well as the suicide bombings carried out by militant Islamic fundamentalists. In June 1994, clearly less than 15% of the Israeli population strongly supported the agreements concluded with the PLO, whereas more than 50% did so as far the Israeli-Jordanian peace treaty was

12 JMCC, *On Palestinian Attitudes Towards the Taba Agreement and the PNA's Assumption of Authority Over West Bank Towns* (Results of survey conducted on 6-7 October 1995, Jerusalem, 1995).

13 JMCC, *Evaluation of the PNA one year after the arrival of Yasser Arafat to the autonomous territories* (Results of survey conducted on 15-16 June 1995, Jerusalem 1995).

14 CPRS, *Results of Poll #24, The Peace Process, Performance of the Palestinian Authority, Performance of the Legislative Council* (Survey conducted on 26 September-17 October 1996, Nablus, 1996).

concerned. Although just barely over 15% were strictly opposed to the peace process in general, more than 20% were strictly opposed to the Palestinian-Israeli peace process¹⁵.

According to my point of view, the opposition to a compromise in both societies constitutes the most serious danger for a final peace agreement between Israel and the PLO, especially in Israel, where the opposition movement has been gaining much influence since the ratification of Oslo II. The social and electoral basis of the current Israeli government is intertwined with the Israeli opposition movement to the peace process with the PLO. As a result, the Israeli government has been violating provisions of Oslo II (e.g. by continuing the delay of the withdrawal from Hebron) and, probably more important, its "spirit" (e.g. re-enforcement of settling the West Bank and refusal to negotiate seriously on the permanent status of the Palestinian territories occupied in 1967)¹⁶. In the long run, it cannot be ruled out that the Palestinian reaction to this strategy could be a return to the use of non-peaceful means.

In comparison to the Israeli-Palestinian conflict, a possible Syrian-Israeli peace agreement would be viewed as much less "unpleasant" by the Syrian government, namely for two reasons. First, the ability of the Syrian government to control its own society is much higher than in the Palestinian and Israeli case. Second, possible Syrian concessions on the issues between Syria and Israel would affect the Syrian society to a much lesser degree than the Israeli and, above all, the Palestinian society. Nevertheless, one reason why the Syrian government hesitates to conclude a peace treaty with Israel is most likely because this would diminish the relevance of the Syrian army. Since the Syrian army plays an important role inside the Syrian state bureaucracy, such a development would definitely affect the basic structure of the Syrian political system. Perhaps even more importantly, ever since the conclusion of the Egyptian-Israeli peace treaty in 1979, Syria's strategic role inside the region of the Middle East has been linked to its army, which represents the only relevant Arab military force in the Arab-Israeli conflict. Therefore, a diminished role of Syria's army as a consequence of a settlement of the Arab-Israeli conflict in general and the Israeli-Syrian conflict in particular could, in the long run, result in reduced payments by the Gulf states. Moreover, a diminished role of Syria's army would reduce the status of the army employees and, perhaps, even increase the unemployment rate in Syria. Such a development has the potential to reduce the legitimacy of the Syrian state bureaucracy vis-à-vis its society.

A possible peace treaty with Syria would be viewed as harmful by the Israeli government since it would require an extensive or, perhaps, even full withdrawal from the Golan heights.

¹⁵ Gabriele Ulbig and Gerhard Wahlers, "Die politische und wirtschaftliche Situation Israels im Frühjahr 1995," in *KAS-Auslandsinformationen*, Vol. 11, No. 5 (1995), p. 33.

¹⁶ However, it should be taken into account that--because of the Israeli democratic system--the Israeli opposition movement to the peace process is also politically influential in times of a government headed by the Labor party. Accordingly, one of the major Israeli violations of Oslo II--the delay of the withdrawal from Hebron--was committed under the rule of prime minister Shimon Peres.

Furthermore, the government would have to face political pressure by groups opposed to any return of the Golan heights. Moreover, the main platform of *The Third Way*, one of the coalition parties in the ruling government, is not to give up the Golan heights. Nevertheless, the general Israeli social acceptance of a peace treaty with Syria seems to be more positive than with the PLO. Apart from this, since the number of negatively affected people, especially Jewish settlers, is much lower in the case of the Golan heights than in the case of the West Bank, politically effective resistance would most likely also be much lower in the case of the Golan heights.

How important or attractive are the rents?

The PLO, Jordan, and Syria depend upon rents to a much higher degree than Israel. As a result, it is, generally spoken, more difficult to alter Israel's foreign policy with the help of rents than to convert those of the Arab actors. However, although the Arab actors depend upon rents their foreign policies cannot be converted without difficulties by the Western governments, who either donate or refuse political rents.

At first sight, one may be astonished by the notion that Israel depends less upon political rents than the Arab states: According to figures published by the World Bank, Israel's ratio of political aid to inhabitants is higher than in the Arab countries. In 1991, when the Madrid Peace Conference took place, Israel received 352,50 US-Dollars (US-\$) of foreign financial aid per capita, the highest ratio of official foreign aid per capita worldwide. However, this share was equivalent to only 2,8% of the Gross National Product (GNP). When compared to the Israeli ratio of political aid to inhabitants, the Jordanian ratio--which was the second highest worldwide--is significantly lower: In 1991, Jordan received 247,10 US-\$ per capita. However, if one takes the ratio of rent income to internally generated income by productive activities into consideration, it becomes obvious that rent income is much more important to Jordan than to Israel: According to the World Bank, in 1991 the official aid donated to Jordan was equivalent to 22,2% of the GNP¹⁷.

Another indicator for the high relevance of external aid to the Arab parties involved in the Arab-Israeli conflict, both in general and in the Jordanian case in particular, is the degree to which the state budget depends upon rents. According to calculations of Rex Brynen, in 1975, when the share of political rents for the state budget was at its height, only 20% of the sources of Jordanian central government revenue were derived from taxes. More than 50% of the government revenue was derived from external political rents¹⁸.

¹⁷ The World Bank, *The World Development Report 1994* (Washington, D.C.: Oxford University Press, 1994), Table 19.

¹⁸ Rex Brynen, "Economic Crisis and Post-Rentier Democratization in the Arab World: The Case of Jordan," in *Canadian Journal of Political Science*, Vol. 25, No. 1 (March 1992), p. 86.

Between 1973 and 1990, Syria was the main recipient of Arab political rents. According to Volker Perthes, during this time period the per capita income of political rents from the Gulf states was 1000 US-\$. In the early 1980's, when political rents donated by the Gulf states reached their height, the share of political aid of the GNP was approximately 10%¹⁹.

In the Palestinian case, the dependence upon political rents was extremely high. Since the PLO could not levy taxes at all upon the Palestinians residing in the West Bank and the Gaza Strip, the only "internal" income source was the income derived from Samid, a worldwide operating company engaged in various branches. Although there are no reliable figures available to show what gains were yielded by Samid, there can be no doubt that the PLO, in general, and the Fatah, in particular, depended to an extremely high degree upon donations from governments of the Gulf countries (primarily from Saudi Arabia, secondarily from Iraq, Kuwait, and the United Arab Emirates (UAE)). According to Jean-François Legrain, in the 1980's Saudi-Arabia, Kuwait and the UAE alone granted 10 billion US-\$ to the PLO.²⁰ The so-called "liberation tax", which was levied by some of the oil-rich countries upon Palestinian employees, was also vital to the PLO's budget. Despite its name, the PLO could not consider this source of income as a tax: It was neither levied nor controlled by the PLO directly; and the jobs were not related to the Palestinian system in an economic way. The PLO depended fully upon the political willingness of the Gulf states in order to receive the revenues generated by this "liberation tax". According to this point of view, the "liberation tax" was just a hidden government donation (or political rent) to the PLO.

The PLO and Jordan

After having shown that political rents are highly relevant for the participants of the Arab-Israeli conflict, especially for the Arab actors, it will be demonstrated that political rents played an important role for the agreements between Israel, on the one hand, and Jordan and the PLO, on the other. In the 1970's, Jordan and the PLO had become highly dependent upon political rents from the Gulf states. However the main donators of these rents, the Arab Gulf states, depended upon rents themselves, namely oil rent. During the 1970's, in the period of the oil bonanza, the system of petrolism²¹ was functioning without complication: The Gulf states were receiving increased oil rents, mainly from the industrialized countries, and had no difficulties in distributing a part of them into the Middle East (in the form of political rents), in amounts sufficient to stabilize non-revolutionary governments in the whole of the Middle East. However in the early 1980's, a severe crisis within the system began—a crisis that still

19 Volker Perthes, "Kriegsdividende und Friedensrisiken: Überlegungen zu Rente und Politik in Syrien," in *Orient*, Vol. 35, No. 3 (1994), pp. 418-419.

20 Jean-François Legrain, "A Defining Moment, Palestinian Islamic Fundamentalism," in James Piscatori, ed., *Islamic Fundamentalism and the Gulf Crisis* (Chicago: The American Academy of Arts and Sciences, 1991), p. 79.

21 This term was coined by Bahgat Korany, "Political Petrolism and Contemporary Arab Politics, 1967-1983," in *Journal of Asian and African Studies*, Vol. 21, No. 1-2 (1986), pp. 66-80.

continues today. Between 1980 and 1984, the oil income of the eight major Arab oil-producing countries had diminished from 205 to 104 billion US-\$. By 1986, the oil income was less than 50 billion US-\$²². Despite a limited recovery of the oil prices since 1986, the financial ability of the oil-producing countries to support the non-oil producing countries of the Arab world has suffered tremendously.

In the Jordanian case, the results of the crisis of petrolism are very well documented. As mentioned above, the percentage of political rents from the Gulf states as a source of Jordanian central government revenue had exceeded 50% in 1975. By the mid-1980's, this percentage decreased to scarcely more than 20%, occasionally even falling below this margin²³. In contrast to the PLO, the Jordanian state bureaucracy could partially compensate this loss through deficit spending. Nevertheless, this was no structural solution; and thus Jordan ran into a debt crisis. However, the Jordan state bureaucracy was quite reluctant to increase domestic taxes, since this would have endangered its legitimacy vis-à-vis its society and hence jeopardized its autonomy. Apart from this, the Jordanian economy was much too weak to be heavily taxed²⁴.

For all Arab parties involved in the Arab-Israeli conflict, the 1980's brought along a creeping crisis of the petrolistic rent system, the roots of which were economic. However, in the early 1990's, Jordan and the PLO witnessed a breakdown of the rent system, which was primarily a result of a political event: A consequence of the hesitant and contradictory reaction of the PLO, as well as the government of Jordan, towards the Iraqi annexation of Kuwait was the cancellation of budget transfers from the Gulf states towards these actors.

As a result of this development, the PLO, as well as the Jordanian government, found themselves in a desperate situation in the early 1990's: They were nearly completely deprived of the economic means necessary for legitimizing their rule vis-à-vis their societies. Therefore the offer, of the Western world to grant political aid, was found extremely appealing by these actors. In all actuality, it is not an exaggeration to assert that they did not have a real alternative to this offer. However, there should be no doubt that the USA and the EU were linking a durable granting of political rents to substantial concessions in the Arab-Israeli conflict.

Accordingly, for example, the USA released Jordan from their debt of 480 million US-\$ immediately after the conclusion of the Israeli-Jordanian peace treaty. Also, the Western countries have meanwhile removed the Gulf countries from their position as the main

22 Aziz Alkazaz, "Die Ökonomie in Nahost seit den 80er Jahren," in *Außenpolitik*, Vol. 39, No. 3 (1988), pp. 257-269; see also: Richards and Waterbury, *A Political Economy of the Middle East*.

23 Brynen, "Economic Crisis and Post-Rentier Democratization in the Arab World," p. 86.

24 This is also typical of rentier systems. Since it is more profitable to obtain access to rent cycles than to engage in productive activities in rent economies, the productive parts of the economy become sluggish. Therefore, if a crisis in a rent economy occurs, the productive parts of the economy are often so weakened that crisis management focussed on these sectors is not promising. Thus, the state bureaucracies often favor a rent oriented crisis management.

donators of political rents to Jordan. The same holds true for the PLO/PA. Shortly after the signing of the Israeli-Palestinian *Declaration of Principles*, a radical shift of the rent donators took place at the Washington donors' conference, held to promote the development of the Palestinian territories ruled by the PA. The conference members committed roughly 2.4 billion US-\$ to the PA. Clearly more than 50% of the promised funds were made by Western countries, while Saudi-Arabia, the main donator of the PLO in the era of petrolism, committed only 100 million US-\$ for 1994²⁵.

The rent structure played a decisive role for the emergence of the bilateral agreements between Israel, on the one hand, and Jordan and the PLO, on the other²⁶. Due to the fact that the two Arab actors have become highly dependent upon political rents since the 1970's, in principle, a chance to influence their foreign policy by linking the rent distribution to a certain behavior exists. However, the concrete concessions made by Jordan and the PLO, in the frame of the agreements with Israel, required more specific preconditions. The crucial factor was that the two Arab actors were deprived of their rents from the Gulf states. Since any agreement with Israel required some "unpleasant" concessions from Jordan and the PLO, there existed no strong incentive for the Arab actors to make these concessions (so long as they were in the fairly comfortable situation to receive political rents from the Gulf states). This comfortable situation was based upon the fact that the main interest of the Gulf states was confined to political stability in the Middle East along with the absence of social revolutionary upheavals. The PLO, under the leadership of the Fatah, and the Jordanian government could guarantee these requirements inside their areas of influence without making substantial concessions to Israel. Hence, they refrained from making concessions, that they considered as unfair, to Israel. Contrary to the Gulf states, the European countries and the USA exhibit a clear interest in promoting peace agreements between Israel and the Arab actors. In the case of a deep economic crisis within the PLO and Jordan, the offer made by the West to substitute the Gulf states as the main rent donators, sufficed to cause a fundamental change in the foreign policies of Jordan and the PLO towards Israel.

Syria

The question itself suggests whether the same mechanism could work in the Israeli-Syrian conflict. If the West were able to promote a peace agreement between these two actors, then a Lebanese-Israeli reconciliation should only create a minor problem. In any case, compared with the other Arab actors, the interest of the Lebanese government to come to terms with Israel is fairly high. The major obstacle to a peace agreement between Lebanon and Israel seems to be rooted in the political dependence of Lebanon upon Syria. Other obstacles, such

²⁵ see Jon Marks, "Paying for Peace," in *Middle East Economic Digest*, 15 October 1993, p. 6.

²⁶ In my view, this factor is more vital for explaining the emergence of the Middle East peace process rather than the normally highlighted end of the East-West conflict.

as the war between Israel and the Hizbullah, would most likely lose much of their relevance if Syria and Israel ever concluded a peace treaty. As a result, if such a peace agreement were concluded only one major obstacle, to a general peace between Israel and all the countries Israel shares a border with, would be left: the danger, analyzed above, that the Israeli-Palestinian peace *process*--which is very far from being transferred to a peace *treaty*--could break down before a durable success is achieved. However, the question that still needs to be answered in this paper is whether the EU, in cooperation with the USA, could promote a Syrian-Israeli peace agreement in a way that is comparable to both the Jordanian-Israeli peace treaty and the PLO-Israeli peace process.

At a glance, the Syrian situation of today seems to be similar to the situation of Jordan and the PLO just before the agreements with Israel took place. Syria's government depends upon rents; and the crisis of petrolism, analyzed above, does still exist. As a consequence of this, and of Syria's political backing of Iran in the Iraqi-Iranian War, Syria had to face a severe drop in political rents paid by the Arab Gulf states. Iran only temporarily compensated for these losses. Moreover, the fading away of the Soviet Union resulted in an additional loss of a source of rent. A direct result of these events was the exposing of Syria to a severe rent crisis at the end of the 1980's.

Nevertheless, major differences exist between the cases of Jordan and the PLO/PA, on the one hand, and Syria, on the other. In sharp contrast to Jordan and the PLO, Syria was able to use the Gulf War II as a rent crisis management: The Syrian backing of Kuwait and the Gulf states was rewarded by an immediate resumption of the political rent payments of the Gulf states to Syria. Moreover, Syria has obtained access to other sources of rent income, namely economic rents generated by its oil sector. Syria was able to nearly triple its oil production in seven years: Between the years of 1986 and 1993, it increased its oil production from 200.000 barrels per day (b/d) to 580.000 b/d. In 1985, the Syrian government received 1,212 billion US-\$ by exporting oil and oil products; in 1992, this figure was nearly doubled: The value of Syria's oil exports was 2,151 billion US-\$²⁷. According to calculations of "The Economist Intelligence Unit", the Syrian oil production will be 600.000 b/d in 1996, as well as in 1997. The export earnings generated by this sector will be between 2.3 and 2.5 billion US-\$ per year in that same period²⁸.

There should be no doubt that political rents offered by the EU (or other governments of the industrialized world) to Syria, in exchange for Syrian concessions in the Israeli-Syrian conflict, are found attractive by Syria. However, unlike the PLO/PA and Jordan, Syria disposes of alternative sources of income. Therefore, contrary to Jordan and especially the PLO/PA, it is much more difficult to convince Syria to accept an agreement with Israel that it does not

²⁷ see Volker Perthes, *The Political Economy of Syria under Asad* (London: I.B. Tauris, 1995), pp. 24-30.

²⁸ The Economist Intelligence Unit, *Country Report: Syria* (London: Redhouse Press Ltd., 3rd quarter 1996), pp. 8-9.

consider as being fair--even if Assad's regime would be rewarded with political rents from the West.

The ability of rent-donating governments to shrink the payment of the political rent

An implication of the analysis presented so far was that donators of political rents have the ability to link the allocation of the political rent to a certain behavior of the recipient. At first glance, this may seem to be a trivial precondition. By no means is this true, especially since the governments of the democratic systems in the Western world cannot make their foreign policy decisions autonomously. Being exposed to a two-level game, the governments are forced to take the preferences of organized social interests into consideration. In this context, the relation of the Western governments to Syria and, above all, Israel are relevant.

Since the USA are by far Israel's most important donator of political rents, only the USA could influence Israel's foreign policy with the help of political aid. The end of the East-West confrontation resulted in a decrease of the strategic relevance of Israel. As a result of this, after the downfall of the Soviet Union, the Bush Administration took advantage of the room for maneuver by linking the granting of a 10 billion loan guarantee to a freezing of the Israeli settlement policy in the occupied territories. Although the Israeli government, headed by Yitzhak Shamir, participated in the Madrid conference, the Bush Administration did not give up this claim and refused to grant the loan guarantee until Shamir's successor, Yitzhak Rabin, promised to limit the Jewish settling of the occupied territories²⁹.

However, the Jewish community within the USA is a well organized lobby. Regardless of the diminished strategic role of Israel, a direct result of the end of the East-West conflict, this group strongly favors the granting of political rents to Israel independently of its foreign policy towards the Arab actors. Therefore the scope of any US-Administration, to use the political rents donated to Israel as a political weapon, is limited. Accordingly, the Bush Administration could not succeed in achieving a full stop to the Israeli settling policy which had, under the governments headed by Rabin and its successor Peres, seen a clear increase as far as East Jerusalem is concerned. Moreover, when the new Israeli government, elected in 1996, decided to resume the building of new settlements in the West Bank, the Clinton Administration was not able to prevent the implementation of this decision³⁰.

29 see Howard Rosen, "Economic Relations Between Israel and the United States," in Robert O. Freedman, ed., *Israel Under Rabin* (Boulder: Westview Press, 1995), pp. 207-208.

30 A very well documented, historical case is provided by the negotiations in Camp David 1978. William B. Quandt's report shows, in full detail, that US-President Jimmy Carter was strongly in favor of a full stop to the Israeli settlement policy in the occupied territories. Nevertheless, he and the Egyptian President, Anwar al-Sadat, were not able to force the Israeli prime minister, Menachem Begin, to a renunciation. The reason behind this was that the US-President would not have been able to curtail the US aid towards Israel, due to the political strength of the Jewish community that would have been completely opposed to such a measure (see William B. Quandt, *Camp David: Peacemaking and Politics* (Washington, D.C.: The Brookings Institution, 1986)).

The Syrian case, however, somehow seems to be reversed. The crucial question is whether the governments of the USA and the EU could legitimize a substantial financial support of Syria that would be linked only to Syrian concessions in the field of foreign policy. The political system of Syria clearly differs from Western ideas. However, if the West linked the allocation of political aid to substantial reforms of Syria's political system, this offer would become much less appealing to the Syrian state bureaucracy.

Summary and Outlook

The question this paper deal with, was whether or not foreign political aid donated by governments of the Western world, e.g. the EU, could be used as an instrument to influence the behavior of the parties involved in the Arab-Israeli conflict. The Arab states depend upon foreign political aid (or political rents) for keeping their political systems stable. Although Israel is also a major recipient of foreign aid, it is less dependent upon this sort of income. The relative weight of foreign rent income, compared to productive income sources in Israel, is much lower than that found in the Arab states. Therefore, and in principle, the chance to influence the behavior of the Arab states, by conditioning political aid, is higher than in the Israeli case. However, this does not necessarily mean that the rent donators can easily change the foreign policy of the Arab actors by linking the allocation of political rents to a certain behavior. The likelihood to successfully do so, is influenced by additional factors.

The chance to influence the conflict behavior varies with the structure of the conflict between the governments involved. The larger the zones of agreement are, the better the chances are that the parties will reach a compromise. Due to the fact that the zones of agreement in the Arab-Israeli conflict have been growing since the 1970's, there has been an opportunity to promote regional peace agreements since the late 1980's.

Moreover, governments occasionally hesitate to conclude agreements since they find it difficult to legitimize them vis-à-vis their societies. Due to the polyarchical structure of their political systems, this factor constitutes a challenge for the PLO/PA and, above all, for any Israeli government. However, although all societies in question are more or less opposed, or at least skeptical, to substantial concessions in favor of the conflict opponent, it was argued that none of the governments involved in the Arab-Israeli conflict can be considered as being completely unable to enforce an agreement in this conflict. Nevertheless, one of the findings of this article is that any Israeli government would have difficulties implementing a possible peace treaty with the PLO that is acceptable to the latter actor. The Israeli government (as well as, even though to a lesser degree, the PLO) could hesitate to conclude an Israeli-Palestinian

agreement, on the permanent status of the territories governed by the PA, out of fear that social groups in Israel could successfully jeopardize this agreement.

According to the findings of this paper, the crucial factor needed in answering the question, whether it is possible to promote peace agreements through the conditioning of financial aid, is as follows: How important are the rents offered by the Western government to the recipients? Major differences exist among the different actors, and not only between Israel and the Arab actors but also among the Arab state bureaucracies. Jordan and the PLO were exposed to a severe economic crisis at the beginning of the 1990's, which threatened to become a severe challenge to their authority. Moreover, they did not have access to an alternative source of income that would have been more "pleasant", i.e., for Jordan and the PLO, no attractive alternative to making substantial concessions to Israel, in exchange for rent payments from the West, was available.

However, the Syrian situation was--and still is--quite different. Although dependent upon rent income, Syria's sources are much more diversified. Stated more precisely, Syria has access to two rent sources that can be exploited without forcing Syria to make substantial concessions to Israel. The first source has been provided by the Gulf states that have resumed the payment of political aid as a result of Syria's "good" behavior during Gulf War II. Contrary to the Western donors of political rents, the Gulf states do not have a strong interest in peace agreements among the parties involved in the Arab-Israeli conflict. The second important source is from the oil exports. In comparison to the donors of political rents, the donors of economic rents can barely condition their rent payments to a certain behavior of the rent recipient in an effective manner.

Political aid donated by the West, as a reward for concluding peace agreements, is the most important "peace dividend", especially for the Arab actors. However, another variation of a peace dividend exists that is beyond the actual scope of this article, namely private investments from abroad. Nevertheless, this aspect should be briefly considered at the close of this paper.

A consensus among scholars exists, that peace between Israel and its neighbors is a favorable, if not necessary, condition for private investments from abroad. More than any Arab actor, Israel profited from investments as a consequence of the agreements with Jordan and the PLO, as well as the relaxation of the Arab boycott connected with these agreements³¹. Contrary to political rents, private investments are not linked to political behavior but rather to economic rentability. However, the rentability of foreign investments in Israel is not independent from political factors: If the peace process continued to slow down or even came to a halt this would, in the long run, diminish the attractiveness of Israel as an investment site. From this

³¹ see Axel J. Halbach, "Kooperation im Nahen Osten - halten sich Hoffnung und Ernüchterung noch die Waage?" in *Ifo-Schnelldienst*, Vol. 48, No. 9 (1995), pp. 14-20.

point of view, the recent policy of Netanyahu's government jeopardizes the Israeli peace dividend. However, contrary to political rents, private investors will not react immediately. Therefore, even though the recent Israeli policy could have negative repercussions for the Israeli peace dividend in the long run, the possible negative effects will scarcely be noticed in the immediate future. As a result, these possible negative effects are not likely to play a major role in the political reasoning of the current Israeli government.

Could the chance for private investments be a major incentive for the Syrian government to conclude a peace treaty with Israel? Not likely. The hopes of private investments in Jordan, and the Palestinian area governed by the PA, have not been fulfilled. The bulk of this peace dividend was collected by Israel. Moreover, Syria is even less appealing than Jordan as far as private investments are concerned. Jordan's economy is much more liberal than Syria's, and shows other features that are more appropriate for foreign investments, e.g. a full-fledged private banking system. Aside from this, an uncontrolled stream of investments from the West may not be appreciated by the Syrian state bureaucracy, since parts of it view such a development as a threat to its control over society.

