



Roadmap for Middle Eastern Reforms: A Stage Theory Approach

Strategic Insights, Volume III, Issue 9 (September 2004)

by Robert Looney

Strategic Insights is a monthly electronic journal produced by the Center for Contemporary Conflict at the Naval Postgraduate School in Monterey, California. The views expressed here are those of the author(s) and do not necessarily represent the views of NPS, the Department of Defense, or the U.S. Government.

For a PDF version of this article, click [here](#).

We inherited a corrupted and bad economy. It was a mafia economy rather than a market economy. We are trying to rebuild the new Iraq on a solid basis.[1] - Adel Abdul-Mahdi, Iraqi Finance Minister

The Americans are coming to understand that they cannot change everything they want to change in Iraq. They need to let the Iraqi people decide the big issues.[2] - Adel Abdul-Mahdi, Iraqi Interim Government Finance Minister

Introduction

Leading up to the war and especially after the swift military defeat of Saddam Hussein's regime, optimism was running high among many Iraqis and American planners that the country would be quickly transformed into a free, democratic nation with a liberalized market economy. Yet even after the June 28, 2004, transfer of sovereignty to an interim Iraqi government, the obstacles to these goals loom larger than ever. The insurrection is taking a huge toll on U.S. troops, Iraqi citizens, foreign aid workers, and diplomats. In their desperate attempt to force the United States out of Iraq, the insurgents are resorting to tactics that sabotage the country's economic reconstruction. More importantly, their actions are making it almost impossible for responsible Iraqis to create those democratic institutions that could make the country a showcase for the many neighboring Arab countries currently drifting listlessly in repressive backwardness.[3]

United States hopes to bring economic gains and democracy to the Middle East and North Africa region as a whole are also being reassessed in light of the insurgency and Arab criticism of the manner in which the Iraqi situation has been handled. The original idea of revitalizing the region arose in response to September 11th and the growth of Islamic extremism. At that time U.S. authorities began to realize that the lack of democracy and freedom, economic stagnation and widespread unemployment were driving many young people in the Middle East and North Africa towards extremism and terrorism. The existence of pro-American, yet autocratic regimes was no longer a guarantee for lasting stability. But since the time a first draft of the reform plan for economic and political liberalization, dubbed the Greater Middle East Initiative (GMEI)[4], was leaked in February 2004, Arab reaction has been less than enthusiastic.

Many of the generalities found in discussions concerning the wisdom and viability of U.S. backed Middle East reforms are of little value in assessing the outcome of these efforts. Clearly many Middle Eastern countries are highly skeptical of the U.S. approach to reforms and motives for change in the region, so implementation is highly problematical. But even with broad acceptance throughout the region of the need for reforms, a number of daunting obstacles remain. The current state of affairs is best summed up by Anthony Cordesman:

Broad, vacuous U.S. calls for region-wide change are the last thing needed in a climate of such deep regional distrust; they only aid the cause of terrorism. Washington instead should work steadily with its G8 partners, friendly Arab governments and local Arab reformers to create reform initiatives tailored to a given country's needs that inspire confidence that the United States wants reform for the country's sake rather than for its own political ends. It should also be recognized that the United States cannot succeed without fully funded nation-by-nation efforts tailored to the economic, social, and political needs of given countries.[5]

More fundamentally, the objectives of the reforms often proposed are too vague—a market economy, democracy, and so on. On a technical level, some reforms are no doubt much more effective than others in creating a positive environment of growth and stability. Yet even in most high-level discussions of the U.S. initiative the likely linkages between reforms and outcomes are never made clear. In fact, this quantitative dimension is almost totally disregarded in the on-going debates, no doubt contributing even further to the widespread ambivalence, suspicion, and skepticism concerning reforms that is pervasive throughout the region.

The sections below attempt to address the quantitative dimension of reforms through developing a framework for identifying country needs and sequencing strategies. Which countries are in the greatest need of reforms? Which reform mix appears most effective given the existing state of affairs in each country? How can reforms be efficiently sequenced to fit into a long-term strategy of increased stability and prosperity?

Areas of Reform

The reforms often suggested for the Middle East by U.S. officials fall into two broad categories: (a) those intended to develop efficient market-based economies, with increased economic freedom, and (b) those related to democracy and improved governance.

