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Etatisme Versus Privatization:
The Changing Economic Role of the State in Nine Arab Countries

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Abstract

In several Arab countries, the expansion or contraction of the public economic sector has been correlated with the availability of liquid capital. This may be domestically-based (e.g. nationalizations or "agricultural squeeze") or externally-based (e.g. oil rents, aid and remittances). The tightening of finance also corresponds with domestic signals (e.g. declining revenues in the public enterprises and growing deficits in the state budget), and/or with external signals (e.g.from creditors, international financial organizations, trade partners and potential investors). The move towards privatization as a way of overcoming financial crises mostly takes the form of a public policy, initiated (sometimes in collaboration with international capital) by the State. The private sector may, if able, push ahead with the process. The pace and intensity of privatization will depend on the degree of capital accumulation and the extent to which both the State and the private bourgeoisie find it useful to seek autonomy from each other. Nine case studies suggest that the Arab State is not about to withdraw from the economy and that actual privatization remains quite limited.

ملخص

ان اتساع اوانكماش قطاع الاقتصاد العام فى عدة دول عربية كان مرتبطا بمدى توفر سيولة رأس المال. قد يكون هذا على اساس محلى (كالتأميم وكالتحميل على القطاع الزراعى) او على اساس خارجي (كالايجار النفطي والمساعدات والتحويلات النقدية). والضيق المالى ارتبط ببعض الاشارات المحلية (كانخفاض الايرادات فى المؤسسات العامة ونمو العجز فى ميزانية الدولة)، بالاضافة الى، او بسبب، اشارات خارجية (من الدائنين والمؤسسات المالية الدولية، والشركاء التجاريين والمستثمرين المرتقبين). ان الاتجاه نحو التخصيصية كوسيلة لمواجهة الكارثة المالية اخذت فى معظم الاحوال شكل السياسة العامة التي وضعت من قبل الدولة (وفى بعض الاحيان بالتعاون مع رأس المال الدولى) ويقوم القطاع الخاص بدفع هذه العمليه الى الامام، فيما لو اتيحت له الفرصة. ان الاتجاه نحو وكثافة عملية التخصيصية يعتمد على درجة التراكم الرأسمالى والى اى حد يرغب كل من الدولة والقطاع الخاص الاستقلال عن بعضهما البعض. تسع دراسات حالة. تقترح ان الدولة العربية لا تقترب من الانسحاب النهائى من الاقتصاد. وان عملية التخصيصية الفعلية ستبقى محدودة.

Introduction

It is perhaps fair to argue that too much étatisme in the Arab World during the period from the mid-1950s to the mid-1980s has limited the effectiveness of many of the efforts in the field of national development. The importance of the role played by Arab governments in the economy and the society can be gleaned, for example, from their large share in total revenue and total expenditure and from the expansion in their security-related and culture-related functions [for details see Ayubi, 1995].

The reasons for this étatisme coming about have been multiple: the endeavor by new elites to expand their power base; the traditional prestige of public office (for a long time associated with the powerful foreigner); the weakness of the indigenous entrepreneurial bourgeoisie; the strong belief in the developmental role of the bureaucracy; the importance of public office for building the contacts deemed necessary for pursuing private business; and possibly the impact of the Egyptian model, both as an exemplar and also through the role of the large number of Egyptian officials and teachers working in many other Arab countries. Some of the impetuses for bureaucratic growth were entrenched in the social and political conditions of the society concerned, but a particularly important cause has been the huge expansion in formal higher education that is not related in any way to the economic needs and manpower requirements of that society.

The direction to be taken by development administration was clear: expand and consolidate departmental-type administration, and involve the bureaucracy in national comprehensive planning, in extensive industrialization programmes, in urban construction, and in a fast-expanding system of conventional higher education. When it was discovered - usually half way through - that the bureaucracy was probably ill-equipped to deal with this heavy load, the authorities would then declare that in order to have successful 'development administration' there must first be effective 'administrative development'. Since administration was regarded as a science that had reached its maturity in the West, administrative development became to a large extent regarded as an exercise in the 'transfer of technology', and 'modernization' of the administration was seen as the solution to most of its problems.

By the mid-1970s it had become clear that neither the strategy of development administration nor the policy of administrative development that was usually followed was capable of dealing with the problems which, it had been hoped, they would be able to solve. First, concerning development administration, there was a decline in agriculture in the countryside; urban overcrowding, decay and a growing and frustrated lumpenproletariat; acute balance-of-payments problems and dependence on the outside world for finance and for technology; unemployment of the educated and lopsided cultural development; domination by a bureau-technocratic elite, and so forth. A relative growth in Gross National Product (GNP) in the 1950s and 1960s was soon to decline from the early part of the 1970s in most of the non-oil-exporting countries, while many basic needs remained unsatisfied. Secondly, in the area of administrative reform, the changes introduced were never completely satisfactory either to the

clientele or to the political leadership, so that they invariably had to be repeated, each time with more vigorous rhetoric but with less effective performance.

A proposed explanation and a solution appeared here: the concepts were good but the application was bad (e.g., socialism was noble but its application - *tatbiq* - went wrong); the 'planning' was perfect, but the 'implementation' was defective [cf. Ayubi, 1992]. However this merely reflected a fallacy in which the process of planning was confused with the action of writing a plan. Implementation cannot be separated from planning as a possible cause of failure. Implementation requires political support from the leadership, dedication from the lower administrative echelons, cooperation from the clientele or the public, and coordination at all levels. If mechanisms for ensuring these requirements cannot be incorporated in the planning process, there may very well be a case for considering this particular type of planning an "inappropriate technology" for this type of society at this stage of its development [cf. Weinstein, 1981: 116-18].

Although the problem of implementation is not confined to the developing countries (indeed much has been published on the subject in the United States since the 1970s), many observers believe that it is more of a complex 'problematique' in Third World countries [cf. M. Grindle, "Introduction" and P. Cleaves, "Conclusion", in Grindle, 1980]. This may very well suggest that much of the failure in implementation in the Third World is probably due to the irrelevance of the policies or to the plans themselves, and not simply to some casual operational difficulties. An analysis that would confine itself only to "obstacles to implementation" will not be sufficient in this case, and one's whole approach to policy and administration will have to be reconsidered if effectiveness is to be achieved.

Cases of managerial, organizational and developmental success *do* occur in the Arab World and the beginning of wisdom should partly revolve around a stock-taking of such cases [cf. AOAS, July 1984]. In trying to learn from errors as well as from achievements, the following guidelines would thus be useful: (a) to see how certain arrangements fared in practice in the same socio-organizational environment or in one that was similar; and (b) to consider the possibility of broadening and generalizing these arrangements, and to determine the degree of their "transferability". The main point to keep in mind is that there is no single *best way* of getting things done, that 'it all depends', as the contingency proponents would have it. Rather than speaking resignedly of an idealized end result, and then leaving the whole exercise at that (perhaps in the hope that by some miracle the situation will change by itself in the desired direction), the emphasis should be on how to proceed, in describing the process of change itself and how to 'get there'.

In short one can suggest that it is only through careful evaluation of the outcomes of various activities in specific and actual situations that Arabs can hope to acquire the capability to improve their performance. And it is such evaluation mechanisms, properly linked to action-oriented research, that are most lacking in the Arab World. Without evaluation, neither the performance of administration in general, nor the effectiveness of organizational and managerial reform in particular, can be assessed.

Institutional Restructuring in a Competitive Economic Environment

If the period of the 1960s and early 1970s was the era of étatisme and bureaucratic expansion in the Arab World, the late 1970s and the 1980s were to usher in a new discourse of 'opening up', liberalization, and privatization. Privatization programmes in the Middle East have not followed, however, from empirical evaluations of the performance of the public sector, nor have they resulted from pressures exerted by the native entrepreneurs. Rather, they represent mainly a *public* policy, carried out in response to the 'fiscal crisis of the State' and under pressure/temptation from globalized capitalism from its international institutions.

The word 'privatization' itself is of course relatively new, having first appeared in an English dictionary in 1983. Difficult to render in the Arabic language, the concept of privatization was initially expressed, depending on the user's vantage point, either as encouraging the private sector or as selling the public sector. This, of course, is precisely what privatization entails, although the points of emphasis vary from one case to another. It was only by the end of the 1980s that Arabic coinages for the concept started to emerge: *takhsisiyya, khawsasa, khaskhasa,* not to mention the more curious terms such as *tafwit* (literally 'passing on' from the public to private sector - which is preferred in Tunisia).

The familiar argument in favor of privatization in most of the literature is that public enterprises are less efficient than private ones: they are overstaffed and expensively maintained, and their profitability and factor productivity are low. It is claimed that part of the inefficiency is due to excessive political interference and/or bureaucratic regulation - but these, runs the argument, are necessary companions to any public sector. They delay decision, obscure expertise, and over-burden the firm with a number of extra-economic tasks that constrain its prospects for profitability [cf. e.g., Millward et al. in Cook and Kirkpatrick, 1988]. Some escalate the argument further by saying that the public sector is not only defective in terms of allocative efficiency on the micro (or managerial) level, but even in terms of productive efficiency on the macro (or economic) level. The choice of industries in which to invest may be faulty (or too 'political') to start with. The intensive engagement of the State in the production and delivery of goods and services may also 'crowd out' private investors from such areas [e.g., Hastings, 1983]. This may eventually lead to lower overall levels of investment, which would retard rather than enhance economic development.

Any attempt to evaluate the role of the public sector, especially in the Third World, has to take into account the multiplicity of objectives (economic, social and political) that it has to pursue, as compared to the simple profitability objective that is characteristic of most private enterprises. Even so, there are recorded cases of efficient public enterprises, and there are known cases of private monopoly whose efficiency cannot be realistically measured [cf. cases in Cook and Kirkpatrick, 1988]. Some analysts accept the proposition that public enterprises were created to meet a mixed set of economic, financial and political objectives, but argue that "they have done poorly in fulfilling the first two goals and too well in fulfilling the last" [Nellis and Kikeri, 1989: 50 ff].

The public/private, ownership-centered, dichotomy is not necessarily the key issue in discussing efficiency in less developed countries. Leadership and management may be more crucial factors. An empirical study by Robert Cunningham in which he observed a bank branch (private sector) and a tax bureau (public sector), of a similar size and both located in the same Jordanian town, has revealed interesting findings. The top managers in both organizations appeared in context not to live up to the pejorative image of the Arab manager. On the contrary: they delegate, assume responsibility, accept some participation, and 'stay out of the way'; they are in general 'tough on the issues and soft on the people', and they measure themselves against certain performance criteria. What is even more interesting, however, is that the public sector organization has turned out to be more flexible and rule-oriented than the private sector organization; which is of course a conclusion that challenges the conventional popular wisdom regarding the public/private dichotomy, in general and in the Arab World [Cunningham, 1989].

The privatization drive in the Third World is not really the result of a careful evaluation of either the contribution of the public sector to development, or the managerial efficiency of the public enterprises. Rather it is a response/reaction to the fiscal crisis of the State, reinforced by pressure from agencies of the international capitalist order and encouraged, to some extent, by international fashion (which now envelopes both the West and the East - in 'cold war' terms). The main factor however is the financial crisis; all the other arguments about development and efficiency are later additions and garnishes.

Very few developing countries have conducted their own empirical studies on the performance of their own public sectors. On this subject they have, on the whole, been prepared to take the word of 'experts' from the industrialized countries and their international organizations. Take this for a telling example: the Director-General of the Arab Organization for Administrative Sciences (who came from 'conservative' Saudi Arabia) and his Director of Training (who came from 'progressive' Libya) had apparently no doubts as to the desirability of privatization in the Arab countries; all they were concerned about was "the circumvention of problems and difficulties and ... the liberalization of constraints and restrictions" in the way of the privatization process [Al-Saigh and Buera, 1990: 125 ff]. It is a measure of the intellectual dependency of these societies vis-à-vis the 'core' countries, that the former are prepared to buy what are frequently ideological statements sold as technical consultancies. For example, as a number of Arab economists have observed, the IMF-World Bank approach seems to be ----

> "----based on a single model of development which fails to take into account the great variety of situations, structures and policy orientations in developing countries. Underlying that model is a set of value judgments in favor of market-oriented development and against government intervention in the economy. Adherence to a single model of development explains why Fund-supported programmes contain the same set of prescriptions for all countries. It also explains why programmes have not succeeded in achieving the objective of adjustment with growth----" (summarized by El-Naggar, 1987: 6-7].