On occasion, it seems possible to buy peace. According to the findings of this paper, buying peace was actually working, to a certain degree, in the conflicts between the PLO and Jordan, on the one hand, and Israel on the other. However, it should be noted that, despite Oslo I and II, the Israeli-Palestinian conflict is far from being definitely settled. Furthermore, despite various structural similarities between Syria, the PLO, and Jordan, the Syrian case seems to be of a different nature. There should be no doubt that the offer of political rents is viewed as attractive by the Syrian government. Thus, on the one hand, such an offer influences its readiness to alter its conflictual behavior towards Israel to a certain degree. However, on the other hand, such an offer is not appealing enough to persuade the Syrian government to accept an agreement with Israel that it does not consider as being quite fair.

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OBJECTIVES OF GULF-MED FINANCIAL COOPERATION

Saad Akashah

The Project 'Europe and the Middle East'

The Middle East peace process and the Mediterranean initiative of the European Union have been an incentive for the Bertelsmann Foundation, Gütersloh, Germany, and the Research Group on European Affairs at the Center for Applied Policy Research, University of Munich, to involve themselves intensively with the future of the relationships between the regions south and north of the Mediterranean. The partners co-operated in 1994 to institute the project 'Europe and the Middle East', thereby completing their involvement with various European problems. The project aims to mediate between the two regions, providing concepts facilitating the development of more intensive relationships. At the same time the project is an attempt to build bridges between political theory and practice. In order to formulate constructive policies for the development of intensified transregional relations, the world of politics should make use of academic approaches and concepts. On the other side, academics of political science benefit from contact with practical application.

The basis for the project are the annual 'Kronberg Middle East Talks', at which representatives from science, economics and politics exchange ideas on current topics of Euro-Mediterranean relations. These conferences are prepared by a cycle of workshops, which deal with questions related to international security, economic development and the governmental and social transformation of the region.

The present paper was prepared for the workshop 'The Political Economy of Aid' in Paris, February 1997.

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Introduction¹

Since the dawn of civilization the peoples of the Mediterranean and the Arabian Gulf interacted primarily through commercial and cultural exchanges. From the Alphabet to Frankincense and Myrrh, goods and ideas have enriched the physical and spiritual well being of the two regions and through them, the rest of the world. In present time, the Mediterranean connects all of Europe to the Arab countries, in addition to Turkey, Israel and possibly Iran. Here lies the dilemma of the GCC; are the objectives of cooperation defined in terms of GCC/Arab, GCC/MENA, GCC/South Med, or GCC/Europe? Conflicting political and cultural considerations cloud the vision of a future to be shaped by these objectives.

There are many illusions and misconceptions one must face in order to have a clearer vision of the future. The illusion of the Arab World as a homogenous entity, with a singularity of purpose and a common resolve, is erroneous. Nationalistic fever in the 50's and 60's perpetuated this view of the Arab states as a single block that coordinate policies, actively implement economic integration, and aspire towards political union. The Arab world would be indeed a formidable force if the illusion was true. It would control more than 60% of the world power reserves, almost 22% of the world gas reserves and occupy over 10% of the world land mass (Table 1). It would truly be a developing nation, with GDP per capita of about US-\$2100, lagging behind many developed or emerging economies (Table 2).

The reality is that the Arab world is composed of many countries that were separated by colonial territorial domains in the past, and are separated now by political systems, ideologies, economic and social conditions. The disparity among Arab countries spans all indicators, but it is drastically illustrated by the per capita share of GDP (Table 3).

Yet economic cooperation among the Arab states, particularly after the oil-boom of the 70's was genuine. Bilateral and multi-lateral Arab development aid reached about US-\$ 100 billion US-\$ by 1995, Arab joint projects have accumulated US-\$ 36 billion in capital, remittances from Arab workers in the oil producing states to their home countries totaled US-\$ 92.7 billion over the period 1973-1992 and expansion of Arab bilateral trade and tourism have generated an estimated US-\$ 50 billion to the non GCC countries.

¹ The author is indebted for the help and assistance that he received in preparing this paper from his colleagues at the Arab Fund for Economic and Social Development; particularly, Mr. Abdulhameed Al-Zaqqalai. The Arab Fund however, does not necessarily concur with the views expressed by the author in this paper.

The GCC

The oil Era

The six GCC states (Saudi Arabia, Oman, Bahrain, Qatar, United Arab Emirates and Kuwait) owe their development to oil revenues. The Oil era, which spans two decades, can be divided neatly into two periods; the decade of Abundance and the decade of Turmoil. The price adjustments of 1973 produced dramatic change and ushered in the decade of Abundance, a period of unprecedented growth in most Arab countries that lasted until the mid-eighties. The result was a rise in oil prices -- four times their previous level by mid October 1974-- subsequent growth of oil revenues, upsurge in states' budgets, changes in the ownership and management of oil industries, control of oil resources by Arab governments, and linkage of Arab economies directly or indirectly to oil revenue.

Oil revenue increased from US-\$8.8 billion in 1970 to US-\$22.7 billion in 1973, and to US-\$ 68.5 billion in 1975, and then up to US-\$ 216.9 billion in 1980. This was followed by reduction in price and subsequently income; US-\$93 billion in 1985, US-\$50 billion in 1986, US-\$ 86 billion in 1994, and about US-\$90 billion in 1995. This was to be the decade of Turmoil: price collapse, budget deficits, internal and inter-Arab political strife.

Impact of Oil Revenues on the GCC States

The decade of Abundance witnessed the consolidation of state dominance of the economy, with both positive and negative attributes, in each of the member countries. Large budgets, made possible by oil revenues allowed the state to cater to the needs of its citizens. Public spending (current and investment spending) increased annually, causing governments to seek new outlets for fund's disbursement, often beyond the state capacity to receive or utilize the acquired goods or service. Investment allocations in the GCC leapt from US-\$13.3 billion in 1974 to approximately US-\$59 billion in 1980.

The GCC countries attempted to leap frog centuries of economic backwardness by building massive infrastructures: roads, power stations and grid systems, water desalination plants and distribution networks, sewage and solid waste collection and disposal, complete health care systems, educational facilities from nurseries to universities. The enormous wealth made possible the expansion of advanced civil service structures, banking and other service industries, as well as economic activities associated with rapid development such as construction and consumer oriented industries. It also led to the establishment of petroleum and gas based industries: oil refineries, gas-liquefaction plants, and large petrochemical complexes. Energy intensive industries such as aluminum, steel, copper and cement were also established using the abundantly available energy. There is no doubt that the achievements are noteworthy. GCC citizens, on the whole, enjoy high standards of living, are better educated

and catered for than the majority of the world population. Complete social welfare exists in countries that collect little, (if any), tax, allow the free and unrestricted transfer of funds and subsidize all of life essentials and many of its luxuries.

Problems and Flaws

Yet it is this freewheeling, undisciplined and somewhat arbitrary form of development that is plaguing the GCC today. There are considerable structural flaws in the GCC economies that were exposed by the decline in revenues, and require immediate action. Some of those are as follows:

- Although the oil sector share of GDP has declined from 78% in 1980 to 30% in 1994 in the GCC, this was due to decline in total output rather than an increase of the contribution of other sectors. The manufacturing sector share of GDP is still modest, amounting to only 9.4% in 1994. The total value of GCC industrial exports do not cover more than 36.5% of GCC industrial imports, a condition that can not be tolerated in economies that have few other resources.
- The contribution of the agriculture to GDP is even more modest at 4%. Although most government in the region stress the need for food security, the scarcity of water resources makes the attainment of self sufficiency in basic foodstuffs dubious, with the possible exception of Saudi Arabia and Oman.
- GCC governments are the largest employers in their countries. The state budgets are overburdened with the cost of the public payroll, which continually adds to the state expenditure, and therefore, to its deficit. The situation is aggravated by the annual addition of almost three hundred thousand new entrants to the GCC work-force.
- The imbalance in the geographical distribution of GCC trade is another area of concern to economic planners. Inter-GCC trade was only to 5-8% of total foreign trade during the period of 1980-1994. Trade with other Arab countries was less than 3.5% of total foreign trade during the period 1985-1990.
- GCC exports are unable to take advantage of the close proximity to regional markets. Certain commodities, locally produced in GCC but imported by Arab countries from other sources, amounted to \$3.7 billion during the period of 1985-1990. This amount exceeded the average trade figures between the GCC and the other Arab countries by 46% during the same period.
- Individually or collectively, the GCC countries failed to moderate the consequence of their general welfare policies. As a result, deficit remained in excess of \$22 billion or about 11% of the GDP in 1994.

The GCC states are pursuing economic reform programs that should, for most states, achieve balanced budgets by the turn of the century. Many of the measures already taken have

produced positive results. According the Financial Times, of the top 50 companies in the MENA (Middle East and North Africa) region, 18 were from the GCC, including the top 6.

GCC Financial Institutions

Although the modern financial structure is relatively new in the region (the first truly native bank was chartered in Kuwait in 1951), the growth of GCC financial institutions in the past thirty years have been remarkable. Currently there are 119 GCC banks with 2074 branches (Table 4). They are contributing to the development of their economies and are playing a greater role in providing funds for the growth of the private sector. The total credits provided to the public and private sectors by GCC commercial banks (Table 5) came to more than 180 billion US-\$s in 1995. Approximately 90% of this was directed to the private sector.

Although most of the credits have been in the form of letters of credit and short term loans, there are indications that medium to long term loans are growing both in numbers and volume. A recent study conducted by the Arab Fund indicated a steady growth in long term loan demand in 14 Arab states (6 of which are GCC). The figures (Table 6) indicate that the growth in private sector lending demand will double by the year 2002. It is expected the growth of demand will be much greater since many of the governments have started economic restructuring programs that delegate to the private sector many of the physical and social infrastructure projects. Since the governments usually used their own financing for such projects, it is estimated the real demand for commercial financing for such projects will double current projections.

Toward the Mediterranean: A GCC Outlook

Ancient links, New hopes

In the aftermath of the Iraqi invasion of Kuwait, the GCC countries became more aware that the prosperity and the resultant political stability in the region provides the best guarantee for their security in the long term. Key Arab Mediterranean countries (Egypt and Syria) played a major role in preventing the permanent annexation of Kuwait by Iraq. The EU, particularly France and England and Germany provided pivotal material and military support. The Madrid conference, and the subsequent Oslo and Washington agreements between Israel and some of the Arab states provided hope for peace and stability in the region.

As a result many GCC officials and businessmen began to project a vision of the future that is composed of the following elements:

- Total and just peace in the region resulting in sharp decrease in defense spending in the "Front-line states", and bringing much needed economic revival to Syria, Jordan, Palestine and Egypt.

- Reduction on Financial Aid for Armament demands on the GCC by other Arab countries.
- The expansion of demand for existing, and future GCC products in the emerging economies of Syria, Jordan, and Egypt.
- The creation of Investment opportunities in whole region for private GCC capital, utilizing skilled and semi-skilled manpower in the large-population Arab states.
- The expansion of the EU links to Arab-Med states thus providing another linkage for GCC-EU interaction.
- The utilization of Israeli technology and know-how and the eventual integration of Israel into a large economic trade zone made up of the region states.

GCC Trade Links with Mediterranean Countries

Although the MENA region represent only a small fraction of the total trade of the GCC, 3.2% of total exports and 2.4% of total imports (Table 7), it is none the less significant in that it is balanced (Table 8) except in the case of foodstuffs (more imports) and mineral fuels (more exports). This can be compared to the general composition of trade (Table 9) where exports are totally dominated by mineral fuels and imports are dominated by manufactured goods. One can project that as custom duties and other barriers are removed between the GCC and MENA countries, a steady and substantial growth will be achieved.

If one looks at the distribution by country one is astounded by the relative shares of the individual countries. Iran is the largest partner for the GCC (Table 10, 11) representing 49% and 21.7% of exports and imports respectively. This is partially explained by the active reexporting that is conducted from some GCC countries (particularly UAE) to Iran. Morocco, Egypt, Syria, Lebanon and Jordan represent the bulk of the remaining trade. One can only project the effect of trade liberalization with these countries on the general growth of GCC economies. The long proposed Arab Free Trade Zone, agreed upon in late 70's, but not yet enacted is strongly being reconsidered in light of the benefits it will bring to member states.

GCC Financial Transfers

As stated earlier, the impact of oil revenue on non producing states was facilitated by the four mechanisms: bilateral and multi-lateral Arab developmental joint Arab projects and remittances from Arab workers in the oil-producing states to their home countries. In this section two of these mechanisms will be elaborated on, aid and investments.

Aid

The most altruistic of these mechanism was the establishment of developmental assistance funds. Beginning with the Kuwait Fund for Arab Economic Development in 1962, many national and multi-national funds were established during the Oil Era. These are:

- The Arab Fund for Economic and Social Development
- The Islamic Development Bank
- The Saudi Fund for Development
- The Abu Dhabi Fund for Development
- The Arab Bank for Economic Development in Africa
- The OPEC Fund for International Development
- The Arab Monetary Fund

The total amount of development aid extended by these Funds to Arab and other third world countries totaled more than \$42 billion (Tables 12 & 13). Figure 1 illustrates the source and destination of disbursements. Arab countries received more than 60% of the assistance, and except for OPEC Fund, greater share of any Fund's disbursements. Countries in Asia received the second largest share, primarily because of the contributions of the Islamic Bank and the Saudi and Kuwaiti Funds.

The relative contribution of each of the Funds is shown in figure 2 (data contained in Table 14) and the total number of countries' assisted by each Fund is included in Table 15. Figure 3 illustrates the sectoral distribution of this aid (data contained in Table 16). Physical infrastructure projects (communication, power, water and sewerage) accounted for more than half of the total aid.

Most of the endowment of these funds came from the GCC member states. The GCC states, in addition, provided direct bilateral aid that is characterized, as most of the multi-lateral loans, by easy terms, low interest rates, long pay-back periods, and higher percentages of grant-in-aid. The percentage of GDP allocated to aid and development by the GCC is the highest in the world.

Investments

Direct foreign investments in the Arab states reached 1722 million US-\$, almost half of the 1990 total of 3127 million US-\$ (Table 17). This drop is primarily due to the aftermath of the Gulf war and the uncertainties that are associated with it. There are indications of massive foreign investment in the Gulf: Union Carbide in Kuwait, French Investment in Gas projects in Oman and Qatar. In addition, several power station projects are being implemented in the

Gulf, Jordan and Egypt which involve direct foreign investment. Although the hiatus in the peace process has brought to a halt extensive projects, such as the proposed gas pipeline from Qatar to Jordan and Israel, the joint Israeli-Arab refinery in Alexandria (Egypt), and the proposed Israeli-Jordanian power station in Aqaba, it is hoped that intra-Arab investment will not be affected by recent events. While Arab investments abroad have been dominated by Kuwait investments in Europe and South Asia (Table 18), there are indications that some of these funds will be directed towards Arab countries such as Syria, Lebanon and North Africa. Approved projects for 1995 (Table 19) totaled about 2.5 billion US-\$, directed mostly to Egypt.

If one further considers an Investor-Host matrix for 1995 (Table 20), Egypt seems to draw from every other Arab country, only Jordan and Morocco have similar characteristics in the investment source distribution.

Table 21 illustrates the sectional distribution of intra-Arab investments. Industry received the largest share, services was the second favorite, while agriculture ranked a distant third. This is partially due to the capital intensiveness of the first two categories, in addition to the expectation of high return on the long term. Agriculture, in general, is not suited for large projects in the Arab countries. Potentially, only the Sudan possess the resource (land, water, manpower), suited for large Agri-business. Unfortunately the investment climate in Sudan is not conducive for outside investments.

Finally, a striking fact was illustrated by 1994 investment statistics (Table 22), the Fertile Crescent and Iraq contributed almost as large a share to intra-Arab investment in 1994 as did the GCC countries. This was partially due to capital flight from Syria and Iraq and some Jordanian and Lebanese investments in United Arab Emirates.

Current Realities

In the aftermath of the Israeli-election and the intransigent positions of the new government, the outlook is more toward immediate objective to meet current challenges. The current views can be summarized as follows:

- The need to expand GCC trade zone to take advantage of the provisions of the new international trade system. The GCC countries are particularly aware that trade-zones partners will enjoy a comparative advantages when dealing with other trade blocks. European initiatives towards the expansion of the EU partnerships to the southern Med region and their overtures to the GCC are met with enthusiasm by GCC governments and businessmen alike.
- The urgent requirement to create new jobs for GCC citizens entering the market in expanding numbers each year. Thus many Arab-expatriate workers (mostly from Egypt, Jordan and Syria) must have job opportunities in their homeland. Currently over 300000 GCC citizens enter the job market every year. The GCC countries are hard pressed to create new

jobs for their citizens. Coupled with economic restructuring and budget reduction, the incentives for job created by the private sector takes on an urgent dimension. There are those who advocate the relocation of labor intensive industries to neighboring countries, while expanding primary and secondary industry in the GCC, particularly in petrochemicals.

- The integration of Arab-stock markets in order to attract both local and foreign capital to the region. Already Lebanese, Egyptian and Kuwaiti stock exchanges are interlinked. It is possible now to deal in any one of the three exchanges for share and stocks listed in the other two. Oman and Bahrain are expected to follow shortly, and Jordan has shown interest in joining the system in the future. It is too early to tell if this mechanism will succeed in attracting both domestic and foreign capital to Arab investments.

- The expansion and modernization of the GCC banking system in order to meet the globalization of international financed institutions (Although GCC banks statistics are impressive by Arab standards, they are mostly domestic banks).

- Reduction of Government Development Aid to other Arab countries through the promotion of private commercial investment in development project. The financial constraints experience by the GCC governments are as follows:

- i- The drop in oil generated revenues, which have been continuous until 1996, coupled with the dependence of state budget on these revenues.

- ii- The increased cost of social and physical infra structure and services, mostly paid for by the state. Thus the fiscal deficits have become structural in nature. Recent cuts in the budgets have been on the expense of developmental expenditure, at the same time that existing social and physical infrastructure requires a fresh infusion of capital for upgrading and maintenance.

- iii- The rising expectation of GCC citizens for jobs, subsidized housing, as well as free medical, educational and municipal services, have put a tremendous pressure on state budgets and on the efforts to eliminate deficits by the year 2000.

- iv- The increased cost of defense in the aftermath of the Gulf war. As percent of GDP or in absolute amounts GCC expenditure on arms is excessive.

Thus, the political climate in the GCC countries have shifted toward directing some of aid funds toward domestic consumption. A recent bill introduced in the Kuwaiti parliament will direct 500 million Kuwaiti dinars (Approximately 1.7 billion US-\$) from the Kuwait Fund for Arab Economic Development toward meeting domestic housing loans. Although many of the development funds are now self sustaining, direct bilateral aid is being reduced in Kuwait and Saudi Arabia. The GCC governments are trying to encourage private GCC capital to provide some relief for developmental projects in Arab countries. The trend toward privatization of

the public sector in Egypt, Jordan, Morocco, and Tunis is having a positive affect on this trend.

Conclusion

Europe and the GCC have many common interest in the development of a peaceful prosperous Mediterranean region. Political stability and economic prosperity reduces the influx of labor, provide for expanding markets and reduces the chances of political turmoil. The Mediterranean has traditionally been the link between Europe and the Gulf, but there are issues that are particular to the GCC and Europe which can be a common ground for cooperation and fruitful interaction.

First, one must discuss the points of contention between the GCC and the EU:

- The GCC regard the proposed carbon-tax as a direct effort to increase European state revenue at the expense of the oil-producers, particularly the GCC. Many industrialists in the EU itself consider the stated purpose of the tax. To reduce CO₂ emission, to be unrealistic in light of some states subsidies of the coal industry. The need for dialogue between the EU and GCC on this issue is of paramount importance. The Europeans must realize the great sensitivity of this issue and its importance to the GCC government and populace alike.
- The other sensitive issue dividing the EU and the GCC is that of petrochemical products. The GCC perceives the tariffs and quotas placed on the imports of the primary industrial output of the GCC as unfair and punitive. However, the Europeans question the unrealistic feedstock prices (mostly gas) that the GCC provides for its petrochemical industry. While one can argue that petrochemical industries in other countries, such as the US, enjoy a rather cheap feed stock prices, one must admit that both sides have valid arguments which demand a serious dialogue. Europe is one of the largest producers of petrochemicals (about 33%) in the world market, but it is also a large consumer. Opening up GCC petrochemical industries to majority ownership by the European companies is one of the options being considered in the GCC. Relocation of older, primary and secondary products from Europe to the GCC is worthy of study and consideration.
- Finally, the GCC expects the EU to play a larger political role in moving the peace process in the middle east. While the French role is appreciated and enthusiastically received, the British, German and general European involvement is considered below the potential of the EU. Again, dialogue can help alleviate misconceptions.

Conversely, the points that are shared between the GCC and the EU are significant and copious. As stated above, the two regions have a heightened self-interest in the political stability and economic prosperity in the Mediterranean region. Besides the reasons stated above, the Mediterranean is the physical and psychological bridge between the two regions. Europe can not exclude its southern border from its primary consideration, and neither can the

GCC exclude its northern frontiers. The cultural and commercial ties of the southern members of the EU to the Med states are similar to the ties of the GCC to the same states. The prosperity that both regions enjoy must extend to their neighbors. Therefore it is imperative that non-governmental dialogue be established and encouraged between the populations of both regions. Meetings between industrialists, academics, political and social professionals are steps in a long process of interaction.

Some cooperation between the GCC and the EU is warranted in the area of developmental aid. As the amount of available aid shrinks relative to demand, it would be prudent to share resources for increased effectiveness, particularly in light of proposed programs for private sector lending. One should be warned, a priori, that the paternalistic tendency of some development aid organization toward Arab provider institutions will be harmful in the long run. Local means can develop successful, aid programs alone, rather than depositing funds in European or International programs, as was suggested by some.

Joint investment in MED countries should be prompted and encouraged, particularly in depressed areas such as Palestine and the newly emerging nations of the Balkan. Joint Tax incentives or preference for products produced from such joint ventures, which are essential to future of the region, should be part of the main objectives of both GCC and EU.

Finally, communication - - frank and open discussions between officials - - must encouraged, maintained and expanded at all cost. Europe has made many great initiatives toward this goal recent years; let us hope it will continue to do so and that the GCC will respond in kind.

Appendix²

is not available on disc, to be obtained from Bertelsmann Foundation if required

² The following data have been taken from the original manuscript.

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THE IMPACT OF FREE MARKET IDEOLOGIES ON POLITICAL STRUCTURES RECONSIDERED

Riad al-Khouri

Research Group on European Affairs, University of Munich

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The Project 'Europe and the Middle East'

The Middle East peace process and the Mediterranean initiative of the European Union have been an incentive for the Bertelsmann Foundation, Gütersloh, Germany, and the Research Group on European Affairs at the Center for Applied Policy Research, University of Munich, to involve themselves intensively with the future of the relationships between the regions south and north of the Mediterranean. The partners co-operated in 1994 to institute the project 'Europe and the Middle East', thereby completing their involvement with various European problems. The project aims to mediate between the two regions, providing concepts facilitating the development of more intensive relationships. At the same time the project is an attempt to build bridges between political theory and practice. In order to formulate constructive policies for the development of intensified transregional relations, the world of politics should make use of academic approaches and concepts. On the other side, academics of political science benefit from contact with practical application.

The basis for the project are the annual 'Kronberg Middle East Talks', at which representatives from science, economics and politics exchange ideas on current topics of Euro-Mediterranean relations. These conferences are prepared by a cycle of workshops, which deal with questions related to international security, economic development and the governmental and social transformation of the region.

The present paper was prepared for the workshop 'The Political Economy of Aid' in Paris, February 1997.

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Introduction: Europe and the Middle East

To stand a famous nineteenth century quote on its head, the Mediterranean region is being changed by European Union policy -- our point however is to study it. The legitimacy of contemporary regimes in the Middle East and North Africa region (MENA) and various associated problems (including those of governance and transformation) are becoming increasingly important issues for Europeans (and others both in and outside MENA). Today, barely 25 years after the formal end of the last vestige of European state domination in the Middle East, Europe is once again actively and overtly trying to influence the internal socio-economic and political situations in its southern and eastern neighborhoods. The progress and success of these efforts will be crucial to hundreds of millions of people in dozens of countries from the Atlantic to the Red Sea, and will also have important implications for many others.

The current travails of the peace process together with fears over the consequences of socio-economic pressures in the MENA region spilling over into the EU (through for example mass migration) have lead to an upgrading of bilateral and multilateral support to most economies on the southern and eastern shores of the Mediterranean. Much of this aid is being provided by the EU in a major initiative to intensify economic relations with its neighbors in the South and East Mediterranean area (SEM).

Methodology and definitions

For this paper's purposes, SEM includes Morocco, Algeria, Tunisia, Egypt, autonomous Palestine, Jordan, Syria, Lebanon, Malta, Cyprus, Turkey, and Israel, i.e. the non-EU Mediterranean participants in the Barcelona ministerial meeting of November 1995. If we ignore Malta, Cyprus, and Turkey, SEM becomes a subset of MENA as defined by the World Bank and others (1). This leaves SEM as a mainly Arab part of MENA, physically and otherwise close to the EU (2). The rest of MENA (comprising Iraq, Iran, Yemen, and the Gulf Co-operation Council states) tends to be less in Europe's shadow.

SEM is something of a mixed bag of political entities that were not till recently examined as a group. In particular, SEM is a freezing in time of the Euro-Mediterranean political situation of 1995. That SEM is heterogeneous and disparate is obvious to most people in MENA, as well as to others. Perhaps because dealing with heterogeneity and disparity are fortes of the EU in general and the European Commission in particular, the difficulties of handling SEM as a unit are not so obvious if looked at from Brussels or elsewhere in the Union. On the other hand, the important practical point can be made that the region's lack of cohesion is itself a challenge to the EU which wants to "export stability" to the south and east (3).