Economic Freedom

Both the Heritage Foundation/Wall Street Journal's Index of Economic Freedom[7] and the Fraser Institute's Economic Freedom of the World[8] provide good measures of the relative progress made by countries in moving to a deregulated, limited government, free-market environment. Because the Heritage Foundation data set included more of the Middle Eastern countries it was used for the analysis that follows. The Heritage Index reflects the absence of government constraint or coercion on the production, distribution, or consumption of goods and services. Stripped to its essentials, economic freedom is concerned with property rights and choice. To measure economic freedom the Heritage Foundation/Wall Street Journal Index takes ten different factors into account:

1. Trade policy;
2. Fiscal burden of government;
3. Government intervention in the economy;
4. Monetary policy;
5. Banking and finance;
6. Capital flows and foreign investment;
7. Wages and prices;
8. Property rights;
9. Regulation, and
10. Informal market.

Implied in these measures is the notion that economic freedom also requires governments to refrain from many activities. They must refrain from actions that interfere with personal choice, voluntary exchange, and the freedom to enter and compete in labor and product markets. Economic freedom is reduced when

taxes, government expenditures, and regulations are substituted for personal choice, voluntary exchange and market coordination. Restrictions that limit entry into occupations and business activities also retard economic freedom.

The index provides a framework for understanding most of the objectives of U.S. reform efforts in the region: how open countries are to competition; the degree of state intervention in the economy, whether through taxation, spending, or overregulation, and the strength and independence of a country's judiciary to enforce rules and protect private property. Some countries may have freedom in all factors; others may have freedom in just a few. One of the most important findings of research carried out using the index is that economic freedom is required in all aspects of economic life. That is countries must score well in all ten of the factors in order to improve their economic efficiency and consequently the living standards of their people.[8]

Governance

The other main area of U.S. reform efforts, democracy and governance, are increasingly seen as essential for long run economic growth and prosperity. In fact some dimensions of governance now sit at the center of academic and policy discussions of economic development.[9]

While the ranking of countries on the basis of their relative progress in attaining improved governance is inherently subjective, a recent World Bank study provides a set of rankings incorporating the full extent of our knowledge about this phenomenon. More precisely, the World Bank data set presents a set of estimates of six dimensions of governance covering 199 countries and territories for 1996, 1998, 2000, and 2002.

Voice and Accountability

This variable measures various aspects of the political process, civil liberties, and political rights. These indicators measure the extent to which the citizens of a country are able to participate in the selection of governments. Also included in this variable are indicators measuring the independence of the media.

Political Stability and Absence of Violence

This governance cluster combines several indicators that measure perceptions of the likelihood that the government in power will be destabilized or overthrown.

Government Effectiveness

This variable combines aspects of the quality of public service provision, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government's commitment to policies.

Regulatory Quality

This aspect of governance is more focused on the policies themselves. It includes measures of the incidence of market-unfriendly policies such as price controls or inadequate bank supervision as well as perceptions of the burdens imposed by excessive regulation in areas such as foreign trade and business development.

Rule of Law

Included in this dimension of governance are several indicators that measure the extent to which the citizens of a country have confidence in and abide by the rules of society. These include perceptions of the incidence of crime, the effectiveness and predictability of the judiciary, and the enforceability of contracts.

Control of Corruption

This dimension of governance measures perceptions of corruption. By this measure corruption is defined as the exercise of public power for private gain. It is often a manifestation of a lack of respect of both the corrupter and the corrupted for the rules that govern their interactions, and hence represents a failure of governance.

As a whole, the Greater Middle East Initiative countries have lagged considerably behind other major groupings of countries (Table 1). The high growth (so-called "catching-up") developing countries^[11]—Malaysia, Thailand, Mexico, etc., have made considerably more progress in nearly all of the major areas of reform. In turn there is a comparable but generally smaller gap between the various reform measures of the catching-up and advanced countries.

The reform gap between the Greater Middle East Initiative (GMEI) countries and those catching up to the advanced economies is particularly evident in the main dimensions of governance (lower values in Table 1 represent a worsening of governance). While the gaps between the GMEI countries and the catching up countries are not as great in the economic freedom area, they are still fairly consistent (higher values in Table 1 for these variables signifies a worsening of economic freedom) across all ten dimensions with the exception of monetary policy.

Finally, the standard deviations of nearly all reform dimensions are relatively high across the board for the Greater Middle East Initiative countries. This suggests considerably more diversity of reform experiences within this group of countries relative to those found in the catching up and advanced economies.

A Conceptual Framework

The various dimensions of economic freedom and governance provide a good gauge of the progress made by the GMEI countries in reforming their economies and political systems. However, to fully appreciate the contribution made by these reforms, one needs to see them in a broader context. Which combinations and levels of reforms appear to be associated with higher levels of development and modernization? Which reform strategies appear most efficient in placing a country on the path to sustainable levels of prosperity? What is a reasonable period of time to assess a country's progress in creating an environment capable of supporting a process of on-going growth and development?