In most less-developed societies, privatization which harmonizes comfortably with the hegemonic ideology of a really capitalist society (according to the principle of correspondence) would, ironically, often have to be adopted as an option by the State, and in the form of a public policy. Not only that; but there are some indications that 'stronger' States may be better privatisers. Possessing the institutional network that is necessary for any economic restructuring, and enjoying sufficient 'self-confidence' to make raw violence and naked oppression less important, a 'strong' State is probably better qualified to privatize than a 'fierce' State (the 'fierce' State is often violent because it is weak). Thus Turkey, Egypt and possibly Tunisia are probably more likely to succeed in privatization than Syria, Iraq or possibly Somalia.

Organizational Modalities of Privatization

There are three main approaches and seven main modalities for privatization [my terminology and taxonomy here are similar to but not identical with Eaton, 1989: 470-1].

(A) Managerial Approaches: 'Managerialism' often represents a prelude to, or an early stage of, privatization. There are two main methods here:

1. The government does not sell publicly owned assets but it allows the boards of directors of para-statal corporations (appointed by the government) to act fairly independently, thus privatizing management and labor to a smaller or greater extent (e.g. Egypt Air, Royal Jordanian Airlines).

2. The government issues some of its assets to be managed by a private entrepreneur in return for a fee; i.e./ 'contracting-out' (e.g. State-owned hotels and tourist organizations in Egypt).

Privatization in several Arab countries (e.g. Egypt, Tunisia, Algeria) was often initiated in this 'managerialist' manner, which makes it possible to aim for higher productivity while remaining under the banner of 'reforming' or 'improving' the public sector.

(B) Populist Approaches: Populist-oriented methods, of which there are two main varieties, enable the move towards privatization to take place without fears being aroused of an imminent ' capitalist takeover' of the economy:

3. Sale of a public service or enterprise to a cooperative association. It will be recalled that most 'socialist' and populist regimes in the Middle East have always stipulated the existence of a cooperative sector alongside the State sector and the private sector, and this has assumed a pronounced role in certain countries and at certain times, especially in agriculture. In most cases the cooperatives have been closely controlled by the State (e.g. Tunisia, Syria, Egypt), with Algeria's *secteur auto-géré* representing an important semi-revolutionary (but brief) exception. Populist privatization often entails the transfer of real ownership to a cooperative association of workers, producers or consumers. Iran seems to have the most active scheme of

this type in the Middle East at present. Several housing, trading and agricultural projects have been organized in Egypt in recent years along these lines, especially by the trade unions and professional associations.

4. Another method of populist privatization is through an Employees Stock Ownership Plan (ESOP), with entitlements to purchase stock either equitably or in relation to each employee's wage level. An early, but unique, example of this took place under Nasser's rule in the late 1960s, when employees in the State-owned Al-Ahram publishing foundation were allowed to buy a certain quantity of 'shares' in that corporation. Turkey has applied such plans more recently, and there are calls for a more extensive application of this method in Egypt, Libya and elsewhere.

(C) Capitalist Approaches: In all privatization policies there is a shift of management from the government to non-governmental bodies. In capitalist privatization, the *ownership* of what was once publicly owned is now openly transferred, in one proportion or another, to whoever is prepared to buy. This may take various forms:

5. Partial sale of publicly owned assets. This is a semi-private enterprise option and indeed the government may limit the sale of a public asset to 40 or 51 percent. This procedure has been used widely in Britain and Italy. It is particularly appealing to developing countries because it avoids abrupt political shock and because it is often extremely difficult to secure much of the local capital needed to privatize. Major political debates continue, however, as to whether to confine sales to certain groups or to open them to all domestic investors, and whether to allow foreign multinational corporations to subscribe to such enterprises. Joint ventures between the Egyptian public sector and foreign multinational corporations were indeed the most favored formula during the earlier phases of the open door policy *(infitah)* in Egypt. While it avoids a sudden reshuffling of the existing formal political coalitions at the domestic level, the government can claim that it is attracting new capital and management with modern know-how while retaining a degree of governmental and 'national' influence on the policies of the enterprise [compare Eaton, 1989: 475-7]. Tunisia and Iraq have also used this modality.

6. Total privatization through the sale to the public or to an entrepreneur of all assets held. This option has taken place in only a few countries in the world, most notably in Chile, and to some extent Bangladesh, Sri Lanka and Malaysia, and it has often taken the form of restoring nationalized enterprises to their previous private owners. The process is usually highly political, done at least as much to settle scores as to improve productivity. In Chile, the action was so abrupt and disruptive that several Chilean firms had to be re-nationalized if they were to continue to exist [cf. Nankani, 1990: 43-5]. No such full and open privatization of large firms has taken place yet in the Arab world (with the partial exception of Iraq), in the sense that new large private enterprises have been allowed to emerge, but large previously nationalized enterprises have not been fully restored to private owners. Lists of likely candidates for privatization have been prepared in countries such as Egypt and Jordan.

7. A fully privatized system would see an end to all governmental monopolies and privileges in the field of economics and services. This is achieved either by closing down a government service and contracting out all its activities to the private sector, or by allowing private entrepreneurs to compete freely with an existing government service. It is hard to imagine fully privatized administration and courts without the entire concept of the State disappearing. But many of the activities conventionally perceived as being 'public' in some countries are privately owned and managed in others. This may include security-sensitive scientific research, foreign aid activities, supplementary prison and detention services, railways, transportation, posts and telecommunications, etc. [Eaton, 1989: 479-81]. In many countries, including Middle Eastern ones, the private sector is allowed increasing competition with the State in providing welfare services such as education, health and social insurance. Private schools are known in most Middle Eastern countries and private universities have started or may be on their way in Sudan, Jordan, Egypt (and Lebanon). The private sector is also becoming increasingly active in the area of public transportation in several Arab countries.

Restructuring Case Studies

Egypt

Egypt can be called in a certain sense 'the mother of Arab liberalizations'. Just as she was the first Arab country to champion a leading public sector during the 1950s and 1960s, she also became the first (with the partial exception of Tunisia) to experiment with economic liberalization and privatization, from the mid-1970s onwards.

The process of privatization proceeded in a piecemeal manner and at a slow though growing pace, as part of the 'open door economic policy' *(infitah)* which was formally adopted in 1974. Very often it has been a function of changing emphases within the larger *infitah* policy. Initially the process implied a higher level of 'managerialism' within the public sector, allowing each firm to run its own affairs in a more autonomous and more economically-oriented fashion. Subsequently the process involved a higher level of 'commercialization' of the public enterprises, in the sense of making them more market-oriented and eventually more specifically profit-oriented..

Although there were several proposals during the 1980s to sell parts of the public sector to local investors, 'contracting out' to private companies has continued to be a more favored form of privatization. A specific organizational form that also became particularly important in the 1980s is that of joint ventures between the Egyptian public sector and foreign private capital. This has sometimes (for example in the hotel sector) included a separation of ownership from management, with the management function being delegated to a private - usually foreign - firm or with a certain project being leased to the private sector.

The privatization policy reached its formal peak in 1987 with the approving in parliament of a new bill that made various types of divestiture possible. The new rules enable the government to 'hive off' any loss-making public company and to sell off all public

companies functioning in the area of domestic trade and tourism. This was not put into practice, however, until the 1990s, when it became more politically feasible, in relative terms.

Privatization in Egypt has followed a quiet, discreet approach rather than a 'big bang' strategy. Furthermore, although domestic capital has welcomed the new policies, and while international capital has encouraged it, privatization in Egypt is still basically a public policy pursued by the State for its own purposes. The continued dominant role of the State has meant that privatization has not necessarily involved deregulation but rather that it has become concerned with re-regulation. Thus a "public policy for investment" was created in the 1970s and "holding public corporations" were reintroduced in the 1980s. The continued dominant role of the State has also meant that the privatization policy has not yet included any large-scale plans for de-manning of the public bureaucracy.

One can thus argue that although the role of the Egyptian public bureaucracy has undergone several changes, such changes do not amount to a retreat by the State, as some observers have interpreted them [cf. e.g. Hinnebusch, 1985]. The state bureaucracy is still large and expanding in terms of both personnel and expenditure, while the control functions assumed by the bureaucracy have by no means declined [cf. Ghunaim, 1986]. In the economic sphere, the public sector has not really given way to the private sector (except in the special case of commerce and finance), but the State has merely chosen to cooperate with international capital. This has signified a transformation of the State's role from a developmental one to a production-oriented one (seeking profit and cutting down on welfare activities within the joint public sector/international capital enterprises). However, the welfare functions of the State bureaucracy towards the society at large (education and health, food subsidies, etc.) have not been significantly curtailed, although the State has become increasingly dependent on external sources for financing them.

Privatization has manifested itself in practices such as 'contracting out' and 'leasing out', and a few divestiture programmes are starting to emerge. However, the most favored formula has remained that of the joint venture between the public sector and foreign capital. Although it is widely believed that the factor productivity of enterprises would rise with privatization, the impact of the infitah policy (with its 'privatization' component) has so far been quite harmful to the public sector and quite negative with regard to 'development' in general [cf. Ayubi, 1990].

Although privatization in the sense of denationalization has not been an effective policy, at least to the end of the 1980s (and with the exception of tourism), privatization in the broader sense of a growing role for the private sector within the economy has witnessed a fairly significant degree of success. Much of the growth in the Egyptian economy that took place between 1974 and 1980 (estimated at 9 percent per annum) occurred in the private sector. The share of that sector in the total value added rose from 46 percent in 1973 to 55 percent in 1981/82 [cf. S. Ahmad, 1984]. The private sector (excluding foreign oil companies) accounted in 1985 for nearly 60 percent of GDP, one third of industrial output and perhaps as much as two-thirds of new industrial jobs.

The Gulf crisis of 1990/91, with both its negative and its positive aspects, represented a stimulus to go more radically for reform. On the negative side it exacerbated financial and economic problems and caused immediate direct losses conservatively estimated at over $4.5 billion. On the positive side external aid (mainly grants) worth about $3.9 billion was rushed to Egypt in 1990/91. The USA and the Gulf states canceled some $12.9 billion worth of debts, including expensive American military ones. Debt servicing burdens were thus reduced by $1.3 billion. Such unusual forgiving of debts created a more favorable atmosphere for accepting the 'conditionality' formula required by the International Monetary Fund (IMF).

The Agreements with the IMF, starting in May 1991, were also part of a conditionality exercise applied by the Club of Paris countries towards the gradual cancellation of some 50 percent of Egypt's public debt: 15 percent on the implementation of the first agreement (May 1991-October 1992), another 15 percent with the implementation of the second agreement (November 1992-April 1993), and the remaining 20 percent with the implementation of the third agreement (May 1993-November 1994). The IMF in its turn agreed to offer Egypt credit amounting to 60 percent of its contribution to the Fund but phased it, according to its conditionality rules, on six installments corresponding to further Egyptian reforms based on meeting the requirements of the IMF and the World Bank. By November 1991 a unified market-determined exchange rate replaced the plethora of rates that had preceded it in other years.

Part of the structural reform revolves around privatization policies, and several important prospective privatizations were announced at a high-profile symposium on privatization held in September 1990 under the sponsorship of the Private Sector Commission in cooperation with the US Agency for International Development (USAID). The symposium was attended by such high-powered personalities as the Deputy Prime-minister and Minister of Agriculture, Yusif Wali, as well as by the ministers of Industry, of Manpower, of Scientific Research, and of Electricity, and by a good number of provincial governors.

A joint public-sector/private-sector committee was formed in 1990 under the name of 'Partners in Development' to outline the preliminary framework for privatization programmes, and to consider the prospective position of public sector and joint-venture companies. The committee agreed on dividing public enterprises into five categories:

- Joint ventures in which the public sector participates with private, domestic and foreign, capital. Of these companies 327 had registered losses for several years and their position had to be given speedy consideration.
- Partly nationalized companies, whose shares were already circulating in the stock market. The share of the private sector needed to be encouraged to grow in most of these companies.
- Companies owned exclusively by the government, which are functioning inside activities not compatible with, or complementary to, their main function. Such companies should be rationalized according to proper economic and technical criteria.
- Companies functioning in basically commercial activities, where the private sector should be the main actor.