The EU's Euro-Med policy aims at the political stabilization of SEM states on both the domestic and international levels. Trade agreements have been concluded with some SEM partners, while negotiations continue with others. These initiatives are complemented by major financial transfers from Europe to SEM. But what is the potential impact of those policies on domestic political structures and on the regional and international systems? This paper will try to set the stage to answer this question by contributing to a framework for the examination of the interrelation between politics and economics in EU-MENA relations, as well as domestic political relations in MENA in general and SEM in particular. On such an intellectual basis, this paper will attempt to formulate guidelines for hypotheses on the political impact of EU material engagement in SEM. On a normative level, this paper will hopefully assist in formulating ideas on how the new Euro-Med initiative should be implemented in order to achieve optimal results for economies and societies on different sides of the Mediterranean.

Rentierism and aid

The underlying question being posed in this paper will be whether EU resource transfer is and will be contributing to systematic and positive shaking up of Middle East political and socio-economic structures in order to make adaptation to a rapidly changing international environment possible, or whether resource transfer is mainly benefiting status quo-preserving elements of state and society seeking to enhance or perpetuate "rentierism."

Rent can broadly be defined as a return for controlling an area of land, be it a garden or a country (4). Rent in the context of this paper is a state's reward for control of natural resources and/or political leverage particularly if it comes from a geographical advantage. A rentier though he does not participate actively in production, nevertheless gets a share -- at times a handsome one -- of output. His rent income is not related to work and risk-taking. A rentier economy is thus "an economy where the creation of wealth is centered around a small fraction of the society; the rest of the society is only engaged in the distribution and utilization of this wealth" (5). This concept has been particularly applied to the Middle East oil producers, but also covers other countries. For example, regional states which are not important oil exporters have been defined as semi-rentiers. Military and political aid to preserve and/or introduce superpower and regional power influence in the area, is a major source of external rents to some MENA states, Jordan for example, where "a huge bureaucracy, sort of a new rentier class, is getting a substantial slice of the government's accrued rent" (6). Thus, political entities that can extract resources from foreigners because of politics, physical location, or some other related factor are characterized by rentierism. Their status enables them to demand and get aid.

Structural adjustment

The state in a rent-dominated economy will be tempted to compete with its own citizens. As such, various policies of structural adjustment are needed to overcome rentierism. These policies are sometimes "rejected because they are said to weigh more heavily on the poor. Yet the record of structural adjustment programs shows that they do not need to have a regressive impact on income distribution, and in the case of many Arab countries this finding would most certainly be confirmed. Moreover, while specific austerity measures tied to structural adjustment can be linked to particular eruptions of mass protest, in general they do not usually result in fundamental political instability" (7).

It is now widely accepted that the structural adjustment policies required in MENA should be led by cuts in military spending. (Such a step is obviously and intimately linked to political and diplomatic developments, as in the case of the impact of the Middle East peace process on countries bordering Israel, and cannot be undertaken lightly.) A decreased military budget and role for the military will also involve longer-term acceleration of economic growth. In this connection, MENA's performance is poor in comparison with the rest of the developing world (Sub-Saharan Africa, South Asia, East Asia and the Pacific, Latin America and the Caribbean, and the CIS/Baltic States). In the period 1985-1994, the MENA region registered an average annual decline of 0.7 % in GNP per capita (the third worst developing region performance, after Sub-Saharan Africa and the CIS/Baltic states). Another striking fact shows that the MENA region has the developing world's highest rate of government spending on defense, 21% in 1995, compared to 13% for the developing world (8). The correlation between slow growth and defense spending is not a simple one, but it is in my opinion direct and important. In addition to the military, bloated civilian bureaucracies in MENA are an obstacle to liberalization and a production-oriented policy. A third structural adjustment policy entails cutting expenditure on consumption subsidies which encourage rent-seeking among various groups.

While structural adjustment can be achieved by increasing sources of government revenues via more efficient taxes, such policies are sometimes rejected because results are not immediate, creating short-term social unrest and discouraging investment. On the other hand, recent attempts at trade liberalization for structural adjustment in MENA states tended to improve the standard of living of the wealthiest part of the population and offer new opportunities for enrichment through, for example, foreign company representation, without necessarily encouraging private sector investment in such areas as nontraditional export-generating production.

For states with questionable legitimacy to move beyond rentierism is often difficult because structural problems have become much more unwieldy than they originally were in the "pre-oil" era, before 1973. Oil wealth served to spur growth but distorted development, enhanced authoritarianism, and strengthened economic, military, and cultural dependency on the West.

The illusion of wealth created by oil had in many parts of MENA the same effect as the gold of the New World had on Spain in the 1600s, delaying fundamental changes necessary for sustainable development. In this context, the political economy of aid is becoming an increasingly important issue.

Structural adjustment is problematic under an authoritarian regime that has been in power for decades, with little changes among top personnel, and that has consistently followed policies aimed at maximizing control and rent-generation rather than genuine socio-economic development. In this context, for example, some cite Jordan as a country which until 1994 had opted to "capture sources of rent through the constant underlining of its role as a front-line state in the conflict with Israel," rather than "aggressively developing production geared to the regional market" (9). The situation after the peace treaty was signed with Israel in that year has not changed much, though some slight evidence for more successful adjustment is there. By contrast, Tunisia and Morocco are examples of non-oil states at the same general level of development as Jordan with roughly similar GNPs per capita and which have increasingly viable economies, with enhanced exports, and external debt and budget deficits under control. The interesting contrast between these two countries and Jordan is that progress to democratization in the latter has not gone hand in hand with a stronger economy, while in Tunisia and Morocco democracy has made little headway though structural adjustment has.

Democratization and the economy

Economists and others from developed and developing areas (including both Europe and MENA) argue that there is a relationship between the economic system and democratization. But the nature of the links between the economic and the political spheres remains a thorny topic. That such links are important is undeniable. But how they work practically is something that has not been explained satisfactorily. This paper will try to avoid the failures of various attempts to pin down this elusive relationship (including that of exponents of some form of modernization theory who posit a benign link between the two domains) by simply not delving deeply into the issue. Nevertheless, the subject is important and cannot be ignored on the grounds of its difficulty, and I will be presenting a few modest ideas for others -- with greater resources -- to amplify.

Many in the developed world have their own version of the political economy of free market systems. But an important limitation to this approach is that the economic theories and methods used reflect the ideological assumptions of classical liberalism (10). The proliferation in the West of the practice and ideology of private enterprise helps explain the vitality of this approach. Many in SEM firmly believe in both democracy and economic liberalism as ends in themselves as well as means towards other ends. But this does not imply that the two are inextricably bound in SEM in particular, nor that democracy and liberalism should be applied immediately and blindly to eliminate all problems of underdevelopment. Keeping this caveat

in mind, one can examine an idea that is popular in the West but one that may not necessarily be relevant to SEM: "Economic arrangements play a dual role in promotion of a free society" (11). Freedom in economic arrangements is seen as a component of freedom broadly understood, so, though economic freedom is an end in itself it is also indispensable toward the achievement of political freedom. "Viewed as a means to the end of political freedom, economic arrangements are important because of their effect on the concentration or dispersion of power. The kind of economic organization that provides economic freedom directly, namely, competitive capitalism, also promotes political freedom because it separates economic power from political power and in this way enables the one to offset the other" (12). Milton Friedman, the author of these words and the arch priest of free markets, knows "of no example in time or place of a society that has been marked by a large measure of political freedom, and that has not also used something comparable to a free market to organize the bulk of economic activity (13)."

What the market does is to reduce the range of issues that must be decided through political means, and thereby to minimize the extent to which government needs to participate directly in economic life. But this also has implications that go beyond the narrowly economic. By removing the organization of economic activity from the control of political authority, the market eliminates this source of coercion, and enables economic strength to be a check to political power rather than a reinforcement. These and similar ideas underpin much of the EU's economics and politics, but whether such thoughts can be invoked to help liberalize SEM both socio-economically and politically remains to be seen.

A rentier state that economically supports a society while in turn being supported by revenue accruing from abroad does not need to react to society's demands. On the contrary, a state that is supported by society, through taxes, will in the final analysis be obliged to respond to societal pressures. But looking around MENA today, my feeling is to dismiss a straightforward inverse relationship between changes in rent availability and the enhancement of democratization through more accountability, representation and participation. However, this still leaves as a fundamental question whether or not democratization is, or should be, the central part of an agenda to overcome MENA rentierism, or whether structural adjustment leading to sustainable economic growth and development -- with or without democracy -- will lead to the weakening of the rentier state.

Authoritarianism and development

An argument in favor of the developmental role of authoritarian government is that it does not need to carefully balance private interest groups, and can afford to take a long-term view, because it is not subject to electoral cycles. But "in Arab experience authoritarian governments have displayed no such farsightedness and attachment to the common good of the people" (14). This brings us back to the fundamental question: will democracy help

MENA countries move from their current practices of rentierism? There is, of course, no assurance that political liberalization will yield a government willing and capable of engaging in economic reform. In MENA, success of democratic institutions promoting a viable economics strategy is hindered by the lack of economic discourse in public opinion. Political forces or parties do not distinguish themselves on the basis of economic policy preferences; they tend, rather, to polarize around issues such as the relationship between religion and politics. However, Islamist forces in many Arab states fall short of proposing a coherent economic policy program, and as such it is not distaste for Islamist economic policy but rather fear of Islamist popularity that has led regimes to be wary of political liberalization.

But in Islamist or other systems, there is a feeling that authoritarianism in the Third World has served people ill in terms of the pursuit of goals that reflect the wishes of the majority. Occasional exceptions may be found, "but the vast majority of Third World citizens, whatever their degree of political influence or perception, have little reason to favor the continuation of military governments, single-party regimes or personal rule" (15).

Economic forces do not make democratization absolutely inevitable, though broader participation in political life seems to be the case in most SEM states. However, "expanded participation need not mean democracy in the current Western sense" and Middle East states "will doubtless have to find their own culturally authentic paths to expanded participation" (16). "Democracy cannot be born like Aphrodite from the sea foam. It comes in slow changes," and "the places that offer the best prospects for democracy are those where there is a process of gradual change in the direction of freer institutions." In a "traditional Islamic system, the converse of tyranny is justice; in Western political thought, the converse of tyranny is freedom. At the present day, most Islamic countries are discovering that while they have gained independence [from imperialist powers], they enjoy neither justice nor freedom (17)." The most difficult question, as yet unanswered definitively, is whether liberal democracy is desired in MENA. According to some, the Arab states reject the democratic option because of where it comes from rather than what it contains. "It may not be surprising and perhaps inevitable, that the Arab states should resent the West and not wish to emulate liberal democratic political structures" (18).

Where some tolerance is not present or where state authority is oppressive, elements of civil society can still exist, but they are in an antagonistic relationship with the state or economy rather than in a cooperative or mediating relationship with them. In MENA, this antagonism has often characterized the environment of NGOs. The last three decades have witnessed a rapid growth of NGOs in many MENA countries. However, NGOs have had varying experiences, with many associated with the state or the ruling party. Thus they in essence fall outside the standard definition of NGO as part of civil society. Furthermore, "the World Bank, multilateral organizations, and the bilateral donors for the most part relate to governments,"

(19) in MENA. NGOs and civil society are given a back seat in development plans, though this may slowly be changing.

Irrespective of the role of NGOs and civil society in SEM states, what I find more interesting is to examine the important cultural criterion of how "Europeanized" a country is. Those countries in which the basic common culture shares strong elements with European counterparts will in my opinion tend to be more amenable to positive change, i.e. moving away from rentierism. For example, despite Syria's authoritarian regime, the country's socio-economic system remains quite open to Europe at many levels (20). Conversely, Jordan, a politically "emerging democracy," faces higher cultural barriers to the same influence. Benefiting from closer ties with the EU does not only involve rentiers thirsting for financial assistance. Helping to eradicate bad socio-economic practices and adopt better ones will hopefully be key benefits of partnership with the EU for SEM. "Closer ties with Europe would only bear its fruits of investment, employment and growth, if the countries of the Mediterranean prove to be able to embrace the successful elements of European economic culture that led to its success" (21). While it may be trivial to say that MENA's more Europeanized societies and economies have a greater chance of moving more quickly towards European practices, there is an important distinction to be made between the type of economic development that simply relies on meeting Western conditions and one that places more emphasis on local innovation.

Conditionality

The test by which donors today often measure aid effectiveness is to monitor whether the additional resources have contributed to meeting certain conditions, typically as set by the Bretton Woods institutions: the World Bank and the International Monetary Fund. Though the IMF seeks shorter-term stabilization while the Bank looks to introduce medium-term improvements, both try to impose conditions of institutional reform. This conditionality is at the heart of contemporary policy-based development assistance, whether extended as loans or grants, in bilateral or multilateral form. EU aid is no exception, as set out in the MEDA financial and technical measures to accompany the reform of economic and social structures in the framework of the Euro-Mediterranean partnership. Specific measures to be taken under MEDA seek to contribute to "initiatives of joint interest in the three sectors of the Euro-Mediterranean partnership: the reinforcement of political stability and of democracy, the creation of a Euro-Mediterranean free-trade area, and the development of economic and social co-operation, taking due account of the human and cultural dimension. These support measures shall be implemented taking account of the objective of achieving long-term stability and prosperity, in particular in the fields of economic transition, sustainable economic and social development and regional and cross-border cooperation" (22). Under MEDA, the following eligibility criteria have to be satisfied: "the country concerned must

undertake a reform program approved by the Bretton Woods institutions or implement programs recognized as analogous, in coordination with those institutions, but not necessarily financially supported by them, in accordance with the macro-economic extent and effectiveness of the reforms; account must be taken of the economic situation of the country, and particularly its level of indebtedness and its debt-servicing burden, the state of its balance of payments and the availability of currency, the budget situation, the monetary situation, the level of per capita GNP and the unemployment level" (23).

However, "the conditionality bargain -- external financial assistance for economic policy change -- has been criticized, not only for the content of the policies recommended, but also, from a differing perspective, for its lack of efficacy" (24). But under a world system in which military threats are becoming less simple as a means for influencing behavior of other states, "conditionality offers one window for estimating the range of financial or economic influence that may be exerted internationally during the next decade" (25). Does the giving of aid confer power on the EU to change recipients' economic policies? The rationale of conditionality is persuading recipient countries to rid themselves of policy structures prejudicial to development. Characteristically these are seen as sheltering rentiers from the pursuit of efficiency through competition in the market. But whatever the justification for state controls, donors encounter political resistance in attempting to overcome them. The losers from structural adjustment then fight it out with the gainers in what often ends up as a non-neutral income redistribution (26). A fundamental determinant of reform is the willingness and ability of the party which negotiated the conditionality agreement to overcome opposition. Various issues come into play for different states and policy reforms, but one factor is constant: where there is opposition to reform, it must be overcome somehow for implementation to occur. For this to happen without compulsion requires either persuasion or financial compensation. Political opposition, and willingness or unwillingness to override it, becomes apparent either through sins of omission or, in countries which expect their relationship with donors to continue, through countervailing actions. Both overt evasion and covert avoidance of conditionality can be contemplated by a recipient aware of the "disbursement dilemma" (a donor's reluctance to hinder disbursement by rigorous insistence on compliance with conditions). As a consequence in different parts of the world over the past few decades slippage on conditions has been substantial (27).

For the EU the extension of policy-based aid to SEM is a medium-term process, many of the results of which are not yet clear. The interest of the EU in SEM will manifest itself in increased aid flows over the next few years. The MEDA regulation adopted by the EU Council provides for a total allocation of ECU 3.4 billion for development projects in the Mediterranean region for 1996-1999. The first installment of ECU 498 million covers the budgetary years 1996 and 1997. With increasing assistance flows, issues related to EU aid are starting to become apparent in SEM, as illustrated by the following country examples:

-- In the wake of the Barcelona conference of November 1995, an EU diplomat in Damascus said that loans and aid to Syria depended on the "degree of its opening to a market economy and the negotiation of an accord of association" with the EU. In light of such stipulations, "Syria is being prudent and wants to 'study' the EU association accord, which would require an acceleration of its economic reforms." (28) (The EU in late-96 provided Syria with ECU 18 million to modernize its municipal administration in the cities of Damascus, Aleppo, Latakia and Homs. An additional ECU 3.5 million was also given to aid a forestry project.)

-- The EU and Jordan signed an agreement last October for the provision of ECU 100 million to support the kingdom's structural adjustment program. The support aims at "alleviating the external and fiscal pressures on the Jordanian economy and reducing the social cost of reforms. Moreover, it underscores the EU's commitment to Jordan's key role in the Peace Process and to the success of the ambitious objectives of its new economic reform program for 1996-1998. The grant will in particular assist in the implementation of these reforms, which the agreement states are critical to ensure the smooth operation of a free-trade area between Jordan and the EU. Steps towards trade liberalization, privatization and design of a modern tax system are part of the new reforms necessary to ensure that Jordan benefits from unprecedented opportunities offered by the peace process and accession to WTO" (29). The agreement summarizes the specific objectives of EU aid as provision of budgetary support, enhancement of structural reforms, and easing of social reforms and improvement of the social safety net. The funds were released in two tranches, with the first (sixty million) disbursed during the few weeks after signing the agreement, and the second tranche after a review mission during the following month.

-- Tunisia was also recently awarded several grants under MEDA. The first, of ECU 100 million, is "to bolster adjustment policies and to encourage the opening of its market in accordance with a recently-concluded free trade agreement with the EU" (30); a second, of ECU 45 million, will finance a program to raise the level of professional training in the country; and a third, of ECU 10 million, will support competitiveness.

-- EU aid for Algeria continues, amidst apparent human rights abuses (by both sides) in the civil war between the government and Islamic militants. The EU most recently granted the equivalent of \$157 million in aid to Algeria late last year, despite criticism. "Our aid is in line with what's needed for reform," said Josip Coll i Carbo, Middle East Affairs spokesman for the European Commission (30). Considering that Algeria's total foreign exchange reserves at end-September 1996 totaled \$3,659 million, this aid is substantial.

Trade

The Euro-Med initiative is supposed to enhance partnership. In this context, what is the future for a Mediterranean free trade zone? Strong doubts have been expressed about this project.

The EU is in a period of major change, and many feel the southern EU member states will only agree to a free trade zone after much haggling which will lead to the application of some other strict conditions.

Agriculture in particular is a headache. While some countries of SEM have not shown great willingness to move towards economic partnership, the EU as well refuses to liberalize fully its trade in agricultural products, citing the negative impacts of such a step on European farmers while taking for granted the large risks being assumed by SEM. While agriculture represents about four percent of Europe's labor force, the same sector employs about one fifth of the population in SEM. In addition, Europe's agricultural exports to its Mediterranean partners exceed its imports. One is led to question the EU's commitment to the principles of free trade which do not exclude liberalizing trade in agricultural products.

A case in point is Egypt, where agriculture still blocks an EU-Egyptian trade pact. Late last year, the two sides failed to agree on agricultural quotas in the latest round of talks on a partnership agreement. Egypt's negotiator claimed that the EU did, however, agree to increase again the quotas it is offering for Egyptian food exports to Europe, the main bone of contention in the talks. The Europeans had already about doubled the quotas on offer for the main categories of Egyptian agricultural exports (potatoes, citrus fruit and cut flowers) but he said his EU counterparts knew that this would not be enough. "They knew this was not a real offer. I could give no reaction other than a big no... They told me they didn't expect me to accept," he said. "They promised to ameliorate the situation [raise the quotas] then we can fix a date [to meet again] for some time in the second half of January," he added. He repeated Egypt's view that the main obstacle to an agreement is the EU's common agricultural policy, which subsidizes European farmers to produce food at prices higher than those at which Europe could import it. "We need a political decision on the European side because I am not going to commit suicide on my side by adopting fraction figures like those (the latest quota offers)," he added. He said the draft agreement would cost Egypt the equivalent of \$4.1 billion in lost customs revenue from European industrial imports over a 12-year transitional period and losses at the end of the period would be the equivalent of over \$1 billion a year. "While all we are asking for is a few million dollars in agriculture," he added. Ideally Egypt would like to export agricultural produce worth \$1.5 billion a year to Europe, but he said the country would accept a deal that offered less as long as it served Egyptian interests. He said he saw little sign that Europe was willing to carry out radical reforms to the CAP but he did see gradual progress in the long negotiations. "The European negotiator is moving but he is hesitant to say what he has in his pocket. I think we are gaining, one day after another," he said. "But now I don't have anything in my hands to offer to the political level," he added. One of Egypt's trump cards, he concluded, was that Europe cannot expect good co-operation with the countries on the southern shore of the Mediterranean unless it opens its markets to them (32).

Whatever the detailed results of present negotiations turn out to be, agriculture will remain a key area of trade confrontation between the EU and SEM (33). There are also other trade problems, but the EU appears to be hoping to surmount them by dangling the carrot of aid in front of SEM. Such official assistance however should not be carelessly directed to general expenditures that, on balance, favor nontradable sectors. As for EU aid conditionality, the examples in Section G above suggest that it could be made of sterner stuff.

Conclusion

Structural adjustment and economic liberalization are on the agenda of nearly all MENA states and will require increased political participation in some form. The underlying question is whether planned EU resource transfer is contributing to systematic transformation of socio-economic and political structures, or is only stabilizing the status quo. On the whole, I feel that the present foreign aid policy of the EU tends to promote the political status quo of recipient countries in SEM by enhancing the power of the state. However, decentralized cooperation or assistance programs which target NGOs and the private sector -- particularly small and medium enterprises (SMEs) -- may have the opposite effect, and as such provide a viable conduit for positive change towards more liberal economies and societies (34). These programs are still in their early stages. Meanwhile, the aid will continue to flow in, with what appears to be a certain amount of conditionality.

However, this may change over the medium term. For example, Europeans are increasingly saying that they refuse to be mere paymasters to the partners in Middle East peace talks and must eventually take on a political role to match a dominant EU economic presence. But, in the words of a European politician, "Do you think that Europe will be forever the payer and that's all? Do you think this would be realistic that we shall go on paying for years and years and increasing our economic presence and just shut up?" he said. (The EU is by far the largest single donor of aid to the Palestinian National Authority -- way ahead of the United States -- and it is the biggest trading partner for most countries in the region, including Israel.) This increased assertiveness will bring with it stronger conditionality. But this conditionality may not necessarily be of the right kind to weaken rentierism and strengthen the framework for trade. The danger is that Europe will throw aid money at Mediterranean trade problems to keep SEM regimes happy and distance them from the US. At the same time, there is a danger that NGOs (except for those in the state's lap) and the private sector (particularly SMEs) will be kept out in the cold.

Meanwhile, old problems and paradigms will remain. For example, despite optimistic scenarios of a future peaceful Middle East making substantial cuts in military budgets and redirecting public expenditures from defense to development, one should not, realistically, expect this soon. Peace -- when it finally comes -- will most probably not translate into an immediate regional drive towards disarmament, and it is difficult to see EU country arms

manufacturers slowing down their competition among each other (as well as against non-Europeans) in MENA, a lucrative market for them. Militarism is still a main element in MENA rentierism; and while the EU's peace promotion is certainly serious and laudable, European arms sales to the region will still be there. "The primacy of power politics is still throwing its shadow on economic considerations and the acquisition of mainly military power is still the priority of the foreign policies of Middle Eastern states" (36). For all the visionary talk about peace and partnership, it should not be forgotten that the key to the international politics of MENA still "lies in the relations between outside powers and local forces, whether governments, rulers, tribal chiefs, or warlords," (37) and this will continue to imply rentierism. Meanwhile, the clout of the EU states may remain limited, as it was in the 1990-91 Gulf crisis when "in spite of the pretensions of the Europeans and their long-standing interests in the Middle East, which is geographically in their back yard, they had little discernible influence on the course of events" (38).

Immigration will also remain an issue, not least because "while the public face of national governments in EU suggests that each member state is still firmly in control of immigration issues, the reality is quite different. There is no appreciation that the EU states as a bloc have become countries of immigration, in contrast to the rhetoric of their political leaders. West European societies (in the EU and outside) are open in theory but not in practice when it comes to immigration from outside or within the EU" (39). It is all very well to criticize SEM instability and the fear of mass immigration into Europe, but it is also important for the EU to get its act together, in this as well as in other spheres.

Meanwhile, the question of the legitimacy of contemporary regimes in MENA and the various problems of governance and socio-economic transformation will be with us for some time. "The development of appropriate institutional structures for economic reforms requires the readiness for institutional adaptability which is a function of the social-moral infrastructure of the 'political environment,' not to be covered by economic conditionalities" (40). In this respect, we are looking at a long-term process to which decentralized co-operation may hold the key. A bold attempt at this was the Autonomous Government of Catalonia's holding of the "Forum Civil Euromed" in Barcelona 29 November - 1 December 1995. The meeting's aim was to create a cooperative background parallel to political contacts, through social, economic and cultural agencies, for both shores of the Mediterranean. This event's outcome was a pragmatic added contribution to the Euro-Mediterranean Foreign Ministers' Conference, organized by the EU in Barcelona earlier that week. The Forum Civil Euromed gathered around 700 people from the private sector and NGOs from the Mediterranean countries and the EU for discussions in ten working groups covering economic, social and cultural areas (41). This important event, in which I was privileged to participate, attempted to offer new scenarios of partnership in the Euro-Mediterranean area, away from officialdom. The EU's free market ideas will best shake up Middle East systems through such interaction. Trade

could also be a key component of a positive EU impact on MENA, and this will also enhance and be enhanced by Euro-Med interaction at all levels. It is within such a context that aid to SEM should be extended: judiciously and with the right conditionality. Otherwise, EU money may actually serve to exacerbate MENA and European problems instead of helping to solve them.