Since both the catching up and advanced economy groupings are defined largely on their member country's over-all economic performance, sub-groupings of the GMEI countries also based on an economic performance/modernization criteria should provide a more insightful framework for assessing each country's reform progress to date as well as the tasks that lie ahead.

As with the catching-up and advanced groups of countries, one approach is to examine sub-groups of GMEI countries based on their relative development or stage of economic progress. A stage approach is hardly new. For several centuries historians and philosophers have been attracted by the possibility of expressing the historical process as a sequence of stages instead of a simple chronological succession. Examples of such attempts include Marx's well-known pattern by which feudalism gave way to bourgeois capitalism followed by socialism and then communism. This stage approach was especially influential in German historiography. Karl Bucher discussed the evolution of the "household economy" of antiquity into the "town economy" of the late Middle Ages, and thereafter into the "national economy" of modern times.

The common aim of stage theories is to design a model of the historical process by specifying and isolating a limited number of factors that characterize and identify the different stages. Such models are illuminating and justifiable if they identify genuine key variables and reveal otherwise unexpected relationships. Their suitability for prediction is especially significant. Most models implicitly or explicitly claim to explain or predict through postulated changes in the key variables. These changes are in turn derived either from a *a priori* reasoning, or on the basis of empirical data. Without the specified changes,

development from one stage to another will not occur, or will occur only exceptionally. If a model can successfully identify the key variables and significant changes in them propelling a country to a higher level of development and modernization, then a power tool of explanation and prediction will have been created. In this regard, several modern stage theories hold out the potential for providing a useful framework for assessing the role of reforms in advancing the GMEI countries.

The Rostow Framework

Of the modern stage theories, that developed by W.W. Rostow^[12] is by far the most widely discussed. Rostow, an economic historian, was interested in explaining why some countries became advanced developed economies, while others remained mired in poverty. His framework draws on observations taken from the histories of developed countries, which he contended to reveal a considerable degree of uniformity with regard to patterns and processes of development.

Based on these observations he divided the modernization process into five stages: (1) the traditional society, (2) the preconditions for take-off, (3) the take-off stage, (4) the drive to maturity and (5) the age of high mass consumption. His basic argument was that (1) all societies sooner or later, will pass through the same sequence of five economic stages, (2) the world's poor societies and simply those that have not passed beyond the first two states, and (3) development is a process whereby traditional values are replaced by a spirit of individualism and a scientific attitude that encourages economic growth and technological progress.

For each stage, Rostow specified a number of distinguishing characteristics. The preconditions stage was characterized by his as a period of dramatic increases in agricultural productivity, political stability, heavy migration to the cities, substantial development of transportation and other forms of social overhead capital, and increasing capital goods imports financed by capital inflows and well as by raw material exports.

The takeoff state is characterized by a jump in the rate of productive investment from 5 percent or less to 10 percent or more of national income, the development of one or more substantial manufacturing sector with a high growth rates, and the existence or quick emergence of a political, social, and institutional framework "which exploits the impulses to expansion in the modern sector and the potential external economy effects of the take-off and gives to growth an on-going character."^[13] Furthermore, the time required for the takeoff period should be relatively short, no longer than twenty to thirty years. Finally the post-takeoff stage is characterized by a shift of leading sectors, an eventual smoothing out of the growth rates, and less and less structural change.

While appearing straightforward, Rostow's approach to modernization/development has come under relentless attack.^[14] Academic careers have been made by simply finding holes and inconsistencies in his approach. One line of criticism contends that Rostow's theory failed to recognize that developing countries are surrounded by a quite different international economic system than the system that surrounded the advanced countries at the time when they began to develop. As proponents of dependency theory indicated, the economic positions of the developed and underdeveloped countries of the world are linked historically and cannot be understood in isolation from one another.

Other valid criticisms surround Rostow's use of stages. A closer look at his framework suggests that many of the stages are not defined by a set of unique variables—high rates of savings and investment were probably necessary to complete the pre-conditions stage, especially where extensive infrastructure was required.

On a more fundamental level, it is clear that the building of a classificatory system does not, by itself, constitute a stage theory. As noted above, the theory must also explain how and why any particular country moves from one stage to another. In that respect, Rostow's efforts appear incomplete and unsuccessful. For example, in explaining the transition to takeoff, Rostow suggests that industrialization and takeoff may be induced by a favorable shift in the terms of trade resulting from the rise in agricultural

productivity in the preconditions stage. However, capital imports, urbanization, education, entrepreneurship, the opening up of foreign markets, and numerous other factors provide alternative explanations.