- In addition there were organizations and authorities providing public services directly linked to private business and commercial activities (such as the General Authority for International Fairs and Markets) and these should be run as market units, and access to them should be given to the private sector.

An initial allocation of $300 million of American aid funds to Egypt was earmarked to finance the privatization programme, including arrangements for Employee Stock Ownership Plans (ESOPs) in the public sector. An American consultancy group was appointed to design a three-year programme in cooperation with an Egyptian team.

Egypt's privatization programme, sluggish at best on the central level, was given a big boost in the early 1990s at the local level. Several projects were on offer for Egyptians returning from the Gulf and looking for small-to medium-sized opportunities for investment. Most of the single projects were below LE50,000 in value, but there were some valued at between LE100,000 and LE250,000, and a few valued at over LE250,000 each. The prime minister, 'Atif Sidqi, agreed with the provincial governors on the sale of 1787 public projects to the private sector. Also considered was the sale of governorates' shares in 51 out of 78 existing public corporations. More than 2,000 small projects of the localities were to be sold during the period from 1991 to 1993. By the end of 1991 there were 1673 such projects (each valued at under LE50,000) that had already been sold to the private or cooperative sectors, as well as 53 valued at over LE100,000 each, while 192 larger projects were prepared for sale.

A radical restructuring of the public sector was initiated in 1991 under a new and rather interesting law. The main feature of the Law No. 203 for 1991 concerning the so-called 'public business sector' *(qita' al-a'mal al-'amm)* is the separation of ownership and management. The new holding companies *(sharikat qabida)* and their affiliate companies *(sharikat tabi'a)* are no longer governmental bodies subject to public law but are among 'moral personalities' subject to private law and responsible to their own shareholders. Profits are to be distributed equally among private and governmental shareholders and the companies are no longer obliged to transfer to the state any of the previous disbursements for management, social insurance and welfare, etc. Companies would borrow from banks on commercial bases and would not be able to rely on the State budget for subsidies. Decisions on production and marketing are to be made by the directors and the boards of the affiliated companies. The law is applied to about 300 companies (of which about 117 are industrial), in addition to 18 holding companies. The government also has significant shares in about 200 'mixed' companies subject to the investment law or to the companies' law. The book value of the companies subject to Law No. 203 for 1991 was estimated in the early 1990s at about LE77 billion (of which 35 percent is in industry).

To realize the still dominant role of the State's economic sector it is sufficient to compare the value of its capital with that of the private sector. The capital of large private firms subject to the Companies' Law No. 159 for 1981 was estimated around the same time (the end of 1990) at no more than LE1.5 billion, whereas the capital of functioning private companies under the investment law No. 230 for 1987 was estimated at about LE5.9 billion, thus putting the total capital of all private companies at less than 10 percent of the book value of the state sector.

However, the age of privatization might have arrived at last in Egypt. The Technical Bureau for the Public Business Sector announced in Spring 1993 that hundreds of companies would be put up for sale, which include some exclusively state-owned companies, some companies with no more than a 49 percent share for the private sector (these two types are subject to Law No. 203 for 1991 concerning the 'public business sector'), and some 'mixed' companies (subject to Law No. 159 for 1981 or to Law No. 230 for 1987) in which public sector companies have shares of varying proportions. Joint ventures between the government sector and foreign capital under the investment Law No. 43 for 1974 are not on the whole being considered at this stage. (The multiplicity of laws is obviously confusing and there were proposals for unifying them into one law by the end of 1993).

The timing and phasing out of these sales is still subject to deliberation, especially concerning the degree of reform to which these companies should be subjected before sale and whether all of them, or at least the loss-making companies, could be sold to one individual or only to collective shareholders, while what is particularly controversial is the proportion that might be sold to non-Egyptians.

Organizationally, the cabinet ends up overseeing the whole process, with ultimate responsibility in the hands of the President. The Cabinet is believed to be divided, with regard to economic policy, into 'étatists' (e.g. the ministers of planning, industry and labor) and 'liberalists' (the ministers for tourism, agriculture and energy). The public business sector (p.b.s.) was meant to have a special minister but no agreement could be reached and the prime minister, 'Atif Sidqi is designated as supremo in charge of supervising the process.

In a micro-corporatist formula, four cabinet ministers (including the most outspoken liberalists) are joined with four leading businessmen in the 'Partners in Development' Committee (PDC). The ministers are Yusif Wali, secretary-general of the ruling National party and deputy-premier and Minister of Agriculture as leader for the PDC, the Minister of Tourism, Fu'ad Sultan (up to 1993), the Minister of Energy and Electricity, Mahir Abaza, and the Minister of Social Affairs, Amal 'Uthman. The private sector and the business community are represented by Husain Sabur, president of the Egyptian-American Businessmen's Association, 'Umar Muhanna, director-general of the Misr-Iran Bank, Tahir Hilmi, a law consultant, and Farid Khamis, a leading new-style businessman from the Tenth of Ramadan New City and a number of the Shura (Consultative) Council. The PDC receives external support by way of grants from the USAID and from the World Bank, aiming at the operationalizing of the privatization programme.

The executive aspect of privatization is entrusted to the already-mentioned Technical Bureau for the Public Business Sector. Holding companies would have a say about the desirability and/or necessity and about the timing and scope of privatization within the affiliate companies, as their main function will be basically that of managing the financial portfolio of the holding company concerned and its affiliates.

The first batch of companies for sale in 1992/93 included 20 companies (worth LE9 billion), of which 15 were fully-owned and five partly-owned by the State. Priority was given to companies that would not shed a lot of labor. By June 1993 assets and companies worth LE1.4 billion had been sold, including Misroub (for soft drinks) and Egypt Chemicals. In some cases an ESOP was introduced, as with the United Company for Housing and Construction with 50 percent loans being provided by the Bank of Alexandria. Immediately available for sale by purchase tenders were eight leading hotels and four tourist vessels, and other lists were in preparation.

No holding companies would be sold, but over the following three years (1993-1996) it was anticipated that up to 48 percent of the number of affiliate companies, representing about 28 percent of the total value of the public business sector, would be traded. Banks, insurance companies, oil companies, railways and telecommunications, the national airlines and the Suez Canal would not be part of the privatization drive. These corporations, whose book value is estimated at LE150 billion, are not part of the so-called public business sector and may therefore represent the main 'sacred cows' that should not, by the étatists' reckoning, be touched by privatizations.

As regards privatization, it is possible to conclude by saying that, apart from the special case of tourism (where the earliest privatization started in the 1980s), and apart from the distinct case of local/agricultural projects (where privatization was relatively easy to operationalize), industry will continue to be a much more difficult area for large-scale privatization, mainly for political reasons. Although the business groups have become quite vocal, they continue to be rather 'junior' partners in the current informal coalition who cannot, and sometimes will not, push really hard for a completely liberalized industry. And although the technocrats and workers of State-owned industries are not as noisy nowadays as they could have been, they continue, objectively speaking, to be major partners in that coalition. The leadership has to play the game of balance and mediation quite carefully between the major, silent partners and the junior, vocal partners.

Tunisia

The Tunisian case is interesting, as some of that country's privatization and liberalization practices pre-date even those of Egypt. At the time that Tunisia acquired its independence in 1956, its petite bourgeoisie, formed mainly from among the intelligentsia, was quite limited in size since most economic activities were dominated by colonial monopoly companies or by private French entrepreneurs. The process of decolonization enabled the State to acquire the facilities of the infrastructure (e.g. ports, railways, water and gas, some lands and mines), and most of the banking system was soon 'Tunisianised'.

As the native private sector was small, and since it was perceived as being interested only in real estate and commercial activities, the State was soon to adopt a decidedly interventionist policy, later to be known as *le dirigisme planifié*, that attached a central role to the public sector while forcing the private sector towards activities regarded as complementary

to State action. An extensive cooperative sector was installed in agriculture, while a semi-corporatist organizational pattern emerged within which the Labor movement was coopted and the relatively large traders were forced to direct their capital towards supporting the industrial and the tourist sectors [Al-Mahjub, 1989: 7-8].

One familiar pattern was for the State to initiate investments and activities in a particular area to indicate the feasibility of that area and its potential reward to the private sector. This was especially true of the tourist sector, where all investment was public from 1962 until 1966; the private sector was then encouraged to subscribe until, by 1970, its share in the tourist industry had reached 95 percent of the total (75 percent of this having originally come from the commercial sector). In industry, State investment was dominant, representing some four fifths of the total during the first ten year development plan (1962-1971), although private industrial investment was increasing by 8 percent per annum. The main governmental contribution was in areas such as fertilizers, oil refining, phosphates, and steel, with the government's share representing 75 percent of all investments in such relatively 'large' industries [Ghurbal et al., 1989: 131].

By contrast, the earlier agricultural cooperatives, which had formed an important aspect of the single ruling Constitutional Socialist Party's socioeconomic policies, were being phased out by the early 1970s, following the removal from power of Bin Salih and his mildly socialistic team and their subsequent replacement by a team that was more sympathetic to the private sector and to the liberalizing of the economy. The main thrust of the second ten year development plan (1972-1981) revolved around dismantling the cooperative sector in agriculture, encouraging the private sector to open up to the international market, and persuading foreign capital to contribute to industrial, and especially to export-oriented, activities. Parallel to this was a state policy that encouraged investment in irrigation and agricultural technology and that placed particular emphasis on the regions that produced export crops. In consequence, the share of public investment in agriculture increased from 13 percent in the period from 1971 to 1980 to 17 percent in the period from 1981 to 1986. The 1987-91 development plan was to attach even more importance to the agricultural sector [Ait Amara, 1987: 141-51].

Between the end point of the first and the second development plans, the share of the private sector in capital formation grew from 20.6 percent to 42.2 percent, and the contribution of the private sector in production was to increase from 29.7 percent to 74.1 percent in agriculture and fisheries, from 20.7 percent to 44.5 percent in manufacturing industries, and from 65.6 percent to 93.4 percent in tourism. In certain industrial fields, the private sector became dominant, controlling 80.8 percent of textile industries, 59 percent of food industries, and 53 percent of mechanical industries [Al-Mahjub, 1989: 9-11; Al-Manubi, 1986: 40-41].

Members of the emerging entrepreneurial class that was taking up these activities had come originally from the field of commerce, and were able to make great use of the State's protective economic policies; these policies favored a certain degree of import-substitution,

subsidized by the state through oil revenues which, although relatively modest, represented two thirds of foreign currency earnings.

However, by the end of the second ten year development plan, the early 1980s were witnessing serious social upheavals that drew attention to the fragility of Tunisia's economic system. The rate of growth of GNP (in fixed prices) declined from the previous levels of 5.2 percent (during the first plan) and 6.3 percent (during the second), to only 2.3 percent during the four years from 1982 to 1986. The balance of payments deteriorated, commercial deficit grew, and by 1986, with the collapse in petroleum prices and a drop in tourism and agriculture, foreign currency reserves were nil and foreign debt amounted to $5 billion(representing 60 percent of GDP), while an amount of $1.2 billion was due for debt servicing. It was at this juncture that the State had to resort to the International Monetary Fund and the World Bank. These institutions duly came to the rescue, with their never-changing diagnosis and the set formula that accompanies it: suppressing demand, encouraging exports, and "reducing the weight of the State" [Ben Romdhane, 1990: 151-9; Ghurbal et al., 1989: 134 ff].

At this point the State was still in control of two thirds of GDP and responsible for about 60 percent of all investments. In spite of the growing size of the private sector, many of the *dirigiste* policies of the State were still in place, with the government closely controlling prices wages, interest rates and credit policy, and with many basic commodities heavily subsidized. The overall role of the State was still dominant: public expenditure represented 40.6 percent of GDP (in 1983) and public consumption represented 45.6 percent of this expenditure. Spending on the public administration represented 12-13 percent of GDP and salaries in turn represented 28.3 percent of all public expenditure [Al-Manubi, 1985].