Notes

1. Though excluding these three countries is not trivial, I have done so for the purposes of the current paper, given its limited length and scope. I will therefore not be touching on issues dealing with Turkey, Cyprus or Malta -- states which in any case are to a greater or lesser extent "European."
2. It should also be remembered that until November 1991, the then Yugoslavia was classified by the then European Community as "Mediterranean." Albania too was also then part of the EC's Mediterranean zone, if only by exclusion. (See for example the Commission of the European Communities' pamphlet "The European Community and Mediterranean Countries," 1991.) Leaving Libya out of current arrangements regarding SEM is a political issue, though there seem to be no doubts as to where the Libyans belong geographically and strategically.
3. Nevertheless, this diversity within SEM raises various problems of conceptualization and statistics, particularly for a paper of this limited scope.
4. The concept of Rent has a distinguished pedigree in economic theory. For a flavor of this rich subject see for example Dooley P., "Marshall's Parable of the Meteoric Stones: Rent, Quasi-Rent and Interest" in *The American Journal of Economics and Sociology*, April 1991, pp. 197-206. However, the present paper's restricted scope does not allow us to delve into theory, much as this would be desirable.
5. Beblawi H., "The Rentier State in the Arab World," Beblawi H. and Luciani G. (eds) *The Rentier State*, 1987, p 51
6. *ibid* p. 61
7. Luciani G., "Resources, Revenues, and Authoritarianism in the Arab World: Beyond the Rentier State?", in *Political Liberalization and Democratization in the Arab World*, Brynen R. et al. (eds.), 1995, p. 215
8. UNICEF, *State of the World's Children 1997*, *passim*. The MENA region covered by these statistics comprises all Arab states, except for Somalia, Mauritania, Bahrain and Qatar, plus Iran. (That this "MENA" is different from that of the World Bank and others illustrates the caveat entered in note 3 above.)
9. Luciani *op. cit.* p. 220. For a thorough unmasking of the Jordanian "economic miracle" see Rivier F., *Croissance économique dans une économie assistée: Le cas jordanien*, 1980.
10. There is no consensus on what the impact of free market ideas on political structures, partly because the Western economies (which exhibit and advance these notions) have used such ideas in an unsystematic manner. See for example Buzan, B. *People States & Fear: An Agenda for National Security Studies in the Post-Cold War Era*, 1991. See also O'Byrne S., "Economic Justice and Global Trade: An Analysis of the Libertarian Foundations of the Free Trade Paradigm" in *The American Journal of Economics and Sociology*, January 1996.
11. Milton Friedman, *Capitalism and Freedom*, 1962, p. 8
12. *ibid* p. 9
13. *ibid*

14. Luciani op. cit. p. 224
15. Pinkey, R. Democracy in the Third World, 1993, p.5
16. Richards A., "Economic Pressures for Accountable Governance in the Middle East and North Africa" p. 40, in Towards a Civil Society in the Middle East?, Schwedler J. (ed.), 1995
17. Lewis B., "Islam and Liberal Democracy," in Journal of Democracy, April 1996, p. 63
18. Deegan, H. The Middle East and Problems of Democracy, 1993, p. 135
19. Remarks by Gubser P. in Armouti, M. (ed.) The Human Dimension of the Middle East Peace Process, proceedings of a roundtable, (November 1994), 1995, p. 126
20. See for example the Arabic London daily newspaper Al Hayat, 25 October 1996, "Twenty-eight candidates compete for board seats of Damascus Chamber of Commerce: relations with France and Europe at the heart of the battle" for indications of the liveliness of the debate in the business community over links with the EU. See also Hinnebusch, R. "State, Civil Society, and Political Change in Syria" in Schwedler, op. cit., pp. 73-74.
21. Zaineldine, A., "The 'Challenge' to Euro-Mediterranean Cooperation," paper delivered at a conference on "Regional Economic Cooperation in the Mediterranean Region," Amman, July 1996, p. 7
22. EU Council Regulation 9177/96, 18 July 1996, Article 2
23. ibid. Annex II
24. Miles Kahler, "External Influence, Conditionality, and the Politics of Adjustment," in Politics of Economic Adjustment, Haggard S. and Kaufman R., (eds.) 1992, p. 91
25. ibid p. 92
26. Gains and losses sometimes even out. For example, the experience of Morocco suggests that compliance with some World Bank conditions has been distributionally neutral, as in the effects of progressive increases in farm prices balancing the regressive withdrawal of food subsidies.
27. Mosely, P. et. al. (eds) Aid and Power, Vol I (1991) p. 300
28. As reported in the pro-Syrian Beirut weekly Monday Morning, 11 December 1995, p. 22, and confirmed to me in conversations in Damascus, 1996.
29. As reported in Euro-Jordan Newslines, the newsletter of the Delegation of the European Commission to Jordan, November/December 1996, p. 5
30. ibid
31. Quoted in the International Herald Tribune, 4 December 1996, p. 3
32. As reported by Reuters, 29 December 1996

33. See for example Bonazzi, M., "Euro-Mediterranean Policies and Olive Oil: Competition vs. Job-Sharing" in The IPTS Report, October 1996, pp. 15-21, for an interesting non-confrontational approach to EU-SEM agricultural relations involving an important crop.
34. These projects have had their teething problems, but some have been notable successes, e.g. Jemstone, a scheme targeting the media in the Eastern Mediterranean.
35. Then Italian Prime Minister Prodi speaking to the press in Cairo in October 1996 after talks with Egyptian President Mubarak.
36. Behrendt, S. and Hanelt, C.-P. "Peace and Stability in the Middle East – the End of Vision" in Peace and Stability in the Middle East and North Africa, Janning J. and Rumberg D. (eds.), 1996, p. 129
37. Shlaim, A., War and Peace in the Middle East, 1995, p. 3
38. Walsh, M., Europe United?, 1996, p. 118
39. Phillip A., "European Union Immigration Policy: Phantom, Fantasy, or Fact?," in Baldwin-Edwards, M. and Schain, M. (eds.) The Politics of Immigration in Western Europe, 1994, p. 188. Also see for example Khader, B. Le Grand Maghreb et L'Europe, 1992, p. 243-44, for a discussion of the problem of emigration across the Mediterranean.
40. Euchner W., "The Politics of Structural Adjustment" in Euchner W. (ed.), The Politics of Structural Adjustment: Economic Liberalization in Arab Countries, 1995, p. 57
41. For details of this important event, see its published proceedings Towards a New Scenario of Partnership in the Euro-Mediterranean Area, 1996.

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PRIVATE SECTOR DEVELOPMENT AS A SUCCESS-FACTOR FOR ECONOMIC GROWTH AND POLITICAL TRANSFORMATION IN THE MIDDLE EAST

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January 1997

The Project 'Europe and the Middle East'

The Middle East peace process and the Mediterranean initiative of the European Union have been an incentive for the Bertelsmann Foundation, Gütersloh, Germany, and the Research Group on European Affairs at the Center for Applied Policy Research, University of Munich, to involve themselves intensively with the future of the relationships between the regions south and north of the Mediterranean. The partners co-operated in 1994 to institute the project 'Europe and the Middle East', thereby completing their involvement with various European problems. The project aims to mediate between the two regions, providing concepts facilitating the development of more intensive relationships. At the same time the project is an attempt to build bridges between political theory and practice. In order to formulate constructive policies for the development of intensified transregional relations, the world of politics should make use of academic approaches and concepts. On the other side, academics of political science benefit from contact with practical application.

The basis for the project are the annual 'Kronberg Middle East Talks', at which representatives from science, economics and politics exchange ideas on current topics of Euro-Mediterranean relations. These conferences are prepared by a cycle of workshops, which deal with questions related to international security, economic development and the governmental and social transformation of the region.

The present paper was prepared for the workshop 'The Political Economy of Aid' in Paris, February 1997.

Sven Klamann was consultant to the Commission of the EU.

Introduction

This paper examines some of the economic effects of the partnership agreements between the EU and the Mediterranean non-member countries and the role an external donor like the European Commission may play in the development of the private sector. It argues that the partnership agreements are as much about domestic reform, economic liberalisation and regional integration as about the improvement of trade ties with Europe. The paper examines if and how the partnership agreements should, in the first instance, serve as a catalyst for

change and reform in Middle East and North Africa (MENA) region. Only by complementing the free-trade agreement with domestic reform measures like the liberalisation of the financial sector and the creation of a more conducive investment climate will MENA countries be able to gain the maximum benefits from improved relations with Europe. The free-trade agreements may anchor the government's reforms, making them more credible and providing a domestic justification for austerity measures as well as creating an investment climate similar to other, more advanced regions in the world. Some comparisons with other regions will be drawn, indicating that the EURO-MED partnership will not have a sufficient impact if it is not complemented by a whole array of interconnected issues such as integration on the regional and global level, a competitive regulatory and legal system, a functioning financial sector and a greater role of the private sector in the economy. At the same time the paper points at same dangers that Arab MENA countries face if the free-trade agreements are not complemented by similar agreements between the MENA countries themselves, thus allowing for "economies of scale".

Although the promotion of private sector development has played a significant part in European and national development policies, the European Commission has only since 1994 began to systematically integrate large scale private sector development programmes into its MENA country assistance programmes. On the broader perspective it should be made clear that private sector development is only one element of the broader country strategies embracing a variety of topics ranging from structural adjustment to education, poverty alleviation, rural development and financial sector reform.

Finally, the paper will look at some of the support measures provided by the European Union and other donors. It may be necessary to illustrate that the support measures provided by the EU and financed under the ECU 4,65 MEDA¹ budget-line can and should only be a fraction of the resources necessary to have a feasible impact, thus any of these support measures can only have a catalytic function in some key sectors. Even if these grant resources are supplemented by European Investment Bank (EIB)² loans on a similar or slightly lower scale, these resources are small by comparison to, on one hand, the real investment needs, and, on the other hand, the Arab capital held overseas. To complete their reform programme the priority focus of the MENA countries may not be a desperate struggle for these, in any case insufficient, external donor resources, but rather the creation of a macro-economic, legal and regulatory environment that attracts private capital.

¹ 3.425 Billion for the Southern Mediterranean in the period 1995-99. The rest has been earmarked for Turkey.

² For a description of the EIB's activities see: *Fostering a Euro-Mediterranean Partnership - The role of the EIB*; EIB ; Luxembourg, June 1996

Euro-Mediterranean Partnership - The transformation of trade and development relationship to a comprehensive economic and political partnership

The European Mediterranean Policy has evolved over the last 25 years and has during this time developed from a traditional development relationship to a economic, social and political partnership. The final and most important phase of this region-to-region dialogue started in the late 1980's with the Arab Maghreb Union, the European contribution to the peace process in the Middle East in 1991 and culminated in the Euro-Mediterranean Ministerial Conference, held in Barcelona on 27-28 November 1995, which formally established the Euro-Mediterranean Partnership. A key objective of the European Union's policy is to establish a Euro-Mediterranean Free Trade Area, which would be complemented by a broader partnership, comprising political and security aspects economic and financial aspects, to create a zone of shared prosperity and social, cultural and human aspects, to develop human resources, promote understanding between cultures and exchange between civil societies.

At present a customs union with Turkey is concluded as well as Association Agreements with Tunisia, Morocco, Israel and the interim agreement with the Palestinian National Authority. The negotiations with Jordan, Egypt and Lebanon are well under way, while preliminary discussions with Algeria and Syria have already started. Whilst initial agreements will be concluded initially on a bilateral basis, this process may trigger whole series of complementing agreements. One likely scenario is that these bilateral agreements will be complemented by other regional bilateral agreements and later, possibly, a multi-lateral framework. In addition to the first layer of bilateral EU - MENA country agreements the EFTA states are likely to conclude similar agreements with the MENA countries. The third layer will be bilateral free trade agreement between the MENA countries. Turkey has already concluded such an agreement with Israel and stated its intention to conclude free trade agreements with all Maghreb and Mashreq states. A fourth layer complementing the Euro-MED Partnership would be agreements between the Central and Eastern European countries and the MENA countries, thus creating a potential market for up to 800 million people.

What are the key elements of the free-trade agreements ? The free trade agreement will offer tariff and quota free trade for industrial goods and partly for agricultural goods. Of particular relevance for private sector investments is the principle of free movement of capital from the EU as well as the right to re-export dividends and invested capital as long as these have originated in the EU. Following the example of Tunisia and Morocco the implementation of the free trade agreements will follow several phases according to which the tariffs will be phased out for groups of products over a 12 year transition period. The list of products and the timetable follow a basic pattern by which the tariffs for those products that have currently the lowest tariff rates, i.e. textiles, will be reduced first and those that are highly protected, like machinery, will only follow at the end of the transition period. Hence, even the most protected and possibility least competitive industrial products will face European competition on local

and regional markets by 2010.³ Special arrangements will apply for infant industries. One example of how the partnership can foster the economic reform process is the application of rules on competition and state subsidies. The relevant commitments in the agreements, though vague and without clear timetable, are most likely to affect public monopolies as well as the various private oligopolies that dominate major sectors of MENA markets. Partner countries will have to make significant efforts to strengthen their domestic anti-cartel laws. In order to enhance competitiveness and reduce market distortions, state subsidies in the MENA countries will have to be reduced and competition rules more strictly applied. Not part of the treaties nor explicitly demanded by the European Commission is the adoption of European norms and standards, but as MENA producers depended to a large degree on the European export market they are likely to adapt European standards in the medium term.

What is the starting point for integrating private sector development in the broader EU policy framework ?

The prime concern for European policy makers is the growing prosperity gap between the Europe and the Southern Mediterranean and the strong risk that the Southern Mediterranean countries are left out of the globalisation of trade patterns. World Bank projections indicate an economic growth of annually 2.9 % in high income countries and up to 5.3% for the developing countries. As compared to the 3.3% achieved in the 1980's and 4.5% in the early 1990s this is overall a promising process. But the results of this process have been and will be very unequal. Based on the past performance, the MENA countries are currently not part of this dynamic process. World Bank statistics indicate that real income per head in the most integrated developing countries (as measured by the ratio of trade to GDP) has, during the last decade, reached the same growth rate of 2% as in the developed world. On the other hand, the weakly integrated countries have experienced an average decline of 1%, with the MENA region performing particularly poorly with a decline of 2% during the last decade.⁴ Investment figures show similar devastating results: Foreign direct investment (FDI) flows rose dramatically in East Asia, Latin America, Central and Eastern Europe and Central Asia during 1991-93 as compared to the previous decade. On the other hand, FDI actually fell in most MENA countries, which is again an indicator that the MENA region has missed out on the main benefits of the globalisation process as seen in the early 1990s. Even more worrying is that these developments become self-reinforcing. Countries that have attracted resources and are highly integrated will continue to attract inflows of investment and gain privileged access

³ see Agreements with Morocco, Tunisia "Cooperation shall be aimed at helping Tunisia - Morocco to bring legislation closer to that of the Community in the areas covered by the agreements

⁴ One explanation is the lack of integration in the world economy, which is the lowest of all regions, except for Sub-Saharan Africa. By international comparison the MENA region had the second highest level of tariffs in the period 1985-94

to new technology. Currently most economies of the Southern Mediterranean remain highly protected to the outside and over regulated to the inside. The public sector in most of the Southern Mediterranean countries remains a dominant factor in domestic economic life absorbing huge public resources. In many respects the MENA countries have been left out of the revolution that has swept the global economy in the past few years. New technologies, process innovations and the mayor liberalisation of the trade and capital markets will tremendously improve the prospects for economic growth in those countries that are integrated in the world economy. Even more problematic is that all of the Southern Mediterranean countries are net debtors to the rest of the World and highly depended on the continuos inflow of external resources, like foreign assistance or workers remittances. In the Middle East the net inflow of external capital averaged 16 % of GNP during 1970-90, thus illustrating a high degree of dependency on external finance.⁵ On the basis of these figures one may conclude that the largest challenge is the creation of an environment that attracts private capital back to the region, while at the same time dealing with a heavy, mainly bilateral, debt burden. There are a number of additional factors that demonstrate the enormity of integrating the Southern Mediterranean into a global economy. The production costs are still high by comparison to Asia. At the same time the skills level and literacy rates are not as good as in Eastern Europe or Asia. Moreover labour markets remain inflexible and social security systems are insufficiently developed to absorb temporary layoffs due to market reforms. Demographic pressure keep mounting (2-3% p.a. increase in working age population) having negative effects on labour markets and, potentially, domestic stability, while at the same time external indebtedness and large public sectors reduce the margins for manoeuvre. Additionally, economic performance in a number of MENA countries depends to a high degree on the weather, as draughts can severely affect the all-important agricultural sector. Summarising the above assessment there is a distinct danger that the MENA countries will be on the wrong side of a widening gap, if they do not manage to reverse these tendencies.⁶

The most important and undoubtedly most difficult cornerstone is the improvement of cooperation among the MENA countries. Despite all declarations and best intentions trade between the Arab countries remains at mediocre levels and is significantly less than intra-regional trade in similar regions like South America, South East Asia or even the Gulf countries. Looking at intra-regional trade flows a rather negative picture emerges. Syria has the closest regional trade links by exporting 18% of its products to other MENA countries. For all countries their export to other MENA countries is between 1.7% (Algeria) and 9.6%

⁵ see I. Diwan / L. Squire: Private Sector Assets and Public Debts in: Middle East Journal, Winter 1995

⁶ For empirical references see EIU country profiles; 1996

(Tunisia).⁷ Similar low figures can be found for intra-regional imports which range from 1.9% (Egypt) to around 4.4% for the Maghreb states and 11 % (Jordan).⁸ There has been a number of arguments that the free trade agreements will stimulate intra-regional trade offering significant economies of scale provided intra-regional arrangements similar to the bilateral EC-MENA countries agreements are concluded. Diagonal culmination of rules of origin would allow goods produced in one country and processed in another to have free access to the EU market - provided they both belong to the free trade area. If no such agreements can be reached than trade with the EU will be privileged vis-à-vis the trade among MENA countries. The high protectionism of the economic systems may offer some explanation, but the main reasons for failure of integration attempts may be attributed to political tensions and rivalries within the MENA region. Thus the nationalistic perception of many national leaders together with previously dominant economic concepts of central planning, nationalisation of key industries, protectionism and the notion of possible import substitution affects regional integration and, in the last instance, economic prosperity.

On the basis of these negative and potentially dangerous tendencies European policy makers have repeatedly stressed that domestic reform, trade liberalisation and integration into the global trading system should be key priorities for the EU approach towards the Southern Mediterranean. The free trade agreements with the EU may facilitate some of these reforms, but without self-supporting economic growth even these measures are doomed to fail. A closer analysis reveals the role the EU already plays in stabilising the neighbouring region: Almost all MENA countries depend on the EU for their exports; the Maghreb countries for more than two thirds of their exports⁹ and Syria (58,3 %) and Egypt (45.9%) for around half their exports. Only Jordan and Israel (6.6% and 29.6% of exports to EU) rely on other markets, mainly the US. A similar picture emerges on the import side: The Maghreb countries' share of EU imports varies between 58.8% (Morocco) and 72.7 % (Tunisia) while the Middle East is slightly less dependent on EU imports (between 34.8% for Jordan and 39% for Egypt).¹⁰

What are the likely effects of the free-trade agreements ? The above figures illustrate that most MENA countries, in particular the Maghreb countries are already closely tied to Europe, in particular as all MENA countries have already virtually free access to the EU for non-agricultural goods. Hence, the direct benefits of free trade agreement with the EU are unlikely

⁷ see A. Tovias, The economic impact of the Free Trade Area on the Mediterranean Non Member Countries - Unpublished paper - Hebrew University, 1996

⁸ Egypt (5.5%), Jordan (8.6%), Morocco (6.2%), Turkey (7.3%). For obvious reasons Israel has by far the lowest rate with 0.9%.

⁹ Tunisia (79.9%), Morocco (69.7%) and Algeria (67.6%)

¹⁰ Syria 38.2%, Israel 49.2%, Turkey 45.2%

to be significant. The World Bank predicted direct gains of partial trade liberalisation with the EU in the region of 1,5% of GDP for Morocco and Tunisia. This translates into a welfare gains of only 25 US\$ per capita in Morocco and 40 US\$ in Tunisia.¹¹ However, full liberalisation of trade with the rest of the world would double the welfare gains. So-called dynamic benefits of trade liberalisation, like additional investment flows, technology transfer and higher productivity may be potentially higher than the direct gains, but would depend on creating a more conducive investment climate in the MENA countries in order to encourage European entrepreneurs to locate or invest in the MENA region. Here the emphasis on "MENA region" is important as the domestic markets are small and a regional integration and EURO-MED could only be the predecessor for a full integration into a global trading system. Even with the abolition of customs tariffs for industrial goods producers in the MENA region will find it difficult to compete on the European market with Asian, in particular Chinese¹² and Indian, exporters, which produce at a significantly lower cost or Central and Eastern European exporters, who have similarly privileged access to the EU market as the MENA countries. The above quoted figures are particularly important to assess the impact of the free trade agreement on the industry in the MENA countries, in particular the European market shares on the MENA countries markets.

First, given the current deficiencies and weaknesses of the MENA countries manufacturing bases there is a risk that manufactured imports from the EU will replace import-competing production. Looking at some of the potential areas for overlap between EU exports and local MENA countries domestic production, one may argue that this is a rather small part. However, in some countries, in particular Egypt, import substituting industries, highly protected and uncompetitive, are likely to be unable to survive European (or any other) competition. Here Morocco and Tunisia with their rather diversified industries have a mayor advantage vis-à-vis countries like Egypt or Algeria. In Egypt, with its public resources tied to a capital intensive and inefficient public sector, industries will have to move to more export oriented sectors like textile or clothing, and rapidly diversify its industrial base.¹³ Second, and more important, is the advantage European exporters will have vis-à-vis their competitors from other OECD countries, in particular the US and Japan. In some countries, in particular those that have a relatively low share of EU exports, like Jordan, Syria and Egypt, mayor trade

¹¹ Figures based on a impact assessment for Morocco and Tunisia carried out by the World Bank in 1996

¹² i.e. China's market in the EU clothing market has risen from 5% to 15% from 1985-95, while Morocco remained at around 5% and Tunisia grew from 2% to 3%

¹³ For Europe the real challenge and trade instrument rests in the opening of the agricultural markets, both in terms of economic growth and employment creation. Only a opening in this sector will finally consolidate the reform programmes and lead to the envisaged political stability. However, historically the Union has from its very foundation treated agriculture as a separate and unique issue and any opening may not be expected before the Union has completed its internal reform of the Common Agricultural Policy, which will go well beyond the turn of the century.

diversion and increasing European markets shares vis-à-vis their OECD competitors are likely to occur as a result of the free trade agreements.

Why has private sector development and privatisation moved so high on the policy agenda of the EC ?

With a view to the negative economic trends in the MENA countries and the likely impact of the free trade agreements has the European Commission (EC) repeatedly stated that private sector development is one of its principle policy objectives for the Southern Mediterranean. Translated into resources made available by the EC the overall percentage for programmes related directly to the support of the private sector have steadily increased from 11% under the First Financial Protocols (1978-81) between the EC and the individual partner countries to 26 % under the Fourth Protocols (1991-1996). In the indicative programmes under MEDA even larger percentages are foreseen, integrating private sector development with directly related activities like vocational and management training and the support to structural adjustment programmes in Morocco, Tunisia, Algeria, Jordan as well as budgetary support to the PNA.¹⁴ The mayor turning point for the development of comprehensive EC private sector programmes for the Southern Mediterranean was in 1994 when for the first time large scale private sector programmes, financial sector reform and privatisation programmes were approved. Four cornerstones of EC assistance to private sector development in the Southern Mediterranean should be singled out for this paper: Privatisation and Private Participation in Infrastructure, Financial Sector Development, Support to Private Enterprises and Reform of the Operating Environment.

While domestic and external donor support to existing SMEs is broadly accepted and supported by the MENA governments, the question of privatisation remains one of the most contested issues as it touches the politically touchy questions of clientele structures, artificial employment creation, privileged access to resources for elites and the privileges for a number of small constituencies. Here it may be pointed out that ownership changes as such are no guarantee for increases in efficiency or a better allocation of resources nor do they solve the problems often linked to public enterprises. It may be argued that the incentives to engage in rent seeking, corruption or patronage do not depend on the number of public enterprises in the economy, but the extent to which prevailing prices do not reflect the scarcity of value of goods and services or, in other words, market imperfections. On basis of this assumption competition imposed by the free trade agreements may be vital to lead to a better allocation of

¹⁴ Grant finance for structural adjustment has been in excess of MECU 100 for each of the above countries in 1996

resources and finally may break the downward trend of the MENA economies.¹⁵ At the same time public companies may continue to provide services of a public good nature like transport, health and education and there the international donor community may need to intervene during the transition period. The development of Social Funds, which are heavily supported by the EC and other donors like the World Bank reflect these needs.