Tunisia had at that time (i.e., in the mid-1980s) some 300 public enterprises (500 if the ones with the 'indirect' participation of the State are added), which seem to have been arranged in economic and technical sectors (such as metallic industries, petroleum, banks and insurance, transport, agriculture and so forth), rather than organized under public holding organizations (as is the case in many other Arab countries). The role of public enterprises was conceived of as being the following: the promotion of new techniques, the diffusion of development activities outside the traditionally favored regions, the training of personnel and the enhancing of the private sector [Midoun, 1985: 95-6]. The last of these objectives is quite interesting and rather unusual.

As with all public sectors, however, the multitude of often contradictory objectives assigned to public companies was bound to have a distorting effect on their activities and to impose supplementary expenses that could not be tolerated in times of austerity. Economic profitability was modest from the outset, owing to high management costs and to the low selling prices necessitated both by the restricted purchasing power of the population at large and by the limits imposed by the government as part of its welfare policy. The financial situation of the public companies deteriorated steadily during the 1980s, which imposed increasingly heavy burdens on the State budget at a time when the State itself was unable to balance its public finance [Bouaouaja, 1989: 235-7].

Having called for the assistance of the IMF, the Tunisian government was asked to embark on a 'structural adjustment' programme in return for the availability from the Fund of a 'stand-by credit facility'. The programme required a curtailment on credit facilities, the floating of prices by 1991, liberalizing interests rates, removing subsidies, liberalizing imports and reducing protection by 1991, constraining domestic demand by freezing wages, and accelerating the rate of privatization in areas that were felt to have the potential to benefit from increased competition. A national commission was formed to oversee the transfer of about a hundred public enterprises to the private sector.

Such activity paved the way for the signing of an agreement with the World Bank for the scheduling of the process of privatization, and the new orientation was built into the new (seventh) development plan of 1987-1991 through the stipulation that the private sector was to take a 65 percent share of all investment in manufacturing industries [Al-Mahjub, 1989: 13-14]. In addition, foreign industrial investment was to be given a number of inducements, including tax exemptions, repatriation rights and improved infrastructural and exporting facilities. In 1986, 1987 and 1989 several pieces of legislation were enacted to govern the restructuring of public enterprises, a process which was to be carried out under the supervision of a specially formed committee with the assistance of the ministries of planning and finance as well as the ministries in charge of the specific enterprises concerned.

Although several difficulties were encountered in defining a strategy for privatization, actual privatizations were eventually to take place in a much more significant way than has been the case in most other Arab countries. Three large public enterprises underwent large-scale restructuring that led to the privatization of most of their assets: *viz.* the Société Générale des Industries Textiles (SOGITEX), the Société Tunisienne des Industries et Matériaux de Construction (SOTIMACO), and the Société Hôtelière et Touristique de Tunisie (SHTT). Smaller privatized enterprises include marble factories (Thala), cinema houses (SATPEC), aluminum workshops (IMAL), print houses and disc and cassette manufacturers, fisheries organizations, and some trading companies (the latter being sometimes liquidated and sometimes merged with others [Midoun, 1989: 10-12].

The outcome of restructuring has been quite mixed in Tunisia, with some observers maintaining that the overall attempt at liberalizing the economy has made greater progress than the denationalizing of public sector firms. This drive for liberalization has earlier origins that date back, as we have seen to the appointment of a business-minded Prime Minister, Hadi Nuwaira (1970-1980), who dominated the new endeavor to re-shape the country's economy up to the beginning of the 1980s. Denationalization, on the other hand, has been more closely associated with the IMF's 'structural adjustment' plan of the second half of the 1980s, and although the government's efforts in this area have been lauded by the IMF as a good model for other countries, privatization in Tunisia remains circumscribed within officially approved limits, due to the difficulties of transforming the nature of a 'patron state' within a limited span of time [cf. Harik, 1990].

As might be expected, resistance to privatization does exist and can be difficult to overcome, although it tends to express itself in rather discreet ways: as in Egypt and Algeria it comes from some public sector managers but more particularly from workers and employees [cf. Bouaouaja, 1989: 242-6]. Indeed, workers' resistance might have been stronger had the regime not circumscribed the traditionally powerful trade union federation in 1986. But perhaps the main obstacles to privatization have been the weakness of the entrepreneurial community and the limited financial capacity of the private sector. Among other things, Tunisia has one of the smallest stock markets in developing countries. The Tunisian capitalist class revolves primarily around a 'familial' network of those who seek easy profits and those who avoid business risks, none of whom are particularly tempted to take on many of the industrial concerns that are on offer [Midoun, 1989: 12-13; Harik, 1990: 11 ff].

The private sector has in fact developed 'under the shadow' of the quasi-rentier Tunisian State and has become extremely dependent on government protection and subsidy. This was made very evident as soon as the 're-structuring' programme was put in motion, when in 1987 nearly four hundred private firms and in 1988 nearly seven hundred speedily went bankrupt or had to close down. This situation was made worse by the rapid and abrupt liberalization of imports, and the concurrent rise in interest rates, the devaluation of the dinar by 60 percent, and the rise in the cost of imported equipment. Voices were therefore heard once again calling for a reconsideration of the full-fledged privatization drive and for a renewed emphasis on improving the capacity and productivity of the public enterprises [cf. Mahjub, 1990: 305-10].

The Tunisian experiment represents an interesting case of applying the short-term teachings of the IMF and the middle-term strategies of the World Bank. "Instead of negotiating through the interminable meetings of the Paris Club like some of its neighbors, Tunisia took the initiative and deliberately set out to incorporate the thinking of its foreign creditors in its planning strategy. For Western bankers Tunisia is again a model country, demonstrating exemplary prudence in the management of its economic affairs" [Moore, 1988: 180]. However, Tunisia cannot yet speak of a privatization 'success story' as long as its private entrepreneurs continue to shy away from industrial enterprises, which are still - in turn - partly coveted by the State bourgeoisie. Furthermore, Tunisian economic liberalization is still fraught with political risks. Although the emasculation of their Federation has meant that direct workers' resistance was not particularly noteworthy, the political liquidation of the Habib Ashur group within the Federation has meant that the regime no longer has a safety valve among the workers [ibid.: 187].

Syria

Syria's small public sector, which emerged through nationalization during the 1958-1961 union with Egypt, was greatly expanded when a Ba'thist coup d'état in 1963 removed the anti-union junta from power, and when a more radical wing of the Ba'th seized the reins of government in 1966. By the mid-1960s the State owned all banks, most trade and much of commerce, controlled agricultural cooperatives, and possessed 80 percent of all industry. A large number of public organizations and public companies were formed and the public sector's

share in domestic production rose from 25 percent to 75 percent. The legal position of the public sector was further regulated, following the Ba'thist 'corrective' coup of 1970, by various pieces of legislation, especially those issued in 1974 and 1980 [Sa'ud and 'Ali, 1986: 442-88]. As in most other populist regimes, industrial and agricultural projects are not viewed from a strictly technical or economic point of view. The mere installation of a project is a political objective in itself, providing 'modern' employment opportunities, disbursing wages and salaries and highlighting the presence of the State.

Industrial development escalated with the rise in oil revenues between 1973 and 1980, after which many projects started to face serious financing problems. Fixed capital formation saw a big jump in 1974 and 1975, slowed down again between 1975 and 1980, picked up gently until 1985, and then receded rapidly from 1986 on. It is not at all difficult to correlate these movements with fluctuations in foreign aid loans, and to realize the close dependence of domestic investment on foreign financing [Hilan, 1989: 32].

During the first half of the 1980s, several negative indicators were showing up. A declining growth rate started to dip into negative figures in 1984. Average levels of worker productivity within the economy were declining. In the meantime, imports had not declined, exports did not increase, and informal trade (imports smuggling) remained quite high. Such trends continued into the second half of the 1980s, further complicated by a proportional decline in the contribution of the commodity sector to GDP, and by growing budgetary and trade deficits [Dalila, 1989: 409-11].

Various complex interactions have become increasingly the norm since the guarded move towards a certain policy of relaxation *(infiraj)* in 1970 and towards a policy of limited opening-up *(infitah)* in 1974. These cautious reforms "are marked by a combination of more flexible market mechanisms and intense State planning, since the State controls both water and credit, and the private sector holds almost 80 percent of the cultivated land" [Leca, 1988: 191-2].

A certain kind of 'specialization and division of labor' seems to have established itself between a public sector that concentrates on modern technology, large-scale import-substituting industry and basic products, and a private sector that concentrates on commodity and service activities that are closer to the consumer, with fewer workers and higher profitability. On paper, the private sector appeared to be quite modest. In 1979, for example, there were 36 thousand companies employing fewer than ten workers, and 300 companies employing more than ten workers. Their production was quite humble, but there were probably some statistical problems involved in accounting for their activities [Dalila, 1990: 400-1]. There is no doubt, in any case, that the number of private projects has escalated most speedily since the late 1980s and that the value added is very much higher in the private than it is in the public sector [ibid.: 402-11].

The relationship between the State and the entrepreneurs of the private sector need no longer be antagonistic: indeed with *infitah* it is almost a relationship of alliance, provided that the entrepreneurs do not step severely out of line.

Syria's reliance on external financing reached problematic dimensions by the mid-1980s, to the extent of seriously delaying the sixth development plan (1986-1990), as State revenues were running short and external sources were not forthcoming in amounts that could cover the government's investment commitments. Such developments resulted in a situation where Syria's debt had reached $4.9 billion in 1988/89, representing 22.2 percent of its GNP, with the debt service representing 16.2 percent of the country's export of goods and services [ABC, 1990].

A retrenchment policy was adopted within the public sector, and domestic and joint private capital were encouraged, especially in the fields of agriculture, food industries and tourism, to relieve part of the financial responsibilities of the State. Various joint ventures were formed with a State contribution not exceeding 25 percent of their capital, with 75 percent of the capital owned by domestic, Arab or foreign investors. One such company was the Syrian Arab Company for the Development of Agricultural Products which was owned 75 percent: 25 percent by the private and the public sector respectively. Several financial, monetary and taxation facilities and organizational exemptions have been given to such companies to encourage their expansion. However, as with Iraq, the regime has not to date felt the need either to call in the IMF or to push towards full economic liberalization (even though the Syrians could not count on the same large oil resources as in Iraq). But although the regime has not declared any impressive-sounding privatization programmes, the Syrian private sector is both more dynamic and more structurally interlinked with the public sector than its Iraqi counterpart, and therefore a de facto privatization process could be said to have been taking shape for a number of years. It is true that the share of the private sector in investments in 1987 (43 percent) is not nominally much higher than it was in 1973 (41 percent), but there are indications that the value added per each employee as well as capital productivity in general are on the increase in the private sector, whereas they are declining in the public sector [Longuenesse, 1985].

A defacto privatization appears to have served the interests of the regime for a number of years, but a more formalized, if still careful, approach towards the fostering of private investments is now in place, following the issue of Law No. 10 of May 1991 for the encouragement of 'productive investment'.

Iraq

The emergence of the public sector in Iraq, following the anti-monarchical coup of 1958, was basically motivated by political reasons such as the need to eradicate the economic base of the elite associated with the *ancien regime*, and was to a large extent influenced by the Nasserist model. Significant nationalizations in 1964 transferred to the State the ownership of about thirty important factories of cigarettes, building materials, food industries, textiles and leather, and nationalized all banks and insurance companies. However, up till 1973 the growth of the public sector remained rather slow and limited. It was the successive nationalizations of various processes of petroleum extraction (between 1972 and 1975), combined with the quadrupling of oil prices around the same time, that was to result in the great expansion of the Iraqi public sector, since the State was now in charge of over half, and eventually (in 1977), of

80 percent of the national GDP, as well as being in possession of the main sources of economic surplus in the society. In this same year, 1977, there were about 400 public sector enterprises, employing 80,000 workers and absorbing 60 percent of all industrial and commercial investment [Khajfaji, 1983: 25-33].