At present all Southern Mediterranean countries, with the exception of Syria and Libya, have at least acknowledged that unprofitable state owned enterprises burden the state budget and incur huge debts. The logical conclusion of divesting ownership and closing plants is only in a few MENA countries being implemented. Looking at the impact of the free trade agreement on the MENA markets and the performance vis-à-vis other regions, in particular Latin America and Asia, a number of discouraging tendencies emerge. Privatisation programmes in the MENA countries are rather mediocre as compared to other parts of the world. Between 1988 and 1993 a number of radical privatisation programmes were implemented in Latin America, generating 53% or 55 Billion US\$ of the overall gains of privatisation in developing countries or economies in transition. Asia and Central and Eastern Europe followed with 20% and 18% respectively. Africa and the Middle East took a mediocre 3% of these overall privatisation revenues.¹⁶ In some respects the Latin-American example may explain the difference in overall economic performance between those countries that demonstrated political willingness to undergo the social and politically difficult process of transferring ownership from the public to the private sector and those that delayed the adjustment process.¹⁷ One of the main driving forces for privatisation is the need and willingness of the governments to consolidate the central budgets. As long as the privatisation receipts were used for a reduction of the public deficit rather than consumption this proved to be a forward looking strategy, but more important appear the so-called dynamic effects like efficiency increases, increased profitability of the privatised enterprises and, maybe most important, the signal to investors that the government is serious about private participation in their development efforts. Looking at the economic effects of privatisation on some of the developing countries the results appear rather positive.¹⁸ Enterprises that suffered from lack of investment because of the consolidation of public budgets and the austerity measures caused by the structural adjustment programmes managed to recapitalise and increase their efficiency.

¹⁵ For a general discussion of privatisation issues see: Privatisation in developing countries: A review of the issues; van de Walle in World Development, No 5; 1989

¹⁶ World Bank, 1996

¹⁷ see Foreign Direct Investment in Developing Countries: The case of Latin America; IRELA; Madrid; 1994

¹⁸ for further details see: Foreign direct investment in Latin America in the 1990s; IRELA; Madrid; 1996

¹⁹The privatisation of telecommunication, energy and water supply sectors has led in many cases to an increase in investments in the enterprises.

At the moment a 43 MECU privatisation project is financed by the EC in Egypt and other projects are planned for Morocco and Tunisia as well as a possible broadening of activities to assistance to the preparation in privately financed infrastructure projects. In most cases EC assistance to privatisation programmes focuses on the transaction side, with additional resources allocated for institution building. Looking at three examples some very different tendencies emerge. Morocco's privatisation programme, probably the most advanced in the region, has already sold 47 enterprises and earmarked another 114 for privatisation before the end of 1998, which led to a significantly increase in FDI inflows. The main driving force has been the desire to move closer to the EU and the successful completion of the structural adjustment programme, but the problems of oligopolies and an insufficient and oligopolistic financial sector remains as well as a concentration of private capital and production in a very small circle of Moroccans. Different from the other MENA countries have Morocco and Tunisia managed to establish a certain credibility for their privatisation programmes and subsequently managed to raise international investors interests.²⁰ Egypt has repeatedly voiced a strong commitment to privatisation, but has been slow to carry out the envisaged transaction despite strong pressure from the international community. Despite several attempts the government has been slow to break the link between bureaucracy and state-owned enterprises. Algeria, where privatisation is most difficult, for reasons of social stability and lack of foreign investors, has focused on the privatisation of 500 SMEs, but not touched any of the large enterprises.

The reasons why privatisation in the Southern Mediterranean is slow to take off are complex and require a separate analyses, but a few preliminary observations may be made. The main problem seems to rest with the political commitment and less with technical obstacles or the ability to deal with the transactions. Some of the reasons may be historical referring to a period where private sector activities were seen as highly suspicious, in particular foreign investments. Another reason to explain the widespread resistance within the bureaucracies is their deep mistrust in the intentions of the private sector and the convictions that civil servants are better placed to determine the needs of the country and making the subsequent investment decision.²¹ On the practical level privatisation has distributional consequences and favour certain groups over others. With in the currently volatile climate of several MENA countries policy makers may fear the social consequences. Here an interesting development can be

¹⁹ The best studied example may be the privatisation of public transport in Rabat, Morocco; see Damis; the privatisation of the transport sector in Morocco; Cambridge, MA, 1986

²⁰ see figures for FDI inflow in "World Investment Report 1995"; IMF; Washington

²¹ Public Enterprise Reform: Privatisation and the World Bank; J. Nellis, World Development, No 5; 1989

observed as in almost all MENA countries special inter-ministerial committees are set up to deal with privatisation and the association agreements, thus including larger groups into the decision making process. Given that the MENA societies are marked by strict hierarchical systems with key decision making powers limited to the president or king this symbolic sharing of responsibility is remarkable.

Experience of the last few years has shown that the international donor community was well prepared to assist with the technical aspects of privatisation and funds have increased for countries that demonstrate their political commitment by moving ahead. On the more technical side is problem of insufficiently developed financial sectors could facilitate a lot of the necessary transactions. Some preliminary experience in the privatisation in Morocco and Egypt show that the stock markets could play a vital role as they allow anonymous investors to buy shares and increase the acceptance of foreign institutional investors. An argument often quoted by Arab leaders is the lack of capital. This is a rather biased argument as there is a huge potential to attract Arab and channel it into attractive private sector financed projects. The dimension of this potential becomes more clear if one compares the regional stock of debt for the Middle East at 80 % of GNP to the accumulated capital abroad, which is estimated at 120 % of GNP.²² One potential danger for several Southern Mediterranean countries, in particular Morocco and Egypt, is that public monopolies are replaced by private oligopolies, thus preventing competition and deterring potential foreign investments.

Another obstacle to reverse the negative tendencies in the Southern Mediterranean is the absence of an efficient financial sector. The Asian example shows how important a functioning financial sector can be in the development of competitive economies by mobilising savings and ensuring efficient investment. As pointed out for the privatisation policy the main question is not of public or private ownership but sufficient competition and a functioning market for financial products. A number of Southern Mediterranean countries have opened their financial markets to private and partly foreign competition but in none of the countries is the financial intermediation sufficient or financial products diversified enough to allow the service and industrial sector to fully develop. Several of the markets are still strongly dominated by private or public banking oligopolies and alternative instruments like stock markets, venture capital funds etc. are only slow to emerge despite the fact that they are key instruments to break into the inefficient and often oligopolistic structures and of key importance for the privatisation programmes. In order to foster the development of a more efficient financial sector the EC is financing in Egypt, Syria, Lebanon and Tunisia assistance programmes to strengthen the Central Banks. Furthermore financial instruments are

²² see I. Diwan / L. Squire: Private Sector Assets and Public Debts in: Middle East Journal, Winter 1995 - figures refer only to the Middle East (Egypt, Syria, GWB, Lebanon without Israel)

increasingly diversified by introducing mutual funds and risk capital; an area attracting the attention of the EC and the European Investment Bank as tool to promote SMEs.²³

The Southern Mediterranean countries have not only been slow in embracing privatisation programmes but also in the introduction of private participation in infrastructure programmes. If the partner countries want to stay competitive and modernise their infrastructures an opening to BOT and BOO system will become increasingly important. Examples on successful use of private finance can be rebuilding of harbours and processing zones in Asia. The International Finance Cooperation undertook between 1966 and 1994 a total of 88 infrastructure transaction with a total project cost of nearly 15 billion US\$ in 26 countries. Most projects are in Latin America, South East Asia and Eastern Europe. Not a single project has materialised in the Southern Mediterranean partner countries. Given that all Mediterranean countries face major investments in their infrastructure, including harbours, a surge in these programmes is quite likely. The business sector in the Mediterranean relies heavily on infrastructure services - electricity, water, communications (including telecommunications and ports) - provided by publicly owned and operated utility companies. These services are critical for the competitiveness of business and in many instances constrain private sector development and economic growth. The conclusions drawn by the previous IFC experience showed the importance of access to international capital markets and the development of domestic capital markets to attract domestic and foreign private capital under difficult circumstances and without a fully functioning regulatory system.²⁴ The next cornerstone of the EC assistance is the support to private enterprises in the transition period. Presently specialist businesses services in the Southern Mediterranean are limited to financial auditors or engineering offices which target mainly large public firms. Small and medium sized firms tend not to use specialist business services but rely on traditional family and local networks. With an increasing complexity of the local and regional market and foreign competition specialist advice will be a pre-requisite to use the opportunities of the new openings and to adapt to the competition of European companies in the industrial sector. In order to provide specialist services and information on the local, regional and European market the EC has developed comprehensive private sector development programmes which are managed by so-called Business Centres. These Centres are presently established in Tunisia, Egypt, Gaza and the West Bank and Syria and will shortly open in Jordan and Morocco. They will provide a range of advisory, information and training services to individual companies on a demand-led basis with built-in cost-sharing. Inputs will include

²³ In the case of the Fonds Mousahama the EIB holds 10% and the five participating commercial banks 18% each. The finance of this fund is used to promote four joint venture banks, as well as two foreign and four Moroccan projects.

²⁴ see G. Bond, L. Carter, Financing private infrastructure projects, IFC, 1994

business planning, management development, marketing, packaging and promotion, export development, product design and development, productivity improvement, technology procurement, and quality management. The Centres will encourage the development of local consulting and training services and provide specialist information services that have already been developed as networks in the EU and Central and Eastern Europe will be included in these structures. The Centres will also assist in the development and strengthening of existing business associations, which eventually may take over some of the functions of the Centre. While establishing these Centres the Commission encountered a number of difficulties. Following the expressed needs of the local business community and to ensure the credibility and integrity of these Centres vis-à-vis the private sector the EC insisted on operational autonomy in the day-to-day operations, while the overall programme monitoring would be ensured by Steering committees composed of the private sector, the government and the EC. The process of convincing partner governments that in a demand driven programme in which the private sector had to pay for services day-to-day decisions should not be made by bureaucrats proved to be very difficult and severely delayed the start-up of some of the Centres. At the same time it became more and more clear that the private sector and their representatives clearly saw the need for these services, but would be reluctant to participate if the government got too closely involved.

Turning now to the final cornerstone of the operating environment one may conclude that this is the area where activities need to be much more focused and internal assistance efforts significantly strengthened. Using again the comparison to other regions in the world the MENA countries still display an operating environment that hinders private sector driven growth. While the legislative and regulatory environments are slowly changing the administrations and bureaucracies have so far resisted most reform attempts. One example are the lengthy, inefficient and costly customs procedures in most Southern Mediterranean countries. Comparisons to countries like Singapore show that one of the main reasons for foreign investors to produce in Singapore is that goods are easily transported in and out of the countries. With a shift to "just in time" production processes the reliability and predictability of the involved ministries, customs and harbour authorities and related services become extremely important. A number of European companies that carried out feasibility studies to relocate productions to Southern Mediterranean countries came to the conclusion that despite the relatively cheap labour, the availability of some raw materials and physical proximity to Europe would still be sufficient to relocate the MENA countries as the risks involved in the inefficient administrations and long custom turnover diminish the potential benefits. So far the World Bank has been the most active actor in this field though with rather mixed successes, while direct EC involvement was rather limited. However, given the centrality of this field a more pro-active EC involvement could be necessary.

The question has often been raised if the European Commission as an external donor should get actively involved into the promotion of the private sector and to what degree it can do so effectively. On one hand there are obvious limits for the involvement of any public or governmental actor. Public actors tend to be rather inefficient and inflexible to cater for the practical needs of the private sector; administrative procedures are lengthy and inefficient and the grant funding available is too limited to cover for serious investments. On the other hand there a number of activities a international donor like the EC may pursue and support successfully provided the appropriate mechanisms are chosen. The first important aspect is the role as a facilitator for change. This role may be illustrated at the example of the assistance to the privatisation programmes, where the EC is covering a significant amount of the preparatory and transaction costs. The EC funded projects may not be sufficient to finance the necessary investment or the actual restructuring costs nor can it or should it make the political decision to privatise a particular enterprise, but EC funding can contribute to the development of the privatisation or commercialisation concepts, the acceleration of the transactions, the identification of potential bidders and finally legal and technical assistance in the final conclusion of the transaction. The second role is transfer of know-how, expertise and the exposure to European and global best practice. The above described Business Centres may take up this role by linking European expertise and know-how to local demand as well assisting European and local entrepreneurs to identify their counterparts. A third, and psychologically most important role, is the demonstration of European commitment. Given that the economic transition will cause significant anxiety, insecurity and opposition among local businessmen and the general public visible technical assistance and the provision of information will be extremely important. Increasing European visibility through concrete technical assistance and European presence may help to accommodate high local expectations and may be complementary to the needed, but for the local public invisible, European budget injection for the Structural Adjustment Programmes.

Practical implications of the MEDA application

Under the MEDA set-up the some basic fundamentals of the aid delivery are changing. Rather than providing aid in terms of four year financial protocols, financial allocations will follow annual indicative programmes. In practical terms this system will be much more performance related thus allowing to provide assistance according to the real absorption capacity of the partner countries. In the past the relation between allocated resources and the partner countries' "handling capacities" was, to put it mildly, distorted. There is also implicit competition for donor resources among the partner countries, thus allowing the countries with the most advanced transformation process and the best implementation mechanisms to benefit most. In practical terms it also implies that if in a particular country resources are allocated for a particular area, like Education or Industrial Modernisation, but no agreement on the

programmes objectives and implementation mechanism can be found, the funds allocated in the indicative programme could be reallocated to other sectors for the same country or even other MENA countries.

Given the tight time frame set for the transition period and the necessity to change the fundamentals of many policy areas it may be appropriate in many cases to streamline the aid delivery mechanisms and possibly to move increasingly from project aid to programme aid. Programme aid, as already implemented for the education and health sector in Egypt, would allow to combine objectives on the regulatory, legislative and administrative level with concrete technical assistance. This approach would enhance the commitment to reform by the partner countries. It would furthermore ensure coherence because the scale of the operation requires advanced donor co-ordination and provide high absorption capacity as well as better manageability. Given the adjustment needed to prepare the MENA countries for progressive exposure to free trade a traditional project based approach seems to be too limited as the incremental and often inefficient use of external resources will not deliver the necessary adjustment. Only a larger co-ordination between different donors and different instruments (loans and grants) will provide for the necessary impact on targeted sectors i.e. education, social economic adjustment) Over the past two years the EU cooperation with the World Bank has significantly increased as only a pooling of resources provide the necessary leverage and critical mass to tackle the adjustment of whole sectors.

Conclusions

At this stage key factors of reform programmes will have to be determined from very early onwards to an extent which has been unnecessary previously. The assistance provided by the Union under MEDA and the bilateral programmes of EU member states are only a fraction of the resources needed to facilitate the adjustment process. Macro-economic stability and local and foreign private investment are far more important in volume than the ECU 4.65 billion provided under MEDA. Competitive pressure will increase dramatically once the agreements are being implemented. Through its free trade agreements and much less via associated MEDA assistance, the EU's role will change from a development actor towards becoming an agent for change. The additional resources of ECU 4.65 billion may be used to initiate change in key sectors but in the long run the Partnerships real effects will be the prospect of integrating the economies Southern Mediterranean into Europe and the wider world.

Several scenarios can be envisaged, depending on the degree with which MENA countries are ready to complement the free trade agreements with further liberalisation measures:

In the best case scenario the free trade agreement will have a catalytic effect for the overall reform and liberalisation programme. This would be based on four factors: (1.) MENA countries move faster in their diversification and privatisation process, thus enhancing

competitiveness and reducing the wastage of public resources through inefficient and uncompetitive state industries. (2.) MENA countries would rapidly improve the business environment on legislative, regulatory and administrative level. A mayor point would be the reform of the customs and processing systems (3.) Rapid strengthening and liberalisation of the financial sector and a diversification of financial instruments would enhance financial intermediation. (4.) The conclusion of free trade agreements among MENA countries, thus allowing for economics of scale and positive welfare gains for the MENA region. (5.) Significant increase in the efficiency of aid delivery mechanisms and the handling capacities of the MENA countries.

In the worst case the MENA region will fall further behind the globalisation and become even less integrated in the international trading system. The poverty gap between Europe and the MENA region would broaden even further with predictable political and social instability. The free trade agreement would not lead to significant increases in foreign direct investment and European companies that were previously forced to produce inside the MENA countries because of the high tariffs, will no longer find the local production attractive and simply set up distribution systems. This is likely to happen if the overall business environment in MENA countries is not dramatically adapting to the needs of foreign investors. In these cases the so-called "trade shifting" will be dramatic, implying that the MENA countries markets will be served from Europe rather than by local production or previous sub-countries arrangements. In all likelihood, countries will pursue policy paths between these two extremes, which those progressing fastest not only attracting most investment but also take most advantage of the EU grant financed assistance. The above scenarios show that free-trade and EU assistance as such are not sufficient to turn the MENA countries into locations attractive to foreign companies and capital. Only a rapid liberalisation and opening will give the MENA countries a small chance to compete on the global level. To "anchor" the MENA countries to the EU will enhance the credibility of the local reform programmes if it at the same time leads to a harmonisation in standards, competition rules and investment policies. European competition will lead to efficiency increases and an increased ability to absorb technological advances and most importantly management practices, thus reducing risk perceptions and hopefully attracting FDI.

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DECENTRALISED COOPERATION: COMPLEMENT OR SUBSTITUTE TO STATE-STATE COOPERATION?

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February 1997

The Project 'Europe and the Middle East'

The Middle East peace process and the Mediterranean initiative of the European Union have been an incentive for the Bertelsmann Foundation, Gütersloh, Germany, and the Research Group on European Affairs at the Center for Applied Policy Research, University of Munich, to involve themselves intensively with the future of the relationships between the regions south and north of the Mediterranean. The partners co-operated in 1994 to institute the project 'Europe and the Middle East', thereby completing their involvement with various European problems. The project aims to mediate between the two regions, providing concepts facilitating the development of more intensive relationships. At the same time the project is an attempt to build bridges between political theory and practice. In order to formulate constructive policies for the development of intensified transregional relations, the world of politics should make use of academic approaches and concepts. On the other side, academics of political science benefit from contact with practical application.

The basis for the project are the annual 'Kronberg Middle East Talks', at which representatives from science, economics and politics exchange ideas on current topics of Euro-Mediterranean relations. These conferences are prepared by a cycle of workshops, which deal with questions related to international security, economic development and the governmental and social transformation of the region.

The present paper was prepared for the workshop 'The Political Economy of Aid' in Paris, February 1997.

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Introduction

Non Governmental Organisations (NGOs) are the driving forces behind the efforts at presenting identities, aspirations and positions, and promoting socio-economic and cultural development in various communities throughout Middle East societies. Due to the lack of effective state initiatives that support the interests and address the basic needs of certain social groups, NGOs from all kinds of backgrounds (religious, educational, women, labour, charitable, cultural) have taken up such a role in an attempt to fill the vacuum and meet the needs. In the past two decades, NGOs have evidently become a crucial component of Middle Eastern civil societies, especially as the

governments are still reluctant to establish real democratic structures and are increasingly unable to allocate resources to a variety of problem areas, such as education, housing, health care, day care, productivity and unemployment.

In recent years, NGOs in the region have been extended enormous responsibility for socio-economic development. The international donor community has affirmed that responsibility with increased material aid and other assistance, realising that NGOs are often the more efficient agencies through which to channel aid aimed at easing the social costs caused by economic and structural adjustment programmes adopted in these countries.

Civil society organisations provide a buffer between the state, its bureaucracy and policies on the one hand, and the individuals on the other. Their (increasing) existence illustrates that the citizens and the various groups in which they are organised are willing to play a role in (re)shaping their society, including the policies that govern them. Although there are different opinions on to which extent they are determined and/or able to bring about political changes, it is generally agreed that NGOs serve as a catalyst for creating a climate of tolerance and pluralism and help establishing democratic structures. As such, their role is often discussed as competitive to that of state institutions at the local level, while the support they receive from external sources is commonly interpreted as a substitute to inter-governmental cooperation. The following chapters will discuss the general situation of civil societies in the Middle East, their relations to the state, their cooperation with donors, and the new emphasis of decentralised cooperation that donors have put on the region reflected in their support and willingness to strengthen local NGOs.

Civil Society in the Middle East

There is a natural difference if not contradiction, found in every society, between any governing authority and the interests of the society over which it rules, or of various groups and factions within it. This prevalent difference is one of the elementary reasons for the need *per se* of NGOs as well as an explanatory factor for the expansion of the NGO sector world-wide, and along with it, for the increasing importance of NGOs' roles.

Generally spoken, civil society organisations form the link between the public sphere (state) and the private sphere (individuals) within a society. Within the private-public sphere in which they are operating, they ought to enjoy relative autonomy and independence from the state. In Middle Eastern countries, however, the governments all too often fear the NGO sector as an potential political competitor, since NGOs gain legitimacy as they represent the pulse of people's aspirations and due to their role as vital suppliers of services such as health and education. NGOs as broad community-based and issue-oriented organisations, that often provide forums for free discussion and expression, are feared by the states as danger undermining their rather kin-based and patriarchal structures.

Therefore, NGOs in the Middle East are often suppressed by their governments. Especially in times of political unrest and deteriorating socio-economic conditions, governments tend to restrict the activities of civic organisations - mainly targeting at non-governmental media and human rights agencies - by cutting off funds, introducing harsher regulations and even banning of publications and events. This is evident throughout the Middle East. Liberalisation of civil society in the region has its limits. A good indicator for this is the recent debate in Israel, which is often cited as the most advanced civil society in the region, over whether the government should regulate speech and assembling of civil society organisations as a means to prevent political violence. Another, very poor example is the total absence of a visible and credible NGO sector in Syria.

Although most states in the region suffer from crisis of legitimacy as pressure for democratic transparency and accountability increase on the part of both, citizenry and international donors, civil society still remains constrained. The legal and regulatory frameworks within which NGOs operate are an indicator for governmental performance vis-à-vis society in general (e.g. freedom of expression and assembly, human rights). In Egypt, most NGOs are subject to Law 32 of 1964 requiring NGOs to refrain from 'political' activities and empowering the Ministry of Social Affairs to interfere in their elected councils, thus keeping governmental control over their activities. As the Palestinian National Authority (PNA) works to regulate its NGO community, there is great concern among the NGO and international donor communities about the way in which the PNA will establish its mechanism to govern, co-ordinate and share responsibilities with the NGOs under its auspices. In Jordan, a common tool for undermining the NGOs' influence is to establish substitute organisations that are to compete with those already existing. This has led to a huge number of "NGOs" that are *de facto* run under the auspices of the Royal Palace. In some cases, such as Sudan and Iraq, the NGO sector is completely repressed if not co-opted. In Yemen, cases were reported in which state authorities went as far as "advising" members of syndicates on how to vote in the syndicate elections.

In recent years, however, increasing education, the spread of liberal thoughts, and a growing scepticism regarding traditional values and structures in the communities of the Middle East have brought about a change in those societies to the end that they do no longer take the state's activities for granted but have begun questioning their policy making and priority setting. We can see people throughout the Middle Eastern countries calling for more democratisation, more accountability from their respective governments, and more participation in the decision-making process. Such appeals, are often initiated by or through NGOs and other civil society organisations and have put some pressure on the governments which traditionally tend to limit their freedom of expression and association through rigid regulations.

Although most Middle Eastern governments are extremely reluctant to relinquish control, they are often forced to do so, realising that neither the government nor the market alone is fully capable to address society's needs and meet the challenges of development. Furthermore, they have come to

grasp that for the sake of economic growth and of avoiding civil unrest, more decentralisation is inevitable.

Still, despite the uncertainties of the legal/regulatory environment within which NGOs must operate, and despite the strict regulations of NGOs in Middle Eastern countries, local activists as well as donor officials understand that NGOs remain the self-reliant organs that mirror society's needs and the "key" to development in these countries.

NGO-State Relations in the Middle East

Civil society organisations link the private sphere (citizenry) with the public sector. They serve as a channel for information from the citizens to the public sector on their needs and aspirations, providing feedback on government performance. On the other hand, they are also the channel from the public sector to the people in terms of what the former is doing and plans to do in the future. In taking up such a role, NGOs appear as forums that promote dialogue between the people and the various institutions of the government. NGOs' current role is to give civil society direction, create infrastructure and promote democratic values, pluralism and development.

The relationship between the state and the NGOs in the Middle East is determined by the fact that the states consider the NGOs as opponents if not potential rivals for political hegemony and legitimacy, although NGO leaders are usually not interested in nor working to undermine their governments. The state and the NGO sector ideally should work complementary and should not view their respective activities as competing. This is especially true as NGOs are increasingly moving away from their traditional relief work and welfare services to become development agencies, and have been making significant contributions to development for years. As many of the services provided by NGOs are usually not the focus of attention of governments and their policy priorities, they should enter into a "contract" to govern their relationship, on the basis of which they then should work out a development approach that addresses society's needs, based on a common vision and awareness of society's patterns of thinking, behaviour and perception. As governments are expected to be "melting pots" for all segments of society, NGOs, by definition sector-affiliated organisations, are *de facto* ideal complements to the state.

There is a common understanding that NGOs should be registered, operate under law, and be monitored by the government as the case in other countries. But the provisions of the restrictive NGO laws prevailing in the Middle East are of major concern not only for local NGOs but also for the international donors (e.g. World Bank, EU, international NGOs), that are questioning how NGOs could function properly to promote development if the governments inhibit their activism.