Iraqi industrialization was therefore closely related to a 'mineral base' (oil), which gave the expansion of the economic role of the State features that are quite similar to those obtaining in other oil-exporting countries of the Gulf. More specifically, this industrialization was very much related to a limited number of 'grand projects' in the area of 'industrializing industries' - i.e., heavy industries, closely tied to the almost free supply of oil and gas, rather externally-oriented, and with "little connection with the overall economic and social life of the country" [S. Amin, 1982: 86-7, 139-46]. Despite the seemingly high priority attached by the official development policy to import-substitution, the results remained rather modest as far as self-sufficiency is concerned. The industrialization model of the oil boom period involved "a combination of big capital-intensive and export-oriented industries, and the strategy tied the Iraqi development to the capitalist world market. Put differently, the Iraqi industrialization of the 1970s meant growing dependency on the transnational companies because of their supplies of turnkey plants and numerous contracts within management, services and marketing" [Olsen, 1986: 27].

By the early 1980s not only was the public sector predominant within these 'strategic' big industries, but it almost monopolized foreign trade and continued to play an important role in domestic trade and owned the banking, insurance and financial services [Al-Sayyid 'Ali, 1989: 27-31]. By 1987, as much as 96 percent of the industrial workforce was employed in State-owned factories, which produced more than 84 percent of total industrial output [Chaudhry, 1991: 15-16]. This is not to suggest, however, that the private sector has been absent from the economic scene. An Iraqi *Infitah* with regard to agriculture took place quite early on. The fairly extensive 'agrarian reform' implemented in the early 1970s was soon to be reversed, around 1978, with the liquidating of most collective farms and the phasing ut of several agricultural cooperatives; and in 1983 a law was enacted that permitted the private rent of unlimited acreages of public land [cf. Springborg, 1986: 33-52]. Credit and infrastructural facilities were given to the private sector, Iraqi and Arab, to stimulate investment and mechanization, and independent production and marketing activities were allowed.

Al-Khafaji maintains that by 1986 the share of the private sector in GDP (excluding oil, defense and administration) has reached 64 percent, its share in construction being 94 percent, in transportation 76 percent and in commerce 44 percent [Al-Khafaji, 1986b]. Such figures may be somewhat exaggerated. Farhang Jalal, another Iraqi economist more sympathetic to the private sector, maintains that the only activities conceded by the State to the private sector prior to 1987 had only concerned very secondary fields such as excavating rubble and sand and manufacturing some refreshments [F. Jalal, 'Comment' in Al-Nasrawi et al., 1990: 365-6]. Based on a more comprehensive set of figures, yet another Iraqi economist, 'Abd al-Mun'im al-Sayyid 'Ali, reports that in 1987 the share of the public sector in GDP (including oil) was 83.9 percent compared to 16.1 percent for the private sector. Excluding oil, the former's share

amounted to 61 percent of GDP and the latter's to 39 percent thereof (being particularly high in areas such as transport: 77.7 percent; and commerce: 60.1 percent). In the same year, the public sector was responsible for 76 percent of total fixed capital formation, compared to 24 percent for the private sector [Al-Sayyid 'Ali, 1990: 350].

Whatever the case may be, such figures should not give one a false sense of the structural strength of the private sector, for the State has continued to maintain its grip on the economy and the society through its monopoly of the utilization of the oil revenues (the petroleum industry accounting for 55-60 percent of GDP), and through its control of the civil and military apparatus (one out of every three urban Iraqis is publicly employed) and most particularly the party/security machine. And although the oil revenues had more than halved during the war years with Iran (from their peak of $26.5 billion in 1980), they remained quite handsome indeed, and enabled the State to enjoy a considerable degree of autonomy from the domestic social classes. As in Algeria, this is a case of the private sector being assigned a role by the State. The government had no intention of relinquishing economic (much less political) power, but hopes to streamline the existing system.

Furthermore, the overwhelming proportion of the private sector has remained closely tied to the State and/or vulnerable to fluctuations in foreign trade and foreign politics. Lacking strong structural linkages with the rest of the economy, the private sector continued to be critically dependent on the State. By the beginning of 1988 virtually all of Iraq's agricultural production and several food processing industries had been privatized. But the non-agricultural private sector was not particularly in a hurry at this stage to press for full autonomy from the State, nor was the State particularly anxious to push vigorously in that direction. Although some subsidies were reduced and benefits constrained, the State did not want to cut down severely on the levels of welfare, especially during the politically sensitive war years. Only a mild privatization programme was therefore implemented during the years of war with Iran.

Serious privatization began in 1987 and gained momentum in 1988 after the cease-fire with Iran. It involved consolidation of the privatization drive in agriculture, the sale of very large poultry, dairy and fisheries enterprises, and divestiture to the private sector of a number of factories for food processing, textiles, construction materials, transport and services. It also included the elimination of state monopoly on the importation of consumer goods, an export earnings retention scheme for industrialists, and a new foreign investment law that provided greater incentives for Arab investment in Iraq (while still officially prohibiting exclusive non-Arab foreign investment). A second State-owned commercial bank, Al-Rashid Bank, was established in 1989 to introduce competition for Al-Rafidain Bank, though further liberalization of the country's financial sector was still to be put into solid form. Tax exemptions and credit facilities were increased and several restrictions with regard to capital and employment were eased out.

As a Ba'th party document declared, there was no longer a need for Iraq to be a "State of small shops and stores" *(dawlat dakakin)* [in Al-Sayyid 'Ali, 1989: 40]. The State was perceived to be more successful in the area of manufacturing industries, where cheap energy and the

expanding technocratic elite were contributing to a more effective performance [ibid.: 58]. Rather than retreating, the State was actually endeavoring to free itself from what the leadership came to regard as minor economic pursuits in order to concentrate on larger, more strategic projects in iron and steel, engineering, arms and petrochemicals [cf. ABC, 1990: 42-5]. The same observer who was impressed by the scale and speed of privatization had to admit that "dramatic as they appear, though, the reforms of the 1980s did not signal a fundamental change in the balance between public and private shares in the economy outside agriculture. The state's share in manufacturing kept pace due to large investments in heavy industry ... At no point did the state's share of industry fall below 76 percent" [Chaudhry, 1991: 15].

The State had not retreated but had simply changed its order of priorities in the economic sphere. The private sector was being assigned a role by the State: this was divestiture without marketization.

In 1987 the labor union, which included public and private sector workers, was dissolved. Public enterprise workers became 'employees' in the public service, which was presumably undergoing an 'administrative revolution' and shedding some of its senior personnel. Private sector workers belonging to firms with over 50 workers each (only 8 percent of the industrial working force) could form unions but in reality they were too weak to do so, especially with available competition from 'less-demanding' Egyptian and other non-Iraqi workers and from nearly a quarter of a million soldiers returning from the war with Iran [cf. Lawson, 1990: 32-51; Chaudhry, 1991: 15-18; M. Farouk-Sluglett and P. Sluglett, 1990: 22-3].

The relatively significant debt to international banks and governments accumulated by the end of the Iran-Iraq war, (amounting to just under $15 billion and representing 29.2 percent of GNP, with debt service representing 50 percent of exports), was regarded as a serious but temporary condition that did not warrant resorting to the IMF [ABC, 1990: 40]. Additional unquantified liabilities due to Arab governments (estimated by some at $40 billion) included an obligation to Saudi Arabia and Kuwait to repay 'war relief' crude sold by these two countries on behalf of Iraq from 1983 to 1988. However, the continuation by the regime of its large-scale industrial and military investments (not to speak of war damage repairs and welfare expenditures) at a time of relatively low oil prices and at a juncture when several Western quarters were terminating their credit to Iraq, had combined to produce a rather desperate foreign exchange shortage. By the early months of 1990, the economy of Iraq had passed the stage of deterioration to reach that of collapse [Parisot, 1990: Picard, 1990: 26-7] - a condition that contributed in a major way to the Gulf crisis of 1990/1991.

Jordan

In spite of adopting a formally 'open' and 'liberal' economic policy, the government's involvement in the Jordanian economy has been very substantial. In addition to a highly controlled pricing and subsidization policy, many economic activities, including those of the private sector, have been closely regulated by the State, and Jordanian industrial activity has been mainly initiated by the government. Additional public expenditures have turned the

population in a few decades (and in spite of extremely high population growth rates) from a predominantly illiterate into a largely literate one, and have raised the level of public utilities and general services (including housing, electricity, health, communications, etc.) to fairly high standards [Al-Sha'ir, 1990: 636-8].

Such a need to consolidate the socioeconomic base of Jordan became more critical following the series of disruptions that were connected with the Israeli occupation of the (richer) West Bank and with the consequent rapid increase in Jordan's Palestinian population and all the social and political implications that this development was to bring about. The strengthening of a centralized management of the economy expressed itself in the adoption of a series of development plans. A three year plan (1973-1975) was launched with the specific aim of trying to revitalize the economy after the damage caused by the Six Day War and its aftermath, and this was followed by a series of five year plans, starting in 1976-80, which had more ambitious objectives. In this and the following (1981-1985) plan the government favored the commodity-producing sectors, especially in light and medium-scale industries such as timber processing, metal works, domestic appliances and building materials. The outcome of such a policy has been that in recent years budget expenditures have averaged 40-50 percent of GDP annually, reflecting investments in industry and the infrastructure, price subsidies, and also large defense and security charges [ABC, 1990: 50-1]. Public expenditure as a percentage of GDP increased from less than 31 percent in the 1950s and 1960s to around 55 percent during the 1970s and early 1980s. The share of planned public investment in total gross fixed-capital formation averaged 46 percent in the period 1970 to 1990, reaching a peak of 55 percent in the mid-1980s.

In institutional terms, such activities have resulted in the emergence of a significant public sector that includes some 40 public organizations functioning in the areas of natural resources (mainly phosphates), industry, metallics and electricity, agriculture, electricity, transport and communications, housing and tourism, as well as trade, supplies and finance. Whereas some of these organizations were totally owned by the State, others had a government share of over 50 percent of capital and therefore their management was government-controlled [Abu Shikha, 1983; Abu Shikha and 'Assaf, 1985: Ch. 6]. Although agriculture has on the whole declined (owing to the loss of the fertile West Bank, population pressures and drought conditions), the government's involvement in agricultural affairs has increased through the role of the Jordan Valley Authority (which was subsequently merged with the Ministry of Water and Irrigation), and the role of the Jordan Cooperative Organization, which was boosted after the mid-1970s [Adwan and Cunningham, 1988: 3; Gubster, 1988: 105].

The growth in the economic role of the State has been closely contingent upon the post-1973 oil boom in both direct and indirect ways, to the extent that some have described Jordan as the world's main "non-oil-producing oil economy" [ABC, 1990: 51]. During much of the 1970s and early 1980s, some four-fifths of gross domestic expenditure was estimated to have derived from direct grants and budget support loans from the neighboring oil-exporting countries, from remittances from Jordanians working in the Gulf, and from Jordanian exports to the neighboring oil-rich countries. Over one third of the Jordanian labor force was employed in the Gulf, and the remittances from these individuals were equivalent to almost two thirds of Jordan's total

revenues from exports of goods and non-factor services. Budget support by Gulf countries was usually equivalent to about half the government's revenues in the period from the late 1970s to 1983. And Jordan's exports to Arab countries represented on average about half of the country's total merchandise exports [Anani and Khalaf, 1989: 211]. Jordan is therefore highly vulnerable to economic and political developments in the Gulf, a fact that was made most tragically obvious during the Gulf war of 1990/91.

The momentum of economic activity during most of the 1980s was maintained by a much higher level of government expenditure, which was heavily financed by external and domestic borrowing, and which resulted in a net budget deficit that rose from 9 percent of GDP in 1984 to 18 percent in 1987. Although relatively buoyant tourism, a considerable expansion in the banking services resulting from the disruptions in Beirut, and the side-benefits of the re-export trade with Iraq during its war with Iran, had all somewhat ameliorated the situation, the overall decline in revenues as a consequence of the uncertain conditions in the Gulf had resulted in a rapid increase in Jordan's external indebtedness, from $2.5 billion in 1984 to an estimated $6-$7 billion in 1988. Debt represented 92 percent of GDP and debt service represented 24.6 percent of exports, while there were signs that GDP itself was declining in absolute terms. Foreign exchange reserves also declined during the same period from $515 million in 1984 to $110 million in 1988.

Jordan's financial situation reached crisis proportions in 1988, necessitating emergency austerity programmes and prompting the country to resort, rather desperately, to the International Monetary Fund. The thinking on the subject of privatization emerged within the context of this dramatic financial crisis and in the absence of any indicators that its reversal was imminent. Government officials considered that revitalizing the role of the private sector would be a way of relieving the State of some of its heavy financial commitments, and the argument in due course surfaced that the private sector was more rational and that privatization and efficiency were two sides of the same coin [cf. Adwan and Cunnigham, 1988].