Governments can co-ordinate and cooperate with NGOs in certain fields and projects as the latter are more experienced and less bureaucratic and have a closer link to the communities they represent and serve. NGOs can, for example, eliminate mistrust vis-à-vis government policies, as people prefer to work with and listen to members of their community who know what community needs

are and who can mobilise support and cooperation from a target population. In times of demographic growth, deteriorating economy, increasing unemployment, and the marginalisation of a growing number of social groups, governments need some form of decentralisation, i.e. division of labour between them and NGOs. Even more as the latter are by nature more flexible, innovative and capable to confront with changing conditions. Such division of labour could, for example, take the form of the state running major infrastructure projects while NGOs would focus on development strategies for specific areas, such as poverty alleviation, and, at the same time, lobby for the interests of their respective constituencies. NGOs could guide governments in their fields of specialisation, and where NGOs prove successful, their model could be adopted by the government to be applied on a wider scale. Such arrangements on divided labour and decentralisation are particularly important in view of the world-wide trend towards privatisation.

A framework or contract for appropriate state-NGO relations should take into consideration the following:

- A guarantee of the independence and liberty of NGOs regarding their establishment and existence
- Regulating laws that are non-arbitrary and democratic in nature. For example, politically affiliated NGOs that perform professional work should not be discriminated. The quality of their work should be more important than any affiliation, bearing also in mind that political diversity is part of pluralism.
- Formal registration procedures should be based on a clear system and be in accordance with a generally accepted legal framework
- If state projects compete or conflict with NGOs' activities, possibilities of cooperation - in an equal partnership - should be discussed. For the benefit of the society, professionalism should be a main criteria.
- Transparency: NGOs should report their activities to their constituencies, the general public and the authorities. They should prepare financial reports and audit their accounts to establish accountability. This principle should be equally extended to the state and its institutions.
- Finances: both NGOs and the state have financial problems. In this regard, trust funds for NGOs should be established in order to maintain the continuity of NGOs and to cover their deficits. The proposed World Bank NGO Trust Fund to be established in Palestine could serve as a model.
- NGOs should be permitted own bank accounts with full control and discretion of the expenditures of their funds.
- NGOs should have the right to publicise their activities and communicate with the public freely.
- NGOs should have the right to engage in legal transactions, including purchasing property, employing staff, signing contracts etc.

- NGOs and the public are informed and aware of governments' development plans.
- NGOs should enjoy the freedom to comment on the state's performance.

Decentralised vs. State-State Cooperation

NGOs are a key to socio-economic and political development, i.e. strong and stable civic institutions provide for societies the means to properly define and realise people's interests. In other words, development, which is intended to improve the people's quality of life, requires not only visions and material aid but a healthy environment and effective institutions that strengthen the capacity of civil society.

International aid donors (multilateral aid agencies, bilateral donors, individual governments) acknowledge this role and the importance of NGOs in the development of Middle Eastern society. They often favour NGOs when it comes to allocation of funds, recognising the benefits provided by such organisations. Increased funding in Egypt, Lebanon, Palestine and Israel is evidence enough of this new emphasis, that is also an indicator for donors' anticipation that NGOs are more efficient and less corrupt as opposed to state-funded projects. Of World Bank-financed projects approved in the fiscal year of 1995, 41% involved NGOs, compared with an average of 6% for those approved between 1973-1988.

Another factor is more pragmatic in nature: donors support NGOs' small-scale projects targeted at specific segments of a community because they often lead to more substantial results than do larger projects that are less calculable and measurable. If funded projects achieve their goals, the donor - be it a governmental agency or an international NGO - gains reputation two-fold: within the respective NGO community it will be recognised as a successful contributor to development, while, at the same time, it gains legitimacy and respect vis-à-vis its own constituency and superior funding and political authorities. On the other hand, while local NGOs compete for donor money, donors - who mostly secure funding from their own governments - rather compete for certain projects, regardless whether run by NGOs or the government. A main criteria for them is the prestige that is anticipated from a certain project, for example, the possibility to raise one's flag at the close of such a project.

The relationship between donors and NGOs is usually built on mutual interest: the input of NGOs has been proven particularly valuable for donors in creative thinking ("visions"), identifying and designing projects, conducting consultations with affected communities, carrying out field studies, surveys, feasibility and assessment studies, designing development approaches, disseminating information, acting as financial intermediaries (channelling project resources to target groups), improving services, and providing training. Donors, on the other hand, are important to NGOs by providing opportunities for cooperation and dialogue with their own governments, ensuring enhanced resources for "scaling up" NGO approaches, providing information on development strategies, exchanging expertise, encouraging local governments to provide a more enabling

environment for civil society (sometimes even functioning as "eyewitnesses"), and providing international acknowledgement which helps legitimising the NGOs work.

International NGOs and other private endowments such as the Carnegie Endowment, Ford Foundation, Friedrich Ebert Stiftung, Care, NOVIB, terre des hommes, Caritas, Save the Children - to name only few - were pioneers in establishing their organisations beyond their national boundaries to emphasise human values and promote development and institution-building efforts in underdeveloped communities. The godfathers of these organisations were not interested in being governmental tools nor followers of government policies or official schools of thoughts but had their own visions on how to help building the basis for a better future in their partner countries.

In the absence of a political culture, that advocates democracy, pluralism and tolerance of others, the governing authority has a free hand to monopolise, thus control, all spheres of economic and social life under its own umbrella. This is not in the sense of donors, especially western donors, who in most cases aim at fostering democratic values and structures in their partner countries, including the application of the rule of law, respect of human rights, exercise of freedom of opinion, speech and assembly, and participation in public life. Democracy is seen as a value in itself that is visible within any entity or state by the mere existence of civil society and its institutions - collective organisations that have been established out of a free will to act in a certain sphere in order to achieve the interest of a certain constituency. Thus, these organisations, representing various views and groups, are the cornerstone for pluralism and acknowledgement of the right to differ - basic democratic values. Donors have realised that many NGOs serve as interest groups, committed to advocate and protect their visions and interests from rivals and competitors within the society and vis-à-vis the state. As most Middle Eastern regimes are not committed to democracy and pluralism, NGOs are seen as a first address to provide the appropriate environment for the gradual establishment of a democratic system, starting at a grassroots level: NGOs represent pluralistic views, practice democratic values at least to some extent, and can educate the people about the hegemony of a political class that may suppress civil society establishments to serve its own purposes.

The increasing strength and influence of civil society is a powerful global trend of importance for many other reasons: today, local and regional organisations are considered as key actors for international cooperation. NGOs often have the experience, skills and contacts that are relevant to the donor's mission, and belong to networks, co-ordinate their programmes and policies with various sectors of the society. Their alternative approaches and analyses of development issues and strategies can be very useful. They also may have influence among decision-makers and the communities as they represent the public's interest at the local level, not acting in the name of a national authority.

Another element is sustainability. Simply put, NGOs survive governments: as structures that are not linked to government, NGOs can be a factor of continuity where governments are weak and subject to rapid change. As specialised agencies, they more effectively serve their target groups than a

government could afford to do as its directive are rather to address the society as a whole. Thus, decentralisation vs. state-state cooperation should not be discussed as substitute strategies but as two different development approaches that complement each other.

The Palestinian Case

Pluralism has been a feature of Palestinian political life for almost three decades in which the absence of a national government and the Israeli occupation resulted in the establishment of more than 1,000 NGOs active in a variety of fields (e.g. labour and student unions, professional, charitable and health associations, women organisations, think tanks etc.) and has enabled a high degree of social and political mobility. This includes the many NGOs established by political factions not least in order to extend their influence in society by providing services. Organisations working within the NGO sector were common in Palestinian society throughout the decades without a Palestinian authority governing them.

Following the Declaration of Principles and the subsequent agreements signed between the PLO and Israel the Palestinians have acquired a new status. Palestinians must perform many of the functions of a state, even though they have not attained formal statehood. Yet, the Palestinian side has not been able to develop its capacity to best handle the tasks and challenges ahead, with many deficiencies in local civil society organisations, administrative structures, dissemination of information, citizens' awareness and participation in Palestinian state-building efforts.

In 1995, a first exercise for future state-society relations in Palestine occurred with a major debate between PNA and Palestinian NGOs (PNGOs) that arose over the proposed NGO law. The draft law resembled much of the 1964 Egyptian Law of Associations that is rather disreputed among NGOs, regionally and internationally, as it limits freedom of movement and gives the government extensive powers to involve in NGO activities. The PNGOs mobilised and lobbied against this specific law, not questioning whether there should be regulations regarding their sector but demanding that the law be based on principles how to *govern* them, not control. They wrote papers, put ads in newspapers, distributed a newsletter describing the proposed law and its meaning for the NGOs, urged the international community to complain, and succeeded in having the decision on the law postponed and in having a committee set up by the PNA to co-ordinate NGOs concerns. In October 1995, a second draft was issued that had improved due to the inclusion of the right of appeal by NGOs against the Minister of Social Affairs and the right of a general assembly to decide on combining their boards, rather than keeping the right in the hands of the Minister of Social Affairs. Although these changes were considered a first success, the battle between the PNA and the PNGO network is still unfolding. What adds to the special case of Palestine in terms of which method of rule the regime will assume, is the fact that throughout the years of occupation Palestinians in the territories have not only exercised democracy through various unions, councils and other bodies, but have resisted the occupying authority.

Apart from this internal "struggle" over rights and responsibilities, PNGOs face another threat to their sustainability: the question of financial survival. Since the occupation, it was only PNGOs that promoted development, and this tremendous responsibility was met by millions of dollars in financial and technical assistance from international donors. After Oslo, however, the international donor community diverted much of the funds that used to support NGOs to the PNA to set up its administrative structures and rebuild Palestine's infrastructure. NGOs currently face not only financial constraints and deterioration, but also a stagnant peace process that reflects negatively onto the domestic dialogue towards establishing a democratic and pluralistic system.

With the establishment of the PNA it also became inevitable that the NGO-community would witness major changes from within as some of NGOs would be "absorbed" within the authority's structure, while others would be less affected - depending on their respective type of activity. Some, mainly those established by or affiliated with the PLO got incorporated into the PNA structure as a natural consequence of the political events. Some others will be involved or incorporated into the newly established governmental departments, mainly those focusing on issues such as housing, education or health. This has caused problems as a number of these NGOs do not want to become part of the PNA, be it due to their opposition to the PNA and the "peace process" or because they want to remain independent and continue to work outside the government structure. Some other NGOs are not directly related or linked to the activities of the PNA and its ministries, such as think tanks, policy research institutes, human rights or women's organisations, but fear that the PNA will limit their autonomy and liberty to conduct and follow-up their projects. Moreover, there is a conflict between generations and cultures as the PNA is currently dominated by old PLO guards that were living in the Diaspora for decades and are now governing the people who have directly suffered from occupation which has socialised Palestinians in a way that the returnees cannot fully comprehend. In addition, there has been some evidence that the PNA is copying other regimes practices, regulations and by-laws rather than consulting with other forces from within the society and creating an own national agenda together. Nevertheless, many segments of the society have entered into a national dialogue, and both the PNA and the NGOs are in the progress of learning to share information and co-ordinate their efforts.

Neither the people nor the NGOs want interference in their affairs but need organisational stability, transparency and accountability of the PNA. The PNA has to recognise and respect the existence of different opinions and schools of thought within society. The relationship between the PNA and the PNGOs is determined by the fact that the PNA considers some NGOs as potential rivals, while at the same time, they are aware that they need the NGOs in implementing projects since NGOs often possess superior experience. The fact that the PNA has sought the assistance of NGOs, especially in the health field, shows that there is some degree of reliance on NGOs. On the other hand, the PNA is obsessed with the notion that, at least during the transitional phase, all external funding should be channelled through and be distributed by its own agencies, thus not leaving any room for independent NGO-donor relations. As this is not mutually in the interest of many founders, it is

even more important for NGOs to work efficiently, serve society effectively, and be accountable to the people, in order to secure support and legitimacy.

NGO-Donors Cooperation: Reasons, Problems and Effects

An important aspect of Donor-NGO relations is the key role of the NGO community in maintaining a positive environment of public opinion and the necessary international support for development assistance. NGOs interact with donors in a variety of ways: resources allocation, influencing government's policies and donors' policies, and sharing experiences. In the Middle East, and particularly the Maghreb region, for example, there has been an increase in human rights organisations as a result of strong support from international institutions and developing agencies.

External sources and long term partnership programmes help strengthen the utility, legitimacy and sustainability of NGO work within the respective society. Donor-imposed political and managerial conditionality has in many cases brought about positive changes by demanding certain levels of planning, transparency, accountability, professionalism and cost-efficiency as well as focus on certain activities. Such requirements that have to be met by the funded institution often lead to internal reorganisation and strategic rethinking on the part of that institution. In the long-term, such needed upward accountability to donors can be seen as an adjustment process that contributes a great deal to the efficiency and sustainability of the respective NGOs. However, on the other hand it also bears the danger that NGO activities are skewed towards the interests and agendas of the donor rather than at local development priorities. Dependence on donors may lead to the NGOs' reprioritising their own agendas, i.e. in order to obtain the needed funding to run projects, they may tend to reformulate their self-stated goals and to adopt development approaches dictated by the donor's aid system.

Another peril of donor-NGO relations that is particular evident in the Middle East, is that donors may support well-functioning and well-performing civil society organisations that are *de facto* run by one dynamic, proficient and captivating personality. Thus, once such a personal contact and relationship has been established, funding may be secured over years though not due to the institution itself nor its particular programmes, but due to the name, respect and credibility of the one who runs it. Although many of such organisations accomplish a lot, funding does not necessarily contribute to their sustainability as they would fade with the retreat of the driving force. Regarding this phenomenon, donors should think of ways how to help institutionalise such organisations so that their continuation would be secured regardless of who is in charge.

NGO-Donor cooperation may also have an effect on NGO-state relations. As a frequently required prerequisite for funding and a central issue of concern for donors is a state's "good governance", donor support to NGOs can help achieve this end by fostering NGOs to contribute to:

- improving public sector management,
- improving accountability of state agencies,

- disseminating information on state's policy and performance,
- working towards an equal application of the existing laws,
- facilitating and encouraging public debates on policy formulation, proposed legislation and development strategies and priorities,
- supplementing public services.

By using their experiences, NGOs can encourage their governments to adopt certain approaches that they have pioneered with the help of donor assistance and offer their partnership in designing development strategies and in delivering services. NGOs can also raise awareness in certain areas where there is an urgent need, e.g. in fighting poverty, improving education etc. and "pressure" their governments to consider their advice on policy matters, future plans and to take action where needed. In this regard, donor cooperation with NGOs as a starting point may forge strategic links between a donor country and the local government.

NGOs also play an important role in lobbying internationally in favour of their society's or constituency's interest. In their lobbying and advocacy efforts, they often request the help of international NGOs and donors in order to give their demands more weight. Thus, international actors, donors in particular, become a source of pressure on governments, attempting to influence decisions. For example, the postponement of the Palestinian NGO draft legislation was not least a result of "international pressure" represented in particular by the PNA's decision to suspend further consideration of the draft law on NGOs at the time of the October 1995 Donors Conference in Paris. There are numerous examples of NGOs' seeking the help or intervention of donors in cases of internal friction (e.g. vis-à-vis the government). Although this may often be effective if the latter decides to take action, one should be aware that it also bears negative aspects:

- Donor-NGO cooperation on such matters may be counterproductive as NGOs shift away from mobilising their own constituencies.
- Donor intervention, after all, will be opposed by many as interference in internal affairs, and concerned NGOs may be labelled as agencies for foreign interests.
- Donor intervention in internal frictions is likely to contribute to a deterioration of NGO-State relations.

Suggestions for Donor-NGO cooperation: Strengthening civil society

Civil society organisations often need to reform their organisational structures and procedures, and learn how to use their resources wisely, to consider the long-term effects of their policies and to critically evaluate the long-term feasibility of their own operations. They often lack a vision of the future and ideas about what can be done presently to attain future goals. Transparency and organisational accountability must be assured. Their activities should be set with an eye to the long-run in order to achieve sustainable institutional development, which is an integral part of a

democratic society that encourages popular participation. The need to meet such organisational and institutional necessities should be added to the scope of donors' assistance programmes.

Recently, many interest groups and NGOs - local, regional and international - have initiated networks and other bodies in which they assemble in order to coordinate their work, avoid duplication, strengthen their own capacities, and raise their voices jointly. Donors can contribute to this trend by promoting and encouraging horizontal cross-national initiatives, also bearing in mind that joint projects and efforts are often easier to realise across-NGOs than across-states and along certain topics rather than by compromising on national politics. The EU-funded MeSCo initiative, that has meanwhile been expanded to Euro-MeSCo, is a good example for this. Co-ordination, cooperation and dialogue among regional NGOs in fields of mutual concerns contributes not only to a better understanding of each other but can also have a positive impact on development efforts, for example in terms of exchange of methods and experiences, joint fund-raising, and the common building of a base for future stability in the region.

While in general NGO-donor cooperation the role of NGOs is that of implementing activities, facilitating cooperation with local partners, and generating local support for their efforts, the donor's tasks should go beyond funding, technical assistance, and lobbying for international support and include:

- the creation of a strategic agenda - jointly with their NGO counterparts;
- mobilising other international NGOs/donors to become involved in the development of the NGO sector and contribute to its horizontal expansion;
- advocacy and lobbying both of their respective governments;
- development activities and supporting efforts directed at civil societies' self-development and empowerment;
- facilitating constructive dialogue between NGOs and the state.

The pre-requisites for an effective NGO-Donor partnership are twofold:

- structurally, the partnership should be clearly determined and donors should re-examine and redefine their objectives and the kinds of relationships regarding their partnership with NGOs;
- functionally, activities should be jointly determined and should recognise mutual needs, priorities and potentials.

Future donor-NGO cooperation should also take into consideration the following urgent areas of work:

- Co-ordination: better mechanisms to avoid duplication and to work efficiently;

- building lasting partnerships between/among donors (international NGOs) and local NGOs;
- involving the funded NGO throughout the whole course of a project, i.e. from the project development and design until its implementation;
- focusing on specialisation of NGOs which should be a crucial community resource for development alternatives;
- distinguishing between types of NGOs (religious, political, humanitarian, developmental);
- commitment to mobilise more local resources in order to achieve long-term sustainability.

Donors should be careful in their assessment of the NGOs' performance. Execution of activities should be determined and interpreted within the particular context of the NGO and standards demanded should derive from the given constituencies the NGO aims to serve.

To realise the full potential of partnerships with NGOs, the donors need to be careful and sensitive in their decision of which NGOs to co-operate with. In many projects, the donors need to involve governments with the aim of fostering dialogues between the government, the NGOs and the donor itself. Sufficient flexibility for involving NGOs and their scope of performance should be ensured in contracts and agreements. Prospects for effective partnership and cooperation among NGOs and between them and their foreign counterparts have to be seen in light of the changing regional, international political and economic environments that mark a turning point and require the drawing of lessons from past experience for future NGO cooperation. The respective agendas should be reconsidered, in order to establish principles for more solid and lasting cooperation. NGOs should work towards safeguarding, developing and enriching civil society with an emphasis on the democratic component of societal development.

Conclusion

The NGO sector in the Middle East has mushroomed over the past two decades and has become a key actor in development. The growing role of civil society organisation should be an emphasis in donors' operations.

Civil society must strengthen capacities so that it can best address the issues facing it and foster fruitful debate on important issues; to clarify their organisations' visions on important issues and to define their relationship to other actors (other civil society organisations, the state, international organisations etc.), which in turn will enable these organisations to more accurately evaluate the appropriateness of their policies. Furthermore, to be able to track the policy of the government so that civil society can take appropriate action to impede policies detrimental to its interests or encourage policies favourable to its objectives. Civil society can contribute to increase the accountability of government, and thus, encourage the harmonising of public policy with the needs

of the community, which will enhance the trust of the people in the system and encourage involvement in public affairs.

As described above, NGOs and governments have competing visions of development: while the latter sees and designs development often as a staged process with focus on certain sectors (e.g. on health care, education or agriculture), NGOs see development as occurring *across* sectors simultaneously. Consequently, both sides run their programmes along different tracks, with different means and methods, and towards different objectives, which conceivably leads to different results. Additionally, it is a matter of fact that governments have neither the fiscal nor the organisational capacity to meet the increasing demand of the society for services, in particular regarding marginalised and poor groups within the society. Moreover, the presence or absence of NGOs makes a big difference when states face crisis and challenges. For example, during the civil war in Lebanon it was the some 600 NGOs that maintained the civil entity and kept serving it to a considerable extent. Even ethnic-based groups overcame their particular background and extended their services and assistance to all citizens within their domains. In Kuwait, during the turmoil that occurred following the Iraqi invasion, it was the co-operative societies that became the basic address for people when the state failed to provide food, education, housing, welfare, etc. And in Palestine, it was the NGOs that served the people in literally all areas of socio-economic, political and cultural life for decades, and that *de facto* replaced the non-existing state structures and laid the foundations on which to build the future state.

Conclusively, decentralised vs. state-state cooperation should not be seen and understood as an alternative option but their reciprocity and interdependence should be recognised and be reflected in donors' development strategies.

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HUMAN RIGHTS IN THE TRANSMEDITERRANEAN DISCOURSE

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The Project 'Europe and the Middle East'

The Middle East peace process and the Mediterranean initiative of the European Union have been an incentive for the Bertelsmann Foundation, Gütersloh, Germany, and the Research Group on European Affairs at the Center for Applied Policy Research, University of Munich, to involve themselves intensively with the future of the relationships between the regions south and north of the Mediterranean. The partners co-operated in 1994 to institute the project 'Europe and the Middle East', thereby completing their involvement with various European problems. The project aims to mediate between the two regions, providing concepts facilitating the development of more intensive relationships. At the same time the project is an attempt to build bridges between political theory and practice. In order to formulate constructive policies for the development of intensified transregional relations, the world of politics should make use of academic approaches and concepts. On the other side, academics of political science benefit from contact with practical application.

The basis for the project are the annual 'Kronberg Middle East Talks', at which representatives from science, economics and politics exchange ideas on current topics of Euro-Mediterranean relations. These conferences are prepared by a cycle of workshops, which deal with questions related to international security, economic development and the governmental and social transformation of the region.

The present paper was prepared for the workshop 'The Political Economy of Aid' in Paris, February 1997.

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Prefatory remarks and summary: conditionalities and the "cultural" critique of human rights

In examining the question of conditionalities and human rights with the objective of encouraging progress in the field of human rights, two issues seem to me especially important: one is the need to gain a deeper understanding of why human rights have become a particularly contentious issue, in the hope that diagnosis will help to suggest solutions; the second is to ask how we might conceive of "conditionalities" so as to achieve positive results - that is, to what extent can this approach have a therapeutic function. Each of these issues raises particular problems.

It is beyond the scope of my presentation to treat in any depth the question of why human rights are so disputed, why the issue has become a lightning rod for questions of identity, patrimony, cultural domination, neo-imperialism, among others. But I would like to make some initial remarks here to help us see why human rights debate has turned into a "cultural" issue, and to assist us in imagining ways of going beyond this.

The contemporary structure of international human rights law has a deep and complex history that arguably involved at one time or another all human civilizations, but the defining moment was the end of World War II, with the establishment of the United Nations and then the adoption by its General Assembly of the Universal Declaration of Human Rights (UDHR) in December 1948. That the human rights concerns articulated in the UN Charter and in the Universal Declaration of Human Rights -- the so-called "first generation rights" -- were in large part an effort to respond to the particular problems thrown up by historical conditions leading to and resulting from World War II is beyond dispute.

Since then, the international community has elaborated many instruments and conventions designed to deal with problems that were not addressed in the UN Charter or in the UDHR, or to emphasize and make more specific issues that were mentioned there but not spelled out in detail (leading to what are sometimes termed "second generation" (economic, social, and cultural) rights and "third generation" ("solidarity") rights, often requiring mobilization on a planetary scale, such as the right to an equitable international order). There are also a number of regional conventions with similar aims. This has led to a panoply of conventions dealing with many different issues, with widely varying juridical force and implications.

Any attempt to encourage compliance with human rights norms must take into account this variety, since each provision in each document, although no doubt addressing a problem that is in some sense a general one, has different immediate relevance, urgency, benefits, and costs depending on the particular population (or sector of population) considered. To simply say

that conditionalities should be related to the provisions of the UDHR, for example, and that other internationally enshrined rights are less important, is exactly the kind of approach that encourages the formulation of "cultural" critiques of human rights.

The second problem concerns the relationship between an approach based on "conditionalities" and the specifically egalitarian terminology used in the partnership accords ("partnership", "dialogue", "cooperation", "solidarity" etc). I argue in the paper that follows that, if this egalitarian terminology is to be taken seriously, the way forward on human rights must shift from approaches based on tactical considerations toward those that suggest new, more productive ways to conduct discussions and dialogue between parties that have different visions of human rights and different assessments of which human rights are the most important. Here again, the argument that "fundamental" human rights are indivisible simply begs the question and often has the perverse result of giving support to those who wish to promote constructions of human rights as "culturally foreign".

Taken together, these two issues -- the contentiousness of the human rights question (and its unfortunate reformulation in "cultural" terms), and the need to move away from tactical approaches (which encourage such "cultural" reformulations) -- argue for the need to search for and implement more imaginative and fertile forms of international, intercultural discussion. Essential elements in this process will be a critical and self-critical re-examination (on all sides) of one's own presuppositions.

It is with these guiding ideas in mind that this presentation was written.

In this essay I examine what we mean by a "conflict of values", a "confrontation of cultures", and some of the means we have at our disposal to go beyond difference. Drawing on experience from a number of different fields -- management theory, economic development, anthropology, philosophy and ethics -- the discussion focuses on issues relating to human rights and, more particularly, to human rights in the Middle East.

In the Introduction, I present four incidents as examples of conflicts in values, sampling the variety of such conflicts and displaying their centrality in a number of different domains.

In Part I ("Differences"), I look at how such differences are formulated in the field of human rights. This section comprises a brief survey of the kinds of general objections that are frequently raised to international human rights notions and then looks more closely at two specific critiques, one that challenges the "universality" of the modern concept of torture and a second that explores the general conceptual field on which the notion of human rights is played out with regard to the Middle East. This section concludes with a look at two specific cases of value conflict in human rights visions: the first case confronts different views of what

"fundamental" means, and the second discusses different views about the "primacy" of human rights.

In Part II ("Accommodation"), I suggest ways of rethinking some of the basic concepts that inhere in the notion of value conflict, with the aim of envisaging interactions that might possibly bring confronting groups closer to mutual understanding; and then I present one study in which this issue is addressed concretely. At the outset of this section, I argue that two particular notions that are keys to the creation of mutual understanding -- the notions of "culture" and "dialogue" -- deserve to be treated in more depth, and to do this I bring to bear some considerations from anthropology, philosophy and discourse theory. This allows us to return to the examples that open the essay and to see new aspects and ask new questions of them. This section ends with an exposition of one particular study that claims to answer in the affirmative the question, "Can a modern constitution recognize and accommodate cultural diversity?"

In conclusion, I make some provisional suggestions concerning what the central elements in productive intercultural dialogue might be (including a learning and innovative attitude, a critical and self-critical approach, a recognition that the process is open-ended), and I argue for the need to move toward more sensitive and imaginative ways to conceive of and work out these concepts in practice.

Introduction

Let's consider, first, a (partly imaginary) meeting between Amnesty International representatives and a delegation of the world's jurists. The subject: the death penalty. AI's position is clear: the organization is unconditionally opposed to the imposition of the death penalty in all conceivable cases. A delegate from the US expresses his view, "Our studies show that fair and impartial application contributes to lowering the rate of serious crime". A delegate from Al-Azhar contributes, "There are, as well, cases clearly indicated in the Qur'an where, if certain conditions are met, capital punishment must be applied as a sacred duty." Outcome: at the end of a day-long discussion, positions remain exactly as they were at the outset.

Second, let's imagine a (not so imaginary) economic development initiative. The plan is to construct a small dam in order to expand the area of irrigated agricultural land. As is frequent in such cases, the upstream population is not enthusiastic -- they will lose some land -- but perhaps they will be adequately compensated and their consent obtained. The downstream population's representatives are in favor -- the dam will increase the productivity and value of their land. But cultivation of this newly irrigated land will be more labor intensive and with many of males of working age having moved to the city, the anthropologist on the project

brings forward studies that suggest this is likely to lead to girls being withdrawn from school and put to work on the land. The bilateral donor agency is not pleased to hear this: although recognizing that many development studies show that the single best investment is in expanding education for girls and women, with benefits in terms of population control, improved health, greater productivity, yet the agency is under pressure from its own government, interested in remaining an important partner of the host government; and the host government believes it is vitally necessary to increase irrigated agricultural production. I should also point out that one major landowner will benefit substantially, and disproportionately, from the dam's exact placement; that the local water-users' association is dominated by people dependent on him; and that an international hydrologist has argued that the region can ill afford disruption to the ground water system that the dam will entail. Outcome: the project goes ahead in the form it was originally designed.

Or, let's imagine a multinational telecommunications company which, finding itself in a rapidly changing competitive environment, seeks to bring together its American, UK, and French executives (all of whom, incidentally, are white males), to launch a process of rethinking and reorienting its behavior in order to adapt more successfully. The American branch sees itself as a "learning organization" with pragmatic goals; the French executives retain a strongly hierarchical orientation -- still reacting to the "spirit of May 68" -- and are very concerned about the domination of their sector by the state as well as by a worsening "social crisis"; the UK executives are bothered by productivity problems and are leaning towards an "empowerment" approach. The American view might be characterized as "instrumental", the French as "paternalistic", the UK as "negotiating." Outcome: during a one week for the executives, standard guidelines are set up for working parties to be established in each national unit, to examine what "success" means and for whom; how one might define the organization's goals; how one might go about encouraging agreement and active participation on all levels of all members of the organization. Their preliminary reports are due in three months.

And finally, let's turn our attention to an anthropologist embarking upon anthropological fieldwork. He leaves New York to arrive in a small village in, let's say, Morocco, knowing little of the local Arabic dialect and having only the introduction of an itinerant vegetable marketer to help him ease his way into the village. The problem is fairly straightforward: the anthropologist in the "field" encounters people of a "different culture" -- how does the enterprise of reaching a common understanding proceed? Outcome: after two years in the field, the anthropologist begins to examine how this process took place, although he has over

the same period become progressively less willing to advance definitive views about the "essence" of Moroccan "culture".¹

The pressures pushing people forward are in each case quite different, of course: from the desire to prevent evil (but where notions of "evil" differ widely); to the wish to increase wealth (but whose, and at whose expense?); to the need to respond successfully in the marketplace (for whose short-, medium-, or long-term success -- shareholders, executives, the labor force, consumers?); to simply the need to communicate and, even more fundamentally, to survive.

Yet, despite these differences, in all of these situations people are faced with a similar fundamental problem, a problem in "conflict of values", in "confrontation between cultures." The question we want to ask is: how, in situations where human groups, believing many different things and behaving in many different ways and where people, when they do not actually try to dominate one another, still often show little tolerance for ways of behaving and beliefs other than their own, may people move toward some form of mutual understanding and, in the best of cases, agreement?

This kind of problem -- value conflict and confrontation between cultures -- is one of the fundamental anthropological problems. But as the previous examples, drawn from my own experience, demonstrate, it is not only an anthropological problem. I would like to draw on some of this experience, as well as on some insights from related fields, to see if it can help us approach the problem of whether groups of people who differ on certain values can come to a mutual understanding in just those areas where they differ.

To orient my presentation, I would like to turn to the partnership accords for a moment. To the outsider, there is a noticeable tension in these accords between rhetorical terms ("partnership", "dialogue", "cooperation", "solidarity" etc.) that imply egalitarian interaction and are meant to be taken normatively, and the fact that these accords are rooted in the real world of power relationships. I assume that the invocation of these egalitarian terms goes beyond the desire of the framers to render the accords "legitimate" to the different constituencies whose support is sought, and reflects a deeper conviction that satisfaction of each party's needs depends to a large degree on the satisfaction of the others'. I am therefore going to take these rhetorical terms seriously and examine whether they can be given a more effective meaning.

With this orientation in mind, the basic issue I wish to address is how might we encourage adherence to the conditionalities mentioned in article 2 of the Euro-Mediterranean accords --

¹ This story is told at greater length in Dwyer, Kevin. 1982. Moroccan Dialogues: anthropology in question. Baltimore: Johns Hopkins University Press.

that "respect for the democratic principles and fundamental human rights {established by the UDHR - Morocco} inspires the domestic and external policies of the Community and of Morocco and constitutes an essential element of this Agreement"? What kinds of approaches/ principles/ guidelines might be envisaged in order to promote positive developments on these conditionalities?

I am going to concentrate on the human rights aspect of this question, but much of what I am going to say is also applicable to the issue of democratic principles.

I will not examine so-called "carrot and stick" approaches (what Habermas in more sophisticated terms calls "strategic action [where] one actor seeks to influence the behaviour of another by means of the threat of sanctions or the prospect of gratification in order to cause the interaction to continue as the first actor desires..."²). While certainly very common in situations where the parties have vastly unequal power and no doubt effective in many specific cases, these approaches have a number of drawbacks, both practical and moral. Also, these approaches violate our initial assumption regarding the rhetorical terms used in these accords and I have already said I would like, for once, to take these terms seriously.

I will also not be suggesting intervention on particular human rights and/ or democracy issues, nor initiatives for particular programmes of human rights and/ or democratic reforms. But I hope what I have to say may be of some assistance in planning those that might take place.

Steps

To answer our basic question -- how does one go beyond cultural confrontation in the area of human rights? -- I will follow these steps:

First, when we talk about human rights, what kinds of "difference of values" are we talking about? Here, I will [A] first schematically present the kinds of objections that are frequently raised to international human rights notions and [B] then explore more closely two cases [1] the modern concept of torture and [2] the general conceptual field on which the notion of human rights is played out, with particular reference to the southern Mediterranean and the Middle East. Then [C] I will look at some of these differences from the point of view of fundamental, but also clear and simple, value conflict.

In the second section I will explore how the confrontation between different cultural values might be reconceived, with a view towards constructing processes that might encourage accommodation.

Differences

I would like to examine briefly the various criticisms of human rights that have been made, challenges that reflect the complexity of human rights notions.

A. Differences in general

These criticisms come in many forms and we are probably all somewhat conversant with the most familiar of them. For convenience, we might divide them into "substantive" criticisms that address the content of human rights, and "procedural" criticisms. Substantive criticisms come in two forms: an "internal", "friendly" criticism that accepts the "goodness" of human rights even while disagreeing, sometimes quite fundamentally, with the way they are formulated; and an "external" or "hostile" form that rejects or, at best, remains skeptical about the "goodness" of human rights.

As an example of a substantive, friendly critique we might recall the Marxist/ socialist criticism that human rights, in focusing on the individual, concentrates only on "bourgeois" freedoms -- of speech, association, conscience, religion, etc. -- and, as such, merely promotes the ideology of capitalism without attacking the essence of social injustice. (Criticism from this quarter led to international conventions speaking to second generation human rights -- i.e. economic, social, cultural rights).³

Examples of substantive, "hostile" criticism include the "cultural" ones that human rights notions are not appropriate for particular cultural traditions; other varieties invoke "reasons of state", or a "development imperative" to challenge the relevance of human rights.

The "procedural" criticism may also take two forms: one that calls into question the way in which contemporary human rights notions and international human rights law have been elaborated; and a second that questions the way they have been wielded. In the first, we find challenges to the way in which human rights conventions have construed the state as the primary moral agent, or to the way in which the UDHR was elaborated;⁴ in the second, some

³ Another example would be a "post-modern" or "deconstructive" critique that sees the key postulates of the Enlightenment (rationality, man as the center of creation, progress) as composing just one among many possible narratives. When this post-modern perspective is turned on human rights discourse, we find the category of "foundational truth", the transcendental concept of man, and government claims to rational legitimacy, among other presuppositions, all called into question. This criticism does not so much dispute the "goodness" of human rights as dispute its universality, limiting relevance to those traditions within which it provides a convincing story. There are also critiques that are feminist, psychoanalytical, utilitarian, etc.

⁴ For example, only 10 Islamic countries were members of the UN at the time the UDHR was elaborated: Egypt, Iran, Iraq, Lebanon, Syria, Turkey, Pakistan, Afghanistan, Saudi Arabia, Yemen. Of these 10, eight voted for the UDHR, Yemen was absent, and Saudi Arabia abstained. The other Islamic countries were colonized or not yet formed (and several of those listed above were under colonial control or influence at the time). In answer to this, it has been argued that one Muslim (an Iranian) was present on the drafting committee, but this answer far from settles the issue.

may claim that human rights notions are used as political tools by powerful nations to bring less powerful ones into line, and that "double-standards" are one clear symptom of this.

In one form or another, in one context or another according to the particular conjuncture, these kinds of criticisms have been voiced not only within the West, but by citizens of southern Mediterranean countries and the Middle East (as well as by those from other parts of the world); and not only by state representatives, but also by grass-roots organizations, intellectuals, and others.

The Middle Eastern responses have been nicely distilled by Fred Halliday⁵ who remarks, that there are "at least four distinct responses... (i) assimilation: the argument that there is no problem about reconciling Islam with theories of human rights; (ii) appropriation: the claim that ... it is only under Islam that they can be fully realized; (iii) confrontation, i.e. the argument that international human rights doctrines are to be rejected as part of some imperialist or ethnocentric project... (iv) incompatibility, the claim that somehow 'Islam' itself is irreconcilable with human rights, or democratic, principles..." [154-155] To which one should certainly add the argument that defense of human rights has nothing to do with Islam, that it is an issue that concerns public morality and is independent of the essentially personal matter of the relationship between the individual and God.

Particular critiques

Any particular criticism may combine several of these aspects. At this point I want to examine two critiques in somewhat more detail, to give us some appreciation of the historical, societal, and anthropological complexity of the issue, and also to help us appreciate the nature of the differences between various perspectives.

The first case presents a challenge to the universality of one of the basic concepts in human rights conventions: the notion of torture and cruel, inhuman or degrading treatment or punishment, as it is articulated in Article 5 of the UDHR.

In a recent study,⁶ the anthropologist Talal Asad argues that fundamental to our modern notion of torture, and the way that it is enshrined in current international agreements, is that cruelty is defined "in relation to the principle of individual autonomy..." [127], and he goes on to argue that, "if the concept of [torture and] 'cruel, inhuman or degrading treatment or punishment' cannot be consistently deployed without reference to the principle of individual freedom, it becomes relativised." [127]

⁵ Halliday, Fred. 1995. Relativism and universalism in human rights: the case of the Islamic Middle East. *Political Studies* 43: 152-167.

⁶ Asad, Talal. 1996. "On torture, or cruel, inhuman and degrading treatment." In Richard A. Wilson (ed.) *Human rights, culture and context*. London: Pluto Press. 111-133.

Asad's challenge to the universality of modern notions of "torture" is posed in two stages: 1) in a historical examination of the tie between our notions of cruelty and the creation of a certain kind of "modern" self; 2) in an argument that apparent inconsistencies in usage of the term can be explained by the presence of culturally specific distinctions between private ("at home") pain and public ("abroad") pain that are closely tied to notions of this modern self.

Asad argues that throughout the period of European colonialism, "... in their attempt to outlaw customs the European rulers considered cruel, it was not the concern with indigenous suffering that dominated their thinking, but the desire to impose what they considered civilized standards of justice and humanity on a subject population -- that is, the desire to create new human subjects." [118] "In the process of learning to be 'fully human' only some kinds of suffering were seen as an affront to humanity, and their elimination was sought. This was distinguished from suffering that was necessary to the process of realizing one's humanity -- that is, pain that was adequate to its end, not wasteful pain." [119] "The anguish of subjects compelled under threat of punishment to abandon traditional practices ... could not therefore play a decisive part in the discourse of colonial reformers." [118]

Furthermore, although more recently psychological coercion and cruel, inhuman or degrading treatment or punishment came to be condemned on the same basis as torture, this did not apply to "the anguish and mental suffering experience by people in societies obliged to give up their beliefs..." [121]

Asad then turns to examine the tie between the notion of torture and the ideology of free choice. Here he raises the question of how to interpret practices such as those of sadomasochists and Shi'a Muslim flagellants who embrace certain kinds of pain, in the light of the fact that Article 5 of the UDHR, stipulating that " 'No one shall be subjected to torture or to cruel, inhuman or degrading treatment or punishment' ... is not qualified by the phrase 'unless the parties concerned are consenting adults'." [126]

Asad argues that "one way that moderns attempt to resolve this contradiction [between the view that physical pain is degrading and commitment to every individual's right to pursue unlimited physical pleasure in private] is by defining cruelty in relation to the principle of individual autonomy, which is the necessary basis of free choice." [127]

Under this definition, sadomasochism is accepted -- and we might add so is boxing, as well as other competitive sports in which pain is, if not a joy, then at least an inevitable accompaniment of participation -- and Shi'a Muslim flagellation is condemned. Why? Asad answers, "For here it is not simply a matter of eliminating particular cruelties, but of imposing an entire modern discourse of 'being human', central to which are its ideas about individualism and detachment from passionate belief. Thus while at home the principle of consenting adults within the bounds of the law works by invoking the idea of free choice based on individual

autonomy, the presence of consenting adults abroad may often be taken to indicate mere 'false consciousness' -- a fanatical commitment to outmoded beliefs - which invites forcible correction." [127] This distinction is permissible because the relationship between such "pre-modern" selves and these beliefs is not accepted within the framework of the modern notion of the self, for "The modern skeptical posture, in contrast, regards such passionate conviction to be 'uncivilized' as well as a perpetual source of danger to others and of pain to oneself. Beliefs should either have no direct connection to the way one lives, or be held so lightly that they can be easily changed." [121]

Asad has tried to show that our modern idea of torture "is unstable, mainly because the aspirations and practices to which it is attached are themselves contradictory, ambiguous or changing." [128] He adds that, "the fact that an idea is unstable may not, in itself, be reason enough for abandoning it. But neither the attempt by Euro-Americans to impose their standards by force on others, nor the willing invocation of these standards by weaker peoples in the Third World, makes them stable or universal. It merely globalises them." [128]

The second argument I would like to bring forward concerns the vision that Euro-Americans have constructed of the Middle East and, in particular, of the Middle East as an "area of human rights concern". It is this vision that colors the terms of the discussion and to it that many Middle Easterners feel they have to respond.

When we refer to the Middle East as an "area for human rights concern", what are the violations usually cited?

1. hadd punishments including various forms of corporal punishment such as flogging and amputations;
2. limits on the rights of women and the notions of patriarchy that ground these limits
3. limits on the rights of non-Muslims
4. restrictions on freedom of religion
5. problems concerning adoption
6. non-democratic forms of government and restrictions on individual freedoms; torture and cruel, inhuman or degrading treatment or punishment.

What is striking about this list is that all these violations are usually viewed as evidence of apparent contradictions or dissonance between aspects of Islamic doctrine and provisions contained in international human rights conventions. Even the last, which covers spacious ideological ground and leaves unexamined a number of ideological presuppositions, is usually seen in this way. In this manner, even the classic first-generation human rights violations that

grow out of state power over individuals tend to be seen primarily in their relationship to a "religious" context.

To highlight better what is involved in this construction, let me refer to recent arguments put forward by the anthropologist Lisa Malkki.⁷ Malkki suggests that humanitarian efforts in Africa tend to go together with a view that makes it "difficult for people in the refugee category to be approached as historical actors rather than simply as mute victims. It can strip from them the authority to give credible narrative evidence or testimony about their own condition in politically and institutionally consequential forums." [378]. Malkki goes on to argue that according to this view, the body of the refugee becomes the only reliable conveyor of information [384-5].⁸

Now, the Middle East is constructed not as an area of "humanitarian intervention"⁹ but as an area for "human rights concern." What differences does this distinction entail? One of the important differences is that the human rights concern, focusing as it tends to on first generation rights, does not reduce our (Aristotelian) notion of the human being as essentially rational and political to a "biological" dimension. It retains what "humanitarianism" denies -- the notion of the human being as a moral agent -- but, at least in the Middle Eastern case, this is a moral agent radically transformed in at least three senses.

First, the Middle Eastern individual is seen as preeminently "religious". Where the biological being is without rationality, the "religious" agent possesses a truncated rationality: it does not pursue reason wherever it may lead (as the Western legend would have it) but only within dictates determined by "absolute authority", by "ultimate foundations", leading not to knowledge or to doubt, but to "certitude".

Second, this agent is not without politics, but is limited to a politics of the "local", of the "communal". This limitation deprives it simultaneously of a constituting role in the global

⁷ Malkki, Liisa. 1996. Speechless emissaries: refugees, humanitarianism, and dehistoricization. *Cultural Anthropology* 11,3: 377-404.

⁸ Her arguments rejoin similar criticisms of the "humanitarian" impulse made by Robert Redeker in a recent issue of *Les Temps Modernes*, where he criticizes the way in which the humanitarian impulse reduces its objects to a biological essence, leading to a view he calls "anthropozoomorphism". (p.38 in Redeker, Robert. 1996. *L'humanitaire devant l'avenir: Critique de la non-anthropologie humanitaire*. *Les Temps Modernes* 587: 322-343.) We should not forget that Malkki's argument isn't idle: she claims that this dehistoricizing vision silences refugees, leading to perverse decisions about repatriation that amount to sending them to be killed.

⁹ There are exceptional cases: for example, "humanitarian intervention" in the Kurdish situation. It would be interesting to explore why in this particular case "humanitarian concern" was invoked, but this is not the occasion for that.

arena and, conversely, deprives it of reasons for behavior that might have their origins in the international arena.¹⁰

Third, the agent is seen not only as "religious," but also as "anti-secular". At first glance this may appear redundant, but the term "secular", as it is used in the West, has come to cover a vast terrain that includes "tolerance", "free speech", even rationality itself. Fred Halliday's words are one example of this view, "Secularism ... involves not only limiting the claims of religion in the public sphere, but a climate of tolerance of debate, and the application of reason to social and legal life." (1995: 165)¹¹

From all this, one can perhaps see why some Middle Easterners argue in good faith that they are being viewed through a lens they have had no role in fashioning and that focusing on "human rights concerns" in this way reduces the complexity of their lives to an essential "religious" cultural dimension.

Now, I would like to concentrate our argument, to focus more clearly on a couple of specific differences between human rights positions, as examples of basic value differences, as stand-ins for our notion of differences between "cultures". This will help us make more concrete what we mean when we say these "cultures" are confronting one another.

"Fundamental" differences

We have already seen some ways in which the concept of human rights has been challenged, and some of the characteristics of the ideological terrain on which this challenge occurs. I would now like to examine two examples of value differences on a basic conception of human rights 1) different ideas regarding the notion of "fundamental"; and 2) different ideas about the "primacy" of rights.

¹⁰ Under this limiting vision, Muslim communities in Europe, or "terrorist" acts, or "oil embargoes" are seen as eruptions with sources in the communal centers, to be mastered with technical means rather than explored as organically related to globalizing dimensions of human existence; and "double standards" on the question of Palestine, on Bosnia, on the Gulf war, are given no responsibility for what is seen as purely local, that is aberrant, behavior.

¹¹ The arguments attributing to "secularism" exclusive rights to "tolerance", "reason", etc., appear unsound on several grounds. First of all, even were we to suppose that there are some elements of Islam that are directly opposed to human rights, on historical evidence it is impossible to argue that such elements do not change. Slavery, for example, has been superseded. Second, one can argue from current evidence, as I have done elsewhere, and offer examples of how some Muslims are now in the process of questioning fundamental tenets of Islamic doctrine. [Dwyer, Kevin. 1992. Universal visions, communal visions: human rights and traditions. *Peuples Méditerranéens* 58-59: 205-220] [see also Dwyer, Kevin. 1991. *Arab Voices: the Human Rights Debate in the Middle East*. London: Routledge.] Third, on an epistemological level, it is difficult to imagine how to defend the view that any characteristic of a religion cannot be radically altered. This kind of knowledge of constraints on possible futures seems beyond the limits of human knowledge – it is of an "absolute" nature, presupposing just that kind of knowledge that would make interpretation and human activity superfluous. Finally, the "secular" nature of the state has not ensured the dominion of tolerance and reason.

First, I would like us to recall that the groundwork for human rights thinking in the West, beginning in the early 17th century in the work of Hugo Grotius and then later in the work of John Locke and Thomas Hobbes, was "primarily an attempt by European theorists to deal with the problem of deep cultural differences, both within their own community (following the wars of religion) and between Europe and the rest of the world ..." ¹² [Tuck: 163] The effort to conceive of natural rights was part of the effort to negotiate a *modus vivendi* between these different communities, against the background of the skepticism of those like Montaigne who despaired of finding a universal criterion that would allow adjudication between different systems of values. ¹³

Grotius "supposes that there are primary and secondary human needs, but that our ethical attitudes to the secondary ones are not straightforwardly determined by the primary ones..." [Tuck: 165], a view taken up by Hobbes and Locke and which contrasted with the later (Kantian) view that a complete, universal ethical system could be built from first principles, with the application of (universal) human reason.

The contrast then is between two views of "fundamental": the first, which provides for a "minimal universal ethic" but which allows variety on all other levels of ethical and cultural values; and the second, which argues that ethical, religious, and cultural value configurations form an integral, coherent system.

A second contrast is between what might be termed the view of rights as "trumps" ¹⁴ -- "... where there are rights, the rights decide the issue, rendering thoughts of consequences null and void" ¹⁵ [Dancy: 227] -- versus consequentialist views, which argue that the consequences (economic, social, cultural) of upholding rights must be taken into account in considering their normative worth.

Amartya Sen ¹⁶ has phrased his argument in support of the latter in the following terms, "Advocates of moral rights often see them as unconditional and uncompromising requirements -- independently of consequences. Insisting on these rights independently of

¹² Tuck, Richard. 1994. Rights and pluralism. In James Tully (ed). 1994. *Philosophy in an age of pluralism: the philosophy of Charles Taylor in question*. Cambridge: Cambridge UP. pp.159-170.

¹³ Grotius' effort rested on his view that "whatever else one believed, one must accept the force of two propositions.... [1]) that everyone has ... a right to defend themselves ... [2]) that ... no one is entitled wantonly or unnecessarily to injure another human being..." [Tuck: 164].

¹⁴ A view associated with the American legal philosopher and ethicist Ronald Dworkin.

¹⁵ Dancy, Jonathan. 1991. An ethic of prima facie duties. In Singer, Peter (ed.). 1991. *A Companion to Ethics*. Oxford: Blackwell. pp. 219-229.