The public sector's largest holding in absolute and relative terms is in mining, where total public investments amount to 58 percent of the capital of mining companies and represent almost one half of total public shareholding in Jordanian corporations. The highly capital-intensive nature of mining companies and the perception that naturally occurring minerals are a national resource may not render this area particularly amenable to speedy privatization. The second largest area of government participation is in the manufacturing sector, where the government contribution reaches 23.2 percent of the sector's capital, with 87 percent of public shares being held in the four largest companies: the Jordan Cement Factories, the Jordanian Petroleum Refinery, the Glass Industries, and the Engineering Industries. The subscribed capital of these four companies represents 56 percent of the total capital of all 48 manufacturing companies in the country. In services, average public investment amounts to 20.8 percent of the total capital of service companies [Anani and Khalaf, 1989: 211-17].

Pure public enterprises and public-private joint ventures vary widely in terms of productivity and efficiency, and it is not clear to what extent this criterion will be among the

ones used for targeting projects for privatization. Among the exclusively public institutions, the Telecommunications Corporation and the Electricity Authority are usually considered profitable, whereas the Water Authority incurs planned losses for 'equity' purposes. Within the mixed enterprises, some experts believe that "the higher the government participation, the higher the probability of having a loss-making industry. In fact, 58 percent or more of these companies were loss-makers in 1986. The comparable figure for enterprises with less than 35 percent public ownership was only 26 percent" [Anani and Khalaf, 1989: 215-17]. Privatization proposals have been put forward for both profitable corporations (e.g., Telecommunications), and loss-making ones (e.g., Transportation) [Adwan and Cunningham, 1988: 5-8]. Since 1986, when privatization was declared as a desirable objective, several studies and preparations have been carried out but no actual transfer of ownership from the public to the private sector has taken place. Three enterprises have in particular been identified as targets for privatization: Royal Jordanian Airlines, the Public Transport Corporation, and the Telecommunications Corporation. But actual implementation has so far not progressed beyond focusing on the commercialization of public enterprises as a preparatory step for the eventual transfer of ownership and control.

Differently from some other Middle Eastern countries, the pattern of government investment in Jordan did not cause a 'crowding-out' of the private sector. The State's concentration on services, utilities and the infrastructure and, within industry, on mining and mineral industries, as well as the widespread practice of joint public-private ventures in manufacturing and engineering industries, combined with the fact that the private sector and the State were both simultaneously receiving (in their different ways) 'surrogate oil revenues' - all these factors have helped in creating a situation where the public and the private sectors have complemented (rather than competed with) each other. This policy was also conducive to the political cohesion of Jordan, creating as it did common economic grounds between the predominantly Transjordanian bureaucratic bourgeoisie on the one hand and the predominantly Palestinian commercial bourgeoisie on the other.

Yet the equal reliance of the private sector on externally-derived revenues as well as its close partnership with the State in many activities would also suggest that the private sector may not be capable of picking up the slack that is resulting from the decline in both official and private transfers to Jordan, and from the closely-related reduction in the economic role of the State. It should also be remembered that many of the larger private sector enterprises (phosphates, oil-refining, potassium, cement, electricity and tobacco) are *régis (sharikat imtiyaz)*, or companies by privileged appointment (i.e., private monopolies). In 1987 these companies realized 64.8 percent of all value added in the industrial sector. They do receive much governmental protection and support, and are not subject to the usual business accounting and control procedures, and it is difficult therefore to predict the efficiency of their performance under more 'normal' market conditions [Al-Sha'ir, 1990: 640].

Algeria

With the coming of Algerian independence in 1962, Ahmed Ben Bella, the country's first president, introduced self-management in agriculture and in industry as the basis of his country's economic policy. However, as a result of his removal from power through a military coup led by Boumedienne in June 1965, Ben Bella's model did not last long. Under the regime of President Boumedienne, implementation of the country's economic policy began with the institutionalizing of socialist planning and the setting up of large state enterprises - the *sociétés nationales*. The major enterprises, which can be described as the backbone of Algeria's industrial sector, included SONATRACH (in the field of hydrocarbons), SNS (steel), SONACOME (engineering), SONALEC (electrical), and SNMC (building materials). There were also some other rather smaller state enterprises such as, among others, SNMetal (metal-work), SONITEX (textiles), SONALGAZ (domestic gas and electricity supplies), NIPEC (leather work and footwear), and SONATOUR (tourism). These were 'minor' in the sense that they played somewhat of a secondary role in the scale of priorities that the planning model had set, and in the allocation of investment resources which had been concentrated in the five major branches of industry. Complementary activities that remained in the control of the State included a total monopoly on foreign trade and on banking and insurance. One may infer from this overall picture that the State was convinced of the need to have the Algerian economy firmly under its control [cf. Bouattia, 1993].

However, under the pressure of growing financial burdens Algeria, like other countries in the region, became part of the wave of economic liberalization and privatization that swept across the Arab World during the 1980s [cf. Sutton and Aghrout, 1990]. After President Chadli Bin Jadid had taken over, the country underwent a ten year period of political, and more particularly, of economic reforms. These reforms reversed the earlier policies that had favored State capitalism based on a development strategy of heavy "industrializing industries" and on *gigantisme*. In their place a rehabilitated version of the earlier and much constrained private sector of the economy was allowed to emerge, while a restructuring and subdividing of the dominant state industrial *sociétés nationales* was put in train [Osterkamp, 1982]. In Algeria's agricultural sector, the large self-managed or 'collective' estate farms and producer cooperatives that had emerged from two agrarian reform programmes were restructured and reduced in size.

Politically, the progressive replacement of members of Boumedienne's government by more pragmatic FLN ministers during successive Chadli administrations encouraged an increasing liberalization that culminated in the introduction of a multi-party political system in 1989, and in the opening up of the Algerian economy to foreign investment in 1990.

Largely because of the constraints imposed by the 1966 *Code des Investissements*, the private industrial sector had stagnated throughout the 1970s. In 1982 a new investment code was issued that aimed at restoring private initiative through mobilizing savings and providing guarantees, credits and tax advantages. While heavy 'strategic' industry was retained within the State sector, private investment was encouraged in areas such as light manufacturing, craft industries and hotel infrastructure, and a third decentralized industrial sector that was supported and managed by the local *wilayat* authorities was also promoted. By 1982, this emerging

private sector accounted for some 30 percent of industrial workers who were dispersed among 4800 small and medium-sized enterprises, most of which employed between five and twenty workers only.

The creation in 1982 of the Office National pour l'Orientation, le Suivi, et la Coordination de l'Investissement Privé (OSCIP) also gave further encouragement to, as well as some control over, private industrial investment. Large private industrial projects whose investments exceeded 3 million dinars, required approval from OSCIP's Commission Nationale d'Agrèment (CNA) based in Algiers, while smaller projects could be approved by local Commissions d'Agrèment de Wilaya (CAW). In the period from 1983 to 1987 OSCIP approved 5186 investment projects, of which 1181 were in the larger-capital CNA sector. The private capital that was to be invested in this way averaged 2.6 billion dinars annually between 1983 and 1985, increasing to 3.7 billion dinars in 1986, and to 6.9 billion dinars in 1987. About 44 percent of this was to go into industrial manufacturing projects from 1983 to 1986, with the transport, tourism and services sector ranking second and the construction materials sector ranking third during the same period, while all the projects approved by OSCIP up to the latter part of June 1987 would create 75,446 new jobs in this burgeoning private sector. By 1988/89, the regulations concerning private investment had been liberalized still further. At this point the regulatory role of OSCIP was done away with and with it went an interesting accumulation of investment statistics.

From 1980 the Chadli government had concluded that the State industrial sector was constrained both by vertical integration and by bureaucratic concentration deriving from the 16 large industrial *sociétés nationales* that collectively accounted for some 80 percent of industrial activity in Algeria and which employed 311,680 people. Accordingly a major reorganization was undertaken with the aim of breaking up the unwieldy organizations into much smaller *enterprises nationales*, each one of which would be more specialized in clearly-defined production activities that would usually separate the functions of production, distribution and marketing. The iron and steel complex SNS was therefore divided up into 13 *enterprises*, and the wide-ranging SONACOME engineering was split into 11 *enterprises*. Likewise the 16 industrial *sociétés* were subdivided into 107 *enterprises*. It was estimated that the restructuring of the wider group of some 35 to 39 state *sociétés*, including commercial, financial and transport organizations, produced anything from 322 to 500 enterprises after subdividing had taken place. While it was not a privatization exercise as such, the restructuring involved a great deal of decentralization to regional units and resulted in a more flexible and less concentrated state industrial sector with which private industry could liaise and do business [Sutton and Aghrout, 1990 and refs. cited].

In the early 1990s the Algerian public enterprise sector consisted of approximately 350 national and 2500 provincial and communal enterprises. The important provincial and communal state-owned enterprises sector was undergoing consolidation (with World Bank support) as a first step towards improving performance. More extensive and advanced reforms were proceeding in the national state-owned enterprises sector, with the aim of putting the public and the private sectors on an equal legal and regulatory footing when engaged in the

same field of activity, and in order to make the state-owned enterprises conform to the requirements of the national commercial code (from which they had previously been exempt).

The budgetary burden of the national state-owned enterprises sector having been recognized since the early 1980s, a few of the largest and most concentrated state-owned enterprises (including the hydrocarbon giant SONATRACH) were, as has already been noted, functionally and geographically decentralized, while the second phase of reform concentrated on sorting out the arrears (cross-debts) situation between parent companies and their subsidiaries. Enterprise restructuring was not particularly successful initially, but it was claimed that the effectiveness of future rehabilitation efforts would be improved by alterations to the system of taxing the enterprises.

Most recent reforms have concentrated on clarifying the relationship of the government to the national state-owned enterprises, and on putting the management of the public companies at a distance from the intervention of sectoral ministries. This has been done through eight *Fonds de Participation* - Participation or Shareholding Funds. These publicly-owned and operated Funds which were intended to act as holding companies, would each hold shares in a diversified portfolio of state-owned enterprises, and their mandate would be to buy or sell shares, and to invest or to disinvest their holdings, with the aim of maximizing their profits. Trading of shares would be permitted among the Funds and between the state-owned enterprises themselves, as the first steps towards the development of a capital market. (At this stage private ownership of the existing state-owned enterprises portfolio was not envisaged).

Early in 1990, however, the National Assembly authorized new joint ventures between state enterprises and private capital, foreign or domestic (although state-owned enterprises were not excluded from the stipulations of this new legislation it seemed to be aimed mainly at newly established firms or at existing privately-owned firms). Each of the Funds would receive an initial allocation of a substantial minority of shares in a specific industrial sub-sector, but no single Fund would own more than 40 percent of the shares of any one firm. In this way ownership of every enterprise would be spread among at least three Funds, which would monitor enterprise performance and enforce profitability standards. The aims of the Funds would be to stimulate competitive market forces, to reduce political and administrative interference in the day-to-day functioning of the firms, to provide enterprise management with profit-maximization signals and the autonomy to achieve these goals, and generally to increase the operational efficiency of the enterprise concerned [cf. Lee and Nellis, 1990].

The Algerian Participation Funds came into existence officially in the middle of 1989, and the initial steps towards transformation involved the formation of an agency that advised on how each enterprise could be placed on a firmer financial footing. Debts were split into several categories: those owed to the Treasury were converted into quasi-equity, those to investment banks were mainly written off, and most owed to commercial banks were rescheduled. Firms were categorized according to those that had positive and negative net worth and cash flow, and enterprises scoring negatively on these financial criteria were not passed on to the Funds. Each enterprise was assigned a value in terms of the number of shares that would be issued for each

firm and at this point the enterprises were handed over to the Participation Funds. Fund managers were then put in place but it appeared initially that the Funds (with around 30 enterprises per existing staff member) were understaffed, and operating procedures had still to be determined. It was anticipated that the Funds would have the power to appoint enterprise Boards of Directors but it was not very clear how enterprise performance standards would be set, monitored and enforced.