¹⁶ Sen, Amartya. 1995. Legal rights and moral rights: old questions and new problems. In *Proceedings of the 17th IVR World Congress, Bologna, 16-21 June, 1995*. Vol 2: 203-214. (*European Journal of Law, Philosophy and Computer Science*, 1995,2)

consequences may appear to make such rights more powerful. I shall argue that this is often not the case. The political and social acceptability of a moral right -- and of course its effectiveness -- must depend to a considerable extent on its ability to be persuasive. Cutting the consequential link can reduce -- rather than enhance -- its status as well as its following, and also compromise its reach." [203]

Sen does not deny that safeguarding rights is important -- he does not therefore take the strict utilitarian position -- but he argues that "the fact that importance is attached to safeguarding these rights does not automatically entail that they must prevail in an overall moral or political evaluation. Civil rights can be -- and have been -- justifiably violated to prevent greater harm, such as a consequential eruption of a communal riot in which thousands may perish... This is the arena of balancing of different consequences that would have to be invoked in evaluating the controversy over civil and political rights in poor economies in need of development." [208]

Sen is not arguing that democratic rights, or free choice, are inherently barriers to economic development. To the contrary, he has taken some pains to show that "No case against democratic rights can be established on the basis of their allegedly negative effects on economic growth." But he adds, "Nor, of course, can a case for political rights be based primarily on their role in promoting economic growth." [209]

In essence then, he insists on the importance of "not neglecting happiness, misery and other consequences in evaluating the case for and against a moral right." [212]

Up to this point, we have seen serious questions raised about some of our most fundamental notions -- here, torture and cruelty -- upon which international human rights law is based, and how these notions are intimately tied to particular historical, societal, and cultural configurations. As said before, this does not necessarily mean that these notions are therefore to be rejected, but it should push us to question what the appropriate attitude toward them might be.

We have also seen that the way the focus on human rights in the Middle East has been articulated has reduced and oversimplified life there in a way that many people of the region might not recognize. Here, too, one might say that this doesn't mean that "human rights concern" is misplaced but that perhaps the attitude with which it is held needs to be rethought.

And third, we have seen how quite different fundamental conceptions may underlie what apparently look like similar, "friendly" positions regarding human rights.

Accommodation?

Now, how can we envisage interaction between two or more groups of actors who differ on certain fundamental values in a way that may bring them closer to mutual understanding, if not agreement?

If there were ready-to-hand answers to this question we would be living in a world radically different from our own and, perhaps, unrecognizable. Nonetheless, this fundamental problem has been a central concern in a wide variety of different fields. To the fields to which I have already alluded -- anthropology, development theory, management theory, the history and philosophy of human rights -- I would also like to bring to bear considerations from political and ethical philosophy, legal theory, and even clinical psychology.

I am going to take the following approach. First, I will highlight two themes regarding these "cultural confrontations" that seem to emerge from the various domains mentioned above, themes that I believe deserve to be explored in more depth. Second, I will turn to one example to see how this has been adopted in disputes over "cultural recognition".

Themes

From the literature and experiences in the various domains I have mentioned, two general themes emerge: questions over the definition of the units that are in confrontation or, in other words, what do we mean by "culture"? How do representatives/ members of these units come together, in dialogue?

Culture. From fields as separate as management theory and clinical psychology, for example, the importance of "culture-based" differences is widely admitted.¹⁷ However, what is meant by "culture" is often taken for granted rather than examined in the light of the contemporary world situation. The first step, therefore, is to reexamine our notion of "culture".

The notion of culture, and of cultural differences, has a long and complex history that I do not want to discuss at length here. Let me simply start with one of the standard classical formulations -- "Culture is the way of life of a people. It consists of conventional patterns of

¹⁷ In management theory: "Until recently, theories and practices dealing with organizational development and change remained oblivious to a crucial, underlying dimension: the cultural context..." [62] [Gilles Amado, Claude Faucheux, and Andre Laurent. 1991. Organizational change and cultural realities: Franco-American contrasts. *International Studies of Management and Organization* 21,3:62-95]; in clinical psychology, "The members of this profession [clinical psychology] have to engage in a particularly intense and intimate struggle with the consequences of value pluralism. Every encounter between therapist and client confronts the tension produced by the fact that client and therapist may be embedded in separate ways of life. How gifted therapists have learned to adapt to these tensions can be instructive." [67] [Cooper, David. 1995. Citizenship and universal rights. In *Proceedings of the 17th IVR World Congress, Bologna, 16-21 June, 1995. Vol 4: 64-70 (European Journal of Law, Philosophy and Computer Science, 1995,4)*

thought and behaviour, including values, beliefs, rules of conduct, political organization, economic activity, and the like, which are passed one from one generation to the next by learning -- and not by biological inheritance."¹⁸

While this certainly takes us some way beyond the earlier uses of the term culture which equated it with "high" civilization (in fact this newer view took hold around the turn of our century in reaction to those earlier ideas), it is also easy to see how, in leaving unexamined what was meant by the term "people", it developed into what might be called the "billiard ball" theory of culture -- that a culture was self-contained, relatively impermeable, and composed of relatively stable entities like rules, values, and beliefs, that persisted from one generation to another.

Whether this idea was ever tenable is not the question here, but it is certainly true that it is no longer tenable today, in a world that witnesses large movements of population, a strong level of global integration, glaring distinctions within societies, and where large numbers of people speak not only their native language but other dialects and languages as well.

In light of this, it is more accurate today to think of cultures as "constructed" or "imagined" entities, that is, as constructed by people who are situated culturally and historically out of the diverse actions and dispositions of "individuals within social groups who inevitably have different perspectives, different psychological and physiological profiles, different points view. What is a "tradition", a "culture", if it is not after all just a more or less coherent construction of these historically and geographically situated differences, a simplifying construction of course, but it too situated historically and geographically. As such, this construction isn't only unstable, vulnerable to being called into question by other constructions, but its domination at any given moment and in any given place is not a forecast of its future domination."¹⁹

This leads us to a different version of culture -- cultures must now be seen as constructions that are "overlapping" (people of one culture find themselves situated in another), "interacting" (globalization leads to growing influence and interchange across geographically distinct areas), and "internally negotiated" (meanings and practices within any "constructed" unit are not given once and for all, but are a product of the interplay of the various forces and constituencies both within and outside the unit).²⁰

¹⁸ Hatch, Elvin. "Culture", in Adam and Jessica Kuper (eds). 1985. The social science encyclopedia. London: Routledge. p.178

¹⁹ Dwyer, Kevin. 1996. Arguments moraux et projet universel. Prologues (Casablanca, Morocco), hiver 1996: 76-81.

²⁰ This terminology is used by Tully [10] [Tully, James. 1995. Strange multiplicity: constitutionalism in an age of diversity. Cambridge: Cambridge University Press.]

Dialogue. Given striking, or sometimes subtle, cultural differences, but armed with a newly amended concept of culture, how can we conceive of people with different values coming to some sort of mutual understanding? The broad subject here is the question of non-violent communication across cultural difference and we return to a term dear to the framers of the partnership accords, that of "dialogue".

Not only is "dialogue" called for by the framers, but we are not surprised to find calls for dialogue in, among other fields, philosophical ethics (of which more later) and certain forms of management theory -- for example, in the theory of the learning organization. There is even a call for a "dialogic approach" (with one of its roots in anthropological work I did in the late 1970s and early 1980s) in "scenario planning" management theory.²¹ Development theory, too, is rife with calls for "participatory" approaches, "consultation" with all "stakeholders" and the like.

Simply invoking "dialogue", however, does not move us much closer to understanding how certain kinds of dialogue may be more or less likely to lead to mutual comprehension and perhaps agreement.²² I want, if possible, to go somewhat beyond our ordinary use of this term -- "a conversation between two or more people; an exchange of views in the hope of ultimately reaching an agreement" [Chambers 20th Century Dictionary] -- and examine more specifically some of the criteria that have been suggested for constructing dialogue across cultural boundaries to lead to mutual understanding.

To begin, it is perhaps useful to draw a few distinctions between different kinds of dialogue. Consider first of all, what we might call "the everyday dialogue", where individuals, in a relatively unreflective way "choose to live with a spirit of openness and good neighborliness... the other is welcomed fraternally, with his cultural or religious difference..." Second, there is what has been called "The committed dialogue ... where people from different milieus ... decide to work together to perform a service that goes beyond them ... here too difference is recognized and assumed, but the aim is not to clarify or specify this difference..." Third, there is the "intellectual dialogue [which] is a matter for specialists ... indispensable for getting to

²¹ See Mayo, A. and E. Lank for the role of dialogue in the theory of the learning organization [1994. *The power of learning: a guide to gaining competitive advantage*. London: IPD.]; the call for a "dialogic approach" in scenario planning takes the following form: "Dialogic anthropology (Dwyer, 1982) ... replaces abstractly asserting what is true or read about other cultures in favor of conducting conversations (dialogues) with members of these cultures. In dialogic conversations, there is no privileged position, only mutual learning that deepens as the conversation continues. The importance of this dialogic perspective for business futures is the shift away from the illusion of objectively analyzing human societies to engaged and continuous learning." [350] [Barnett, Steve. 1996. *Style and strategy: new metaphors, new insights*. *European Management Journal* 14,4 (August 1996)]

²² There are some interesting suggestions on how to carry out dialogues in Barnett 1996:353-354, where he suggests "targeting ... discontinuities...; developing scenarios...; including knowledgeable others, outsiders...; looking to interstices..." etc.

know and understand the thought of the other ..." And finally, "the existential dialogue", practiced by those " [who] believe that the other possesses ... qualities that may renew, deepen, and illuminate their own being.... to the extent that the other calls me into question ... this is where the existential dialogue is situated." [48-49]²³

I think we can see that there are a number of traits here which would tend to contribute to productive interchange of human rights ideas. In particular, the last three types of dialogue, with the emphasis on people from different milieus working together, getting to know and understand the thought of the other, with an awareness that the other may force a questioning of the self's own being and sense of certainty, may have something to contribute to our understanding of the kind of dialogue we are searching for.

But still, we have learned little about what might be involved in that kind of dialogue, what might be its rules. It may perhaps help us to understand dialogue better if we first contrast it with two other terms -- conversation and negotiation.

When dialogue is compared to conversation, the latter "is freer, more spontaneous. It leaves room for the unexpected, permits a mixing of genres, of tones, it is essentially composite.... whereas dialogue, in its desire for a respectful hearing and its effort to elucidate, goes beyond the usual conventions, the routine, the habits, opens new perspectives." [Levrat: 42-43]

When dialogue is compared with negotiation -- beyond the similarity that people in both seek agreement -- differences exist on a number of points: a) negotiation takes place as a contest between rivals, in a context of differential power and interests and doesn't exclude bluff, threats, exaggeration, manipulation; whereas dialogue should be a confrontation "between people who treat one another ... as partners ... [with] the other equal to oneself. It abstracts itself from the field of power." [Levrat: 44]

It should also be noted that the kind of accord looked for differs: in negotiation the accord is meant to be precise and limited, whereas dialogue "has no time limit, it remains always open. It seeks to make better understood the place from which one speaks, to share profound convictions, to elaborate with the other a meaning, a significance." [Levrat: 45]

This has given us some general idea of the kind of dialogue that might be considered. The rules for these can be made more specific but, perhaps even more importantly, we need to find convincing arguments for why a particular kind of dialogue would be appropriate, good, or even the right kind of dialogue.

²³ The distinctions in this paragraph and those following are adapted from Levrat, Jacques. 1993. Du dialogue. Casablanca: Horizons Méditerranéens.

We may find some help on both these scores in the field of discourse theory, which grows largely out of the work of the German philosopher Jürgen Habermas.²⁴ In essence, Habermas argues that in situations of value conflict between different groups, we cannot know beforehand the correct position on the issue under dispute, and we can only learn this as the product of a rational discussion taking place in what he refers to as an "ideal speech situation", leading to a consensual outcome.

The relevance of Habermas' position for us turns on what an "ideal speech situation" would be, how it would be constructed, and whether we can imagine it actually taking place in practice.

Some efforts have been made to specify what the characteristics of an "ideal speech situation" might be in a general way: for example, according to the German philosopher Wolfgang Kuhlmann, one would choose to "to cooperate as equal partners, acknowledging and treating each other in the course of argument as possessing equal rights... that in the course of argument each participant is accorded the same right to contradict, to interrupt, to begin afresh, to demand that the argument continue, to put questions, to insist that points are justified, to adduce fresh viewpoints, etc."²⁵

Discourse theory has perhaps helped us to see that there are certain kinds of procedures in dialogue that may encourage a more egalitarian participation than others and in this way be more likely to encourage agreement on substantive issues.

²⁴ Habermas, over the past two decades and more, borrowing and reworking many of the major contributions from philosophy, anthropology, and sociology, has tried to 1) take the most "progressive" aspects of Kantian ethics -- the view that it may be possible to construct moral visions on the basis of reason alone, a quality all human beings are taken to share; 2) transform its "monological" aspect -- such reason is presumed universal in content -- to a "dialogical" one where "rather than ascribing as valid to all others any maxim that I can will to be a universal law, I must submit my maxim to all others for the purposes of discursively testing its claim to universality. The emphasis shifts from what each can will without contradiction to be a general law, to what each can will in agreement to be a universal norm." [Habermas 1990: 67, cited in Mackay 1995:47]; and 3) move the discussion to the plane of procedure rather than substance. Discourse theory has resonated in philosophy, literary criticism, ethics, and legal theory. It is, of course, not without its critics, some of whom we shall hear from shortly.

²⁵ Kuhlmann, Wolfgang. 1985. *Reflexive Letztbegründung*. Munich. p.198. Cited on p. 185 of Wellmer, Albrecht. 1993. "Ethics and dialogue: elements of moral judgement in Kant and discourse ethics." In Wellmer, Albrecht. 1993. *The persistence of modernity*. Cambridge, MA: MIT Press. pp. 113-231. The German legal philosopher Robert Alexy summarizes his systematic book-length attempt to formulate the rules for an ideal speech situation in the following words: with "their aim [being] the impartiality of the discourse ... to be realized by securing the freedom and equality of the argumentation... [the most important rules are] 1. Everyone who can speak may take part in discourse a) Everyone may question any assertion, b) Everyone may introduce any assertion into the discourse, c) Everyone may express his or her attitudes, wishes, needs. 2. No speaker may be prevented from exercising the rights laid down in 1 by any kind of coercion internal or external to the discourse." [22] [Alexy, Robert. 1995. *Discourse theory and human rights*. In *Proceedings of the 17th IVR World Congress, Bologna, 16-21 June, 1995*. Vol 2: 22-28]

But the notion of "ideal speech situations" remains somewhat if not distantly removed from the particular problems of political and economic dialogue, as they manifest themselves in the contemporary situation and, in particular, in relations between the North and the South -- in situations, then, where the parties have vastly unequal power.

This critique has been phrased by Albrecht Wellmer, among others, who argues that we may postulate about moral imperatives "if ideal conditions for achieving agreement could be assumed. But of course this still says very little about how we should act in real conditions of communication..." [155] In such situations, he goes on, "The ideal communication community would have passed beyond error, dissent, non-understanding and conflict, but only at the price of freezing language, of the extinction of its productive energies, and thus of suspending the very linguistic and historical life-form of humanity." [176] Edward Said says this more muscularly, that this "kind of scrubbed, disinfected interlocutor is a laboratory creation, with suppressed, and therefore falsified, connections to the urgent situation of crisis and conflict that brought him or her to attention in the first place".²⁶

For Wellmer, rather, the very constitution of an ideal speech situation, and the meaning of a rational consensus, is not a clear ideal or end-point, but "can only be conceived as a process of learning and innovation... the point of reference for this process is not an ideal communication community conceived as situated in the future, but the present with all those pathologies, irrationalities, psychological blocks and inhumanities which may be empirically observed." [224]

Before turning to an example of how such a dialogical cultural confrontation might proceed, I would like to summarize our discussion up to now by returning to our opening examples, where we may now be able to see several of their aspects that were not obvious before.

In the first example: the Amnesty official was asserting a moral value, the "right to life" as a trump, in opposition to the US delegate's "consequentialist" view; and both these positions were distinct from the Al-Azhar representative who asserted a religious variety of "cultural" value. Yet, all these people were meeting in one place -- their cultures were overlapping; they were all quite aware, before the meeting, of the counter-arguments they were likely to face -- their cultures were "interacting" over vast distances; and the meanings they proffered were all "internally negotiated": 1) the Al-Azhari referred to "clearly indicated" cases, "certain conditions", knowing full well that other Muslims, and very likely other Azharis, would differ with him on what these terms meant, to say nothing of those among his fellow Egyptians who might stress the "merciful" rather than the punitive themes in the Qur'an, those who would challenge the applicability of Islam to public policy, and his Coptic fellow citizens who might have similarly complicated relationships to their very different sacred obligations; 2) the US

²⁶ Said, Edward. 1989. Representing the colonized: anthropology's interlocutors. *Critical Inquiry* 15,2: 205-225. 210. Quoted in Tully 1995:138.

delegate was no doubt well aware that many studies showed, contrary to those he alluded to, that capital punishment was not a deterrent at all, and that the issue of capital punishment was a very contentious one, even in states such as New York which had recently voted to reinstate it; 3) the Amnesty official was quite aware that the organization had only adopted an "absolutist" position on the death penalty well after it had settled on its primary mandate and then only after very heated debates. In the light of this complexity, was stalemate the inevitable outcome of this clash of views?

Similar points might be made in reference to building the irrigation dam: not only can we readily observe the "overlapping", "interacting" and "internally negotiated" aspects of culture, but in addition we can hardly avoid questioning the meaning of "consent" when we see it applied in a multitude of different relationships to the forces that actually have the power to make (and enforce) decisions. The words "dialogue", "consent", "consultation", "participation", become increasingly empty as the situations to which they are applied become more contradictory.

Many of the same points could be drawn from the other examples, but here let me just ask whether, in the management case, the executive group was the most appropriate one to establish "standard guidelines"; and let me emphasize that, in the anthropological episode, although a kind of mutual understanding was certainly established, this understanding was inevitably partial, incomplete, and situated culturally and historically.

An example.

Concretely, then, can accommodation be reached? Or, in the words of the well-known Canadian philosopher Charles Taylor²⁷, "... how ... to define a core [of agreement]?" Taylor goes on, "I think that the wrong way to try is through some epistemological distinction: the core would in some way be more obvious, less contentious and open to dispute, than understandings of the good life.... But this distinction is internal to one historical view. One couldn't ask an Aristotelian or a Thomist, let alone people from other cultures together, to buy this radical distinction between the right and the good, or between definitions of rights and those of human flourishing... so you wouldn't try to make an Aristotelian culture buy into Kantianism as a prelude to signing the Universal Declaration; but you would concentrate on showing how from the Aristotelian outlook itself, certain fundamental immunities (life, liberty, bodily integrity, etc.) ought to be respected ... we all seem to share an intuition that

²⁷ Taylor, Charles. Reply and re-articulation: Richard Tuck. In James Tully (ed). 1994. *Philosophy in an age of pluralism: the philosophy of Charles Taylor in question*. Cambridge: Cambridge UP. pp.246-249.

these human immunities are of unique importance ... let's see if we can come to some agreement ... each from within our own horizons..." [247-248]

To see how this might work in practice, I would like to turn now to one very interesting, quite recent effort to come to terms with what we have called a "conflict of values". James Tully, a Canadian political philosopher (and a colleague of Taylor's), treating contemporary situations where parties with unequal power and fundamental disagreement enter into contact in order to establish mutual understanding and agreement, calls this "the politics of cultural recognition".²⁸ As Tully points out, the phenomenon of struggle for cultural recognition is far from new but "What is distinctive of our age is a multiplicity of demands for recognition at the same time; the demands are for a variety of forms of self rule; and the demands conflict violently in practice." [6] Tully is concerned to establish that it is possible in such situations for agreement to be produced.²⁹

The question Tully poses, and which he will answer in the affirmative, is "Can a modern constitution recognize and accommodate cultural diversity?" [1], where by "constitution" he means "a form of activity, an intercultural dialogue in which the culturally diverse sovereign citizens of contemporary societies negotiate agreements on their forms of association over time ..." [30]

It is important to recall the view of culture we are now using -- culture as overlapping, interacting, internally negotiated -- for this furnishes the enabling conditions for constructing such an intercultural dialogue, "... citizens are to some extent on a negotiated, intercultural and a-spectival 'middle' or 'common' ground ... the politics of cultural recognition takes place on this intercultural 'common' ground... Of course, mutual recognition is not rendered unproblematic by the reconceptualisation and clarification of the ground on which we stand, for encounters on the common ground are shot through with inequality, misrecognition, domination and strife. However, the problem of mutual recognition is put in a new light and rendered possible by the disclosure of a common ground." [14]

Tully argues that this intercultural dialogue can be fruitful if it takes place in accordance with the three conventions of mutual recognition, consent and cultural continuity." [30] These are defined as follows.

²⁸ Tully, James. 1995. *Strange multiplicity: constitutionalism in an age of diversity*. Cambridge: Cambridge University Press.

²⁹ Tully lists six kinds of movements for cultural recognition: nationalist, multinational federations or confederations, linguistic and ethnic minorities, immigrants [intercultural], feminist movements, aboriginal [2]; and he highlights three of their similarities: the search for appropriate forms of self-rule; the complementary claim that "the basic laws and institutions of modern societies, and their authoritative traditions of interpretation, are unjust in so far as they thwart [appropriate forms of self-government];... the assumption that culture is an irreducible and constitutive aspect of politics." [4-5] To summarize: these movements "share a traditional political motif: the injustice of an alien form of rule and the aspiration to self-rule in accord with one's own customs and ways." [6]

mutual recognition: "... the dialogue must be one in which the participants are recognised and speak in their own languages and customary ways... where each listens to the voices of the others in their own terms ... [this] is the most important and difficult first step in contemporary constitutionalism." [24]

consent: " 'what touches all should be agreed to by all' ... [this] is the most fundamental constitutional convention... The way it should be applied depends on how the 'people' are recognised." [122]

continuity: "The mutually recognised cultural identities of the parties continue through the constitutional negotiations ... unless they explicitly consent to amend them. The convention of the continuity of a people's customary ways and forms of government into new forms of constitutional associations with others is the oldest in Western jurisprudence." [125]³⁰

Tully is thus led to recommend what he calls a "constitutional dialogue". As he explains, "Understanding comes, if at all, only by engaging in the volley of practical dialogue. We need the dialogue itself to become aware of all the aspects of our association that ought to be recognised and accommodated ... [but] much remains opaque ... [but] the reason it is possible to understand one another in intercultural conversations is because this is what we do all the time in culturally diverse societies to some extent." [133]³¹ And Tully goes on to contrast the kind of agreement which this constitutional dialogue leads to -- an "agreement ... as one link in an endless chain" -- to the agreements reached under classic forms of "modern constitutionalism" where, " ... the agreement reached in dialogue is seen as foundational, universal and the fixed background to democracy. This Platonic image reinforces the attitude that the agreement must be comprehensive and exclusive." [135] Such a dialogue might lead to a kind of "compact", where the forms of adherence are not uniform, via a means of conciliation that enables peoples mutually to recognise one another and to reach agreement on how to assemble. The term Tully uses for this is "diverse federalism" [141].

³⁰ Tully contrasts these three conventions with the conventions of what he calls "modern constitutionalism", the dominant features of which he sees to be "qualitative judgments" of higher/lower, a culturally uniform people, uniform jurisdictions, a presumption of European republican institutions, the state as a "nation" ie the people have a uniform cultural "identity", and that the democratic rules were founded at a moment. These conventions, Tully argues, make cultural recognition impossible, and therefore they must be supplanted by the conventions of mutual recognition, consent, and continuity.

³¹ Tully gives a few examples of the kinds of statements he feels are appropriate in a dialogue taking place within these conventions: "'let me see if I understand what you said', 'let me rephrase what you said and see if you agree', 'is what you said analogous to this example in my culture', 'I am sorry, let me try another intermediate example that is closer', 'Can you acknowledge this analogy?', 'now I think I see what you are saying -- let me put it this way for I now see that it complements my view.'" [133]

Conclusion

To conclude -- I have not tried to provide a recipe for conducting intercultural dialogues that would lead to mutual understanding -- in fact, the implication of much of what I have said is that there is no such recipe, and that to claim to have one would be to foreclose discussion on one of the key matters where agreement, however provisional, needs to be reached interculturally. But I think it is nonetheless important to suggest what some of the traits of such a dialogue are likely to be, even if we cannot presume to know through what mechanism these might be reached. I would just like to point to three of them, all related to one another.

The first, as has been said before by others, is that the construction of such dialogues necessarily has to be seen as a learning and innovating experience, one where each participant certainly has goals in mind but where these goals may be called into question, revised, even rejected by oneself and by others. Second, that a central element in such learning is the willingness to hear criticism and to engage in self-criticism. And third, that this process is necessarily open-ended. All of these elements come together when one is willing to put oneself, the presuppositions one carries, and even the socio-cultural context within which one lives, at risk. How to get to this point, and with what arguments this view can be defended, still requires much more thought and practice, but without some agreement on these three elements it is difficult to see how dialogue will be able to advance beyond a simple staking out of positions.³²

We need not perhaps fully share Tully's view that embodying the conventions of mutual recognition, consent, and continuity in constitutional dialogue would provide sufficient protection against violations of "individual freedom and autonomy", against "enclaves of anti-democratic rule" [187-191]; nor need we fully share Alexy's claim that, in following the rules of discourse theory one expresses "the liberal ideas of universality and autonomy" and that discourse theory suggests a justification for human rights [22-23]: yet we can use their insights and those of many others from diverse fields to argue that the search for a more sensitive and imaginative notion of dialogue -- one that is pursued interculturally from the very outset and one that neglects neither the real differences groups have in access to communication nor their differential control over the determination of meaning -- constitutes an important step toward the creation of mutual understanding on cultural difference in general and on human rights in particular, and that heeding this process closely may itself have much to teach us regarding the intercultural meaning of human rights.

³² I have dealt with some of the implications of dialogue as this kind of "wager" in Dwyer 1982: 255-288.

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