The parameters of managerial autonomy had also to be specified, though it was expected that managers would be able to hire and fire employees. Pricing was somewhat liberalized, but in view of the monopoly structure of the Algerian economy, margins were to remain controlled. Access to foreign currency remained severely constrained, but some progress was made in tightening up on the allocation of domestic credit as one of the moves towards the eventual imposing of a hard budget constraint. At the beginning of the 1990s none of the national state-owned enterprises had been liquidated, despite the fact that they were now subject to the commercial code which allowed for closures, while Algeria's current political difficulties are distracting the leadership and deflecting from paying sufficient attention to the problems of economic management and public administration.

Saudi Arabia and the Gulf Countries

In spite of its liberal-economy terminology, Saudi Arabia is more typical, in organizational terms, of an étatist system than it is of a market-oriented one. This has, of course, been mainly a function of the oil boom. The country possesses an authoritative ministry of planning that prepares the all-important successive developmental plans. And it has extremely powerful ministries of Petroleum and of Industry that host dynamic technocratic teams which prepare general policies on the one hand and direct and control important public corporations on the other (e.g. in the areas of oil field development, petroleum engineering, refining, pipelines and gas, basic industries, petrochemicals, steel, fertilizers, etc.) [cf. Al-Farsy, 1982: 73-111].

The economic role of the State in Saudi Arabia is extremely important. In 1978, the government was responsible for 60.3 percent of gross fixed capital formation, for 61.7 percent of expenditure in GDP, for 48 percent of total consumption and (in 1976) for 33.3 percent of all national purchases [El-Mallakh, 1982: 276]. Although the development plans have declared that the government would undertake capital investment only "where the size of investment is large and beyond the capacity of private individuals", and even though the policy of 'Saudisation' has entailed preferential incentives to Saudi rather than expatriate and foreign contractors [ibid: 403-8], private business is to a large extent contingent on public expenditure and domestic producers do not appear to be able to function without heavy subsidy from the government.

The development plan is the main vehicle through which the State reshapes the economy, largely through public spending. The first plan (1970-75) was a rather modest investment programme. Planning took off after the oil boom with the second development plan

(1975-80) involving an expenditure of no less than SR498,230 million (about $142 billion) and with major features being the infrastructure and the Jubail and Yanbu' industrial cities. The third plan (1980-1985) was intended to shift the emphasis from the infrastructure to the productive sectors, including agriculture. The fourth plan (1985-89) stressed operational efficiency and non-oil activities, and stipulated a larger role for the private sector, but it is generally believed to have fallen short of its objectives.

Saudi Arabia hosts a very large public sector that has been expanding tremendously since the oil boom. Several public organizations were established, especially during the 1970s, their number exceeding thirty by the mid-1980s. These included four public organizations in the area of services, ten in the area of education and training, as well as fifteen economic public corporations, most of which include several public companies and enterprises. The activities of the public corporations cover such varied areas as oil and minerals, silos, water and electricity, regional development, banking and investment funds, as well as a whole range of manufacturing, petrochemical, and construction industries [Al-Tawil, 1986: 379-84]. Heavy industry is almost entirely concentrated in the hands of the State-owned Saudi Arabian Basic Industries Corporation (SABIC), and oil refining in the hands of the Public Organization for Petroleum and Minerals (PETROMIN).

It is no secret that the expansion of the public sector in Saudi Arabia was motivated not only by the need to expand industry and the infrastructure and to diversify the economy, but also by "the desire to redistribute part of the growing income in the form of services and public utilities" [Khawajkiya, 1990: 485]. Like other important oil-exporters in the Gulf, Saudi Arabia has been identified as an 'allocative State' that is actively involved in the circulation of petroleum rent. The public sector has benefited from such practices and has accumulated enormous liquid assets, much of them deposited abroad. The richest groups revolve around the royal family and a small number of often related or associated merchant families. They remain too dependent on the State, which continues to enjoy a high degree of budgetary autonomy, to be able to initiate really independent entrepreneurial activities or political demands [Luciani, 1990: 87-93].

In the industrial field, the Saudi private sector is involved in the production of several items such as soft drinks, paper products, detergents, furniture, plastics and building products, and in textile manufactures and light metal industries. It makes good use of the Saudi Industrial Development Fund which was set up by the government in the 1970s to provide interest-free medium- and long-term loans to the private sector. In 1984 a private sector project, the National Industrialization Enterprise, was established to help with the government's efforts to privatize industry and to promote plants using feedstock from the first generation projects of SABIC [EIU Saudi Arabia Country Profile, 1987/88]. By the mid-1980s the private sector was contributing 46 percent of total fixed investments, producing 71 percent of GDP (excluding oil) and employing 88 percent of all manpower [Khawajkiya, 1990: 492-4].

Most private sector industrial companies are fairly small in size and more concentrated in the area of rather similar consumer products. Most are 'personal' private companies or partnerships, owned and managed by the individual and his family, and very few are limited companies. Saudi Arabia had 7060 private companies in 1986, in addition to 297 thousand registered individual 'establishments' *(mu'assasat fardiyya)* of one sort or another, mainly functioning as merchant stores or small workshops. Available empirical studies indicate that private manufacturing firms are not particularly efficient and many are run according to rather primitive managerial and accounting practices [Presley, 1991: 102-14]. There were only 22 limited companies active in the industrial field in the mid-1980s, with a total capital of SR12 billion, of which only SR5 billion were contributed by the private sector (and SR7 billion by SABIC and PETROMIN) [Khawajkiya, 1990: 501-2]. Private sector companies are also heavily dependent on subsidized borrowing from state financing bodies.

With the decline in the revenues of the oil-exporting countries from around 1982-83 onwards, as a result of lower oil prices and reduced interest rates, even such relatively rich countries as Saudi Arabia were beginning to feel the need to adjust their economic policies. Generally speaking, however, the rate of decline in public expenditure has not matched the rate of decline in public revenues and in some countries, such as Kuwait and Oman, the expenditures continued on their rising trend. In Saudi Arabia, budgeted expenditures declined from $82.2 billion in 1981 to $54.8 billion in 1985, but actual expenditure figures remained unknown to (or continued to be withhold from) even the country's public finance experts [U. 'Abd al-Rahman, 1988: 67-8]. It is believed, however, that new projects in Saudi Arabia were halted or at least slowed down, that imports were reduced and that attempts were made to constrain the expansion in public employment, especially of expatriates (although expenditure on salaries and on overall recurrent outlays has continued to grow) [ibid.: 110-26].

Faced with a substantial decline in foreign receipts, virtually all oil-exporting countries have sought to reduce aggregate demand in order to limit the loss of external reserves. To this end, they have tried to reduce public expenditure, which for them represents the primary source of liquidity creation and demand growth. Whereas certain cuts in development spending were made possible by the near completion of major infrastructural projects, the desire to continue to provide some support to private, non-oil sectors and the need to sustain a country's defense capability, have constrained the attempt at financial retrenchment, with budget deficits remaining high or continuing to rise [Shaalan, 1987: 26-8]. Despite reductions in imports, the fall in foreign exchange earnings has resulted in most oil-exporting countries experiencing deficits in their current external accounts, and several have resorted to external commercial borrowing. The situation has not been helped by the continuation of, or even escalation in, private capital outflow. "Typically, private sectors are contracting sharply rather than picking up the slack, as had been hoped" [ibid.: 28-9].

As with most other countries, the call for privatization in the oil-exporting countries has been prompted by fiscal difficulties. With the drop in oil revenues and the difficulty of cutting down expenditure either on the infrastructure and defense or (more seriously from a socio-political point of view) on welfare services and the comprehensive employment of nationals, the

idea has emerged that some of the financial burden may be removed from the government by transferring certain economic activities to the private sector.

In anticipation of such a transformation the Saudi Fourth Socioeconomic Development Plan (1984/85-1989/90) stipulated an annual growth rate of ten percent for the private sector, compared to -2.4 percent for the government sector. Overall, the planners projected a rise in the share of the private (non-oil) sector in aggregate fixed capital formation from 25.4 percent in 1979/80 to 47.8 percent in 1989/90. The share of the government sector was projected to decline from 50.4 percent in 1979/80 to 27.7 percent in 1989/90 [Ministry of Planning, 1985].

Privatization as a public policy in Saudi Arabia involves both the consolidation of private sector activities in the areas in which it has already shown initiative and vitality, such as commerce, finance and to some extent agriculture, as well as the actual transfer of ownership and/or management of public enterprises to the private sector [ibid.: 17 ff]. The new development plan (1990-1995) stipulates a number of measures that are pertinent to the privatization objective, including the establishment of an organized stock market, incentives for new shareholding companies, and encouragement for the commercial banks to extend more credit for production projects [Ministry of Planning, 1989]. The management of certain public enterprises would be leased to the private sector, and the major State industries would be allowed to sell shares to the private sector. SABIC has already been selling some shares since 1987, and some of the holding companies of the main petrochemical complex, PETROMIN, are to be transferred to private ownership. Experts believe that though activities such as major construction works and large-scale agricultural projects will continue to depend on government subsidization, activities such as manufacturing, electricity, gas and water, telephones and airlines may be ready for privatization [Ministry of Planning Workshop, 1989].

But is the Saudi private sector ready to step in and 'pick up the slack' resulting from the contraction in public investment? It should be remembered at this point that, the laissez-faire labels notwithstanding, public spending was indeed the principal engine of Saudi Arabia's boom decade, which ended in 1983. Interestingly enough, private consumption during that period "did not have a statistically significant impact on private investment, while direct government consumption provided a strong stimulus to increased private-sector capital formation". Furthermore, although the stimulus provided by government investment to private investors was rather slow in the short run, in fact it represented double the stimulus (provided by government consumption) in the long run [Looney, 1987/88: 65]. Despite vast amounts of public sector expenditure since 1973, Saudi Arabia's economic fortunes continue to be closely linked to continued government expenditures, which in turn continue to be heavily dependent on the world oil market. Given the projected state of these markets, it is unlikely that the private sector will be able to sustain positive overall rates of economic growth over the coming few years [ibid.: 74].

In Kuwait and the UAE the pattern has been a little different since the business community was not overwhelmingly new as was the case in Saudi Arabia. In the UAE the State-engendered business community is very important but the 'continuing' commercial elite

(mainly of Dubai) is still quite important. In Kuwait the business bourgeoisie is still more or less a continuation of the older commercial community.

Most private sector firms in Kuwait (98.8 percent) are again 'personal' companies (not public shareholding ones) - several being individual - or partnership-based and a few being limited companies. But one of the most peculiar aspects is that only 1.4 percent of the labor force in all private companies is native Kuwaiti, whereas Kuwaitis represented 45.9 percent of the labor force in the government bureaucracy in 1990. Also significant is the fact that the contribution of the private sector to GDP had declined from 34.5 percent in 1982 to 23.7 percent in 1985, and from 62.9 percent to 48 percent of the non-oil GDP [Al-Hamud, 1990: 544-7]. The few studies that were conducted also showed that the productivity of the private sector was generally poor [ibid.: 550-2].

The expansion in the public sector was mainly a function of the rise in oil rents, whereby the government not only expanded the services and the infrastructure but also contributed to the capital of many (formally private) companies with shares very often exceeding half the totals (e.g. banks, insurance companies, industrial companies and transport and service companies) [ibid.: 552-4]. Furthermore the government took over 33 companies whose owners could not finance or manage them, following the two stock exchange crises of 1976 and 1982.

It should be obvious that the Kuwaiti private sector continues to depend on the State (especially with regard to provision of the infrastructure, no- or low-interest loans, exemptions on imports, subsidies and special prices, customs protection, and so on) while the government is prepared to step in to cushion the sometimes capricious private sector for reasons pertaining to political survival and expediency. That is why it has become government policy to continue to maintain companies that do not make a profit and not to sell too many government shares on the stock market to the public at any one time in order not to cause a downwards trend in the market price of shares [*Al-Watan*, 11 April 1990: 1, 22].

In the UAE, as in Kuwait, native Emiratis represent only 3 percent of the manpower in the private sector whereas they represent 37 percent in the government bureaucracy [*Al-Shuruq*, 23 April 1992]. In such countries privatization carries with it the political risks of even more foreign labor which the private sector finds cheaper (and which is already 90 percent of the labor force in the UAE) in spite of the government's attempts at discouraging the expansion in foreign employment.

Government support in the UAE for the private sector took similar if sometimes more personally 'generous' forms: interest-free loans and mortgages for housing and for investment, subsidies and price controls and very generous social allowances including gifts for marriage dowries and a progressive 'child benefit' system (the more you produce the higher the allowance per child!). Every citizen is also entitled to three virtually free pieces of land [Field, 1984].

Like other oil-exporting states the UAE responded to the recession by seeking to reduce aggregate demand, especially that generated through government expenditure, and following the mid-1980s no further expansion was to take place in public employment. Fiscal retrenchment has been tempered, however, by a desire to continue to provide support for the State-dependent private sector, and by defense priorities [cf. Shaalan, 1987: 29-129].

It is little wonder, given all these constraints, that although governments in the Gulf have declared some privatization slogans, partly by way of following fashion and partly by way of coping with the constraints of the 'bust' years, the ability to implement any privatization programme has been very limited indeed. One analyst found himself able to state categorically and in no uncertain terms that "Privatization and liberalization programs ... failed outright in the so-called market economy of Saudi Arabia and the United Arab Emirates" [Chaudhry, 1991: 145], a statement that is perhaps rather sweeping but not altogether wide off the mark.

One important factor deciding the likely contribution of the private sector in Saudi Arabia will be the degree to which the country will succeed in installing a process of 'financial deepening'. Given the size of the population and the infrastructure and the level of capital accumulation, the private sector has a potentially more important role to play in the domestic market, in the smaller neighboring oil-exporting countries than it does in Saudi Arabia. Much will depend, however, on "the ability and willingness of the commercial banks to divert assets from foreign to domestic lending. The country may be vulnerable to a serious liquidity crisis if significant increases in Euro-rates were to take place in an environment in which the government was unable, because of slack revenues, to significantly increase its expenditures" [Looney, 1987/88: 66-7].

It can thus be seen that the private sector in Saudi Arabia and the other Gulf countries is not only financially and structurally dependent on the State Sector, but that the two sectors are symbiotically linked in complex ways, including on the level of personnel. Members of the elite are often engaged in 'public' office and in 'private' business at the same time, thus making the distinction between the two domains extremely difficult [Al-Nasrawi, 'Discussion' in al-Nasrawi, 1990: 529-30]. Given this situation, it is quite likely - paradoxical as this may seem - that it would be the private sector and the State's clients in the business sector who will constrain and slow down the move towards privatization in Saudi Arabia and the Gulf.

Conclusion

It is often argued that several Arab countries have decided to restructure because they now realize that the private sector is more efficient and productive than the public sector. Yet t his is another area in which information is also scant: just how productive are public and private enterprises in the Arab countries? Productivity and effectiveness for the public sector is not simply profitability; but even 'simple' profitability data for public enterprises are lacking or difficult to obtain (sometimes for understandable 'survivalist' political reasons!)

The move towards privatization in both the oil-poor and the oil-rich Arab countries has been promoted more by a relative (and, in the case of the former group, severe) decline in revenues, than it has been motivated by any realization of the inefficiency of the public enterprises and the efficiency of private ones in the various Arab countries. The developing countries were prepared to take on trust the word of the early privatizers in the 'centre' (the United Kingdom and the United States) on this issue, as well as the assurances of the international organizations of globalizing capitalism. Although a few Arab experts have voiced some doubts and called for caution [e.g., Hafiz Mahmud, 1989; Hilan, 1989; Mahjub, 1990], most Arab writings on privatization have taken it for granted that private is more rational and efficient than public, and have proceeded *ipso facto* to suggest strategies and modalities for implementing such a policy [e.g., Abdel-Rahman and Abu Ali, 1989; Anani and Khalaf, 1989; Al-Saigh and Buera, 1990].

In most cases, the managerial argument over efficiency has been confused with (or else has tended to overshadow) the macro-economic argument over development. The most profitable enterprises are not always the most conducive to overall national development. Even some of the proponents of privatization would concede that the State had acted in several Arab societies as a real 'agent of development' on the macro-economic level, and that several actual choices of projects for public investment cannot be described as irrational. Even now, the privatization craze notwithstanding, few people who are familiar with conditions in the Arab countries would suggest a total withdrawal of the State from the economic arena; although several would perhaps argue that the State should have "a much more vital role to play as a promoter of business, *animateur*, than as a business entrepreneur" [cf. e.g., Harik, 1990: 29].

Privatization within post-Socialist or post-populist regimes usually entails three processes, which are sometimes achieved in successive stages as follows: (a) managerialism within the public sector; (b) commercialization of the State economic sector; and (c) concessions to, and partnerships with, international capital (e.g., joint ventures).

Policies of economic adjustment are not purely technical or financial in nature, but by necessity carry with them important social outcomes and therefore require significant shifts in political coalitions. A familiar pattern of political coalition in industrializing Third World societies has been represented by a 'populist' coalition centered around the military, the techno-managerial elite of the public sector, and organized labor. This is the political corollary of the famous import-substitution strategy, with its strongly industrial and urban bias and its elaborate 'social welfare' policy. Once in serious crisis, a State that is dominated by such a coalition may either attach top priority to the imperative of 'industrial deepening' and thus opt for an open bureaucratic-authoritarian model, or it may follow a less radical and more incremental set of measures in an attempt to respond to a developmental crisis that often represents itself most severely in the financial sphere.

An initial response to the fiscal crisis of the State will often make itself felt through a number of 'belt-tightening' and 'economizing' measures that are usually followed on an *ad hoc* basis and that sometimes include 'more of the same' remedies. This may involve an

intensification of import controls, increased reliance on administrative allocation of resources, and the application of a number of interventionist policies designed to widen the gap between domestic prices and world prices. It is usually only when such countries discover that the consequences of such an approach are ultimately unsustainable, that they delve into the short-term 'stabilization programmes' (sponsored by the IMF), and the longer term 'structural adjustment' programmes (sponsored by the World Bank) [cv. Da Silva Lopes, 1989].

Short-term stabilization programmes, typified by the IMF 'stand-by arrangements' are oriented primarily to the quick reduction of deficit, by cutting domestic demand or controlling its expansion. They involve expenditure-reducing policies and expenditure-switching policies (i.e., stimulating the production of exportable and importable goods and changing the demand patterns in favor of goods that do not enter into international trade). These programmes are usually based on a small number of instruments: ceilings to the expansion of domestic credit and to public sector borrowing, rises in interest rates, exchange rate depreciation, and sometimes wage controls and the adjustment of some key prices [Da Silva Lopes, 1989: 22-30]. The potential social beneficiaries in this stage would be agricultural exporters, private and perhaps public exporters of manufactured goods, the tourist sector and migrant workers who can convert their earnings at the new devalued exchange rates. Among the main potential losers would be public sector enterprises which will suffer from reduced investment and expenditure and from the restrictions on imports [Waterbury, 1989: 56-7].

Programmes of structural adjustment are more ambitious in that they do not rely merely on demand management but are oriented more towards improving the conditions of supply and the allocation of domestic resources, and towards "institutional transformations which may contribute to reinforcing the growth potential and to reduce the vulnerability to external shocks by reducing external payments imbalances" [Da Silva Lopes, 1989: 22-3]. The measures involved in this phase are more varied and profound but they certainly include reduction in consumers' subsidies, deregulation of agricultural producers' prices and of some industrial prices, as well as the liberalization of trade and of the exchange rates. Very often they also include a certain 'privatization' drive; i.e., a move towards increased private management and/or ownership of enterprises and a general encouragement of private investment within the economy, especially in the export-oriented sectors.

The likely social beneficiaries of this phase are the agricultural sector in general and exporters in particular, along with some public enterprises that sell mainly to the domestic market, after all of them have benefited from the 'streamlining' necessitated by the reduction in public investment flows. This phase is likely to have a "moderate or intermediate impact" on public or private import-substituting industries, since they will experience rising costs of domestic inputs, and probably of wage bills, which may or may not be offset by easier borrowing and deregulation of prices. Those engaged in the export of manufactured goods will also experience a rise in the cost of labor and domestic inputs [Waterbury, 1989: 56-7].

What are the coalition shifts that are likely to result from such changes?

First and perhaps most consistently, organized labor cannot expect a continuation of the symbolically favored, if institutionally incorporated, status that it enjoyed in earlier, more populist times. Unprecedented workers' strikes may start to take place as happened, for example, in Egypt and Tunisia. Even the professional syndicates and associations may show signs of resistance (as occurred in Sudan) or of defiance and restlessness (as took place in Egypt). More spectacular protests against the declining standard of living and the removal of basic subsidies tend to come from the urban sub-proletariat and lumpenproletariat, as has been seen in Egypt, Tunisia, Algeria and elsewhere. Organized labor can be drawn into some of the protest actions that are best expressed by the urban sub-proletariat and lumpenproletariat: this is illustrated by the 1978 events in Tunisia that resulted in the creation of an ambivalent relationship between the government and the once organically incorporated trade union federation, the UGTT [Waterbury, 1989: 57-60]. The possibility of more militant labor action might have been higher in several countries, had the safety valve of work opportunities in the oil-exporting countries not existed. Migrant labor constitutes an important financial factor which has no formal organized representation in the emerging coalitions but which is potentially of great economic and social (and subsequently political) impact.

In most countries, the military retain their membership of the new coalitions, although often in a somewhat adjusted capacity. Armies continue to acquire the lion's share of public expenditure, and in some cases to have exclusive control of their own financial affairs. Some armies have also expanded in 'civilian' economic activities (e.g., in Egypt, Syria, etc.). Even in Tunisia, where the military were previously subordinate to the civilian government, the arrival of General Zain al-'Abidin Bin 'Ali to power signals a likely enhancement of the political status, if not of the political role, of the military. While the conventional civil service continues, despite its huge size, to be of limited political importance, the same cannot be said of the public sector management. The managers and technocrats of the state enterprises and economic organizations continue to carry significant political weight in countries such as Egypt, Algeria, Iraq, and elsewhere. Although part of the technocracy has gone private, there continues to be many technocrats who still regard their life careers as being closely tied to the future of the public sector.

What conclusions can be drawn from the foregoing analysis and case studies? One general conclusion is that both the expansion and the contraction of the public economic sector have been correlated with the availability of liquid capital. The availability of capital may be domestically-based (e.g. nationalizations or 'agricultural squeeze') or externally-based (e.g. oil rents, aid and remittances). The tightening of finance also corresponds to domestic signals (such as declining revenues in the public enterprises and growing deficits in the state budget), and/or with external signals coming from creditors, international financial organizations, trade partners and potential investors.

In most cases the move towards privatization as a way of overcoming the 'financial crisis of the State' takes the form of a public policy; i.e., one that is initiated by the State (sometimes in collaboration with international capital) for its own reasons, rather than under pressure from the private sector. If it is in a state of readiness to do so, the private sector may, of course, pick up on the process and push ahead with it. The pace and intensity of privatization will, however, depend (a) on the degree to which capital accumulation has been both *extensive* and *internally-oriented*; and (b) on the degree to which both the State bourgeoisie and the private bourgeoisie find it useful (safe) to seek further autonomy from each other.

It is surmised from the case studies that privatization slogans and appearances notwithstanding, actual privatization remains rather limited and that the Arab State is not really about to withdraw from the economy. Privatization is still basically a public policy that is pursued by the State with reluctance and caution largely for its own purposes; it has not yet become a dynamic process whose initiative is taken by the private sector itself. If the private sector is gaining it is not because of its initiative, drive and organization, nor is it because the ruling elites have decided sincerely to hand the economy over to it; rather it is mainly because the State can no longer, given its chronic 'fiscal crisis', continue with its étatist and its welfarist policies at the same time. In other words, the private sector may end up growing 'by default', so to speak, although the proportions, timings and modalities vary depending on a number of key factors. These include the solidity and coherence of the State machinery; the strength and autonomy of the labor movement; the attitude of the public sector managers and partly appartchiks; the vitality and capabilities of the domestic business community; the degree to which the government's intervention might or might not have 'crowded out' the private sector; and last but not least the levels and patterns of external pressures/temptations exercised on the State by international organizations and by globalizing capitalism.

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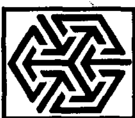

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