Finally, implicit in the Rostow model is the notion that countries advance from one stage to another, yet there are numerous examples noted below of countries that appeared to take off, but later fell back rather than advancing to the drive-to-maturity stage. In retrospect, Rostow greatly underestimated the force of negative factors created during the growth process—factors that often became strong enough to retard or even stop the growth/modernization process.

In sum, when using Rostow's approach one has great difficulty formulating a demarcation rule for deciding whether at a finite point in time a specific country can be classified in one stage or another. Nor is it clear the precise manner in which a country advances to the next stage. Because the mechanisms of stage placement and advancement are vague in Rostow, the model has proved to be of very limited value in policy discussions. In effect, it is a tautology—countries take-off when they satisfy the conditions for take-off.

The New Second World Framework

No doubt benefiting from the insights provided by Rostow's critics, Jennifer Bremer and John D. Kasarda have recently constructed^[15] a stage theory taking into account many of the growth depressing elements Rostow overlooked forty years earlier. They term their main conceptual construct "The New Second World". This is a group of countries that have reached middle-income status over the past two decades and that are now in the midst of the critical economic and political transitions from Third World to the First.

The New Second World transition has three phases. The first, or early phase, typically begins when a low-income country starts to industrialize rapidly, launching an agrarian-industrial transition and the complex transformations—urbanization, income growth, economic diversification—that accompany it. A process similar, but not identical to Rostow's take-off, occurs if growth continues for a decade or more. In that case the country reaches the middle New Second World phase.

In the second phase, industrial production per capita may now be around three times what it was when the transition started, and growth in low-value-added manufacturing is rapid and sustained. Incomes rise and a middle class begins to emerge. Bremer and Kasarda note that if this middle phase continues for ten to twenty years, the country would likely reach the advanced phase, often a time of recurring economic crisis and political turmoil. Countries currently in this advanced group include Argentina, Brazil, and Poland.

Since many of the key Middle Eastern countries are in the first stage or "failed take-off stage"—Iran, Iraq, Syria, Saudi Arabia and Pakistan (included in the United States' Greater Middle East Initiative)^[16], our attention is focused mainly on the problems encountered by that group. These countries have failed to move forward to the middle stage largely because of growth-limiting policies and institutional rigidities. As Bremer and Kasarda note:

History suggests that failure to make steady progress through the New Second World transition's early phase to the middle period is extremely dangerous. If the transition stalls here—as it did in post-World War I Russia, and as it has now in much of the Middle East—failure can lead to revolution and Al Qaeda-style international violence.

In fact, terrorism and environments that breed it are central to Bremer and Kasarda's model. Terrorism is one of the negative side effects neglected by Rostow and no doubt responsible for that model's poor predictive capabilities.

The one thing that the nations stuck in the early phase have in common is slowness in adopting choice based systems. Bremer and Kasarda define "choice-based" systems as encompassing both market-based economies and democratic political institutions and organizations.

In sum, the Second World country groupings identified by Bremer and Kasarda should be able to be defined (profiled) largely in terms of their attainment of the various economic freedom and governance reforms listed above. If this is the case, their framework lends itself to the country placement in stages and the requirements for their succession to higher stages that alluded Rostow.

Stages of Reform in the GMEI Countries

Based on Bremer and Kasarda's characterization of Second World Development, a sample of countries were selected, with each country broadly meeting the profile of one of their unique stages. Sixteen countries were initially deemed first stage or failed take-off countries, six countries were placed in their second stages, and twenty-five were classified as stage three countries. A fourth group of countries, normally considered "Advanced Developed Countries," was also included in the analysis.

A statistical technique, discriminant analysis^[17] was then performed^[18] to determine if the countries were "correctly" grouped. That is, is it possible for the six governance and ten economic freedom variables to define four sets (corresponding to the three New Second World and one advanced developed) of unique reform environments? If this is the case, countries possessing a particular set of reform attainments would be classified with a high degree of probability in one of these groups. In this case the discriminate procedure would generate a numerical function, indicating, for each country, the reforms necessary and the extent to which critical areas would have to be improved if the country were to advance to the next stage.

The analysis found that the relative country attainment in only five reform areas (in declining order of importance): government effectiveness, voice, regulation, regulatory quality, informal markets, and fiscal burden ([Table 2](#)) were sufficient to correctly place all of the sample countries in their anticipated stages of development ([Table 2](#)).^[19]

As in any good stage theory of development there is a gradual improvement in most indices as one moves from lower to higher stages^[20] ([Table 3](#)). This pattern is particularly evident in the governance area. The first stage countries score particularly low in this general area of reform. As of 2002, the last date of comparable data, Iraq, Libya, Nigeria, and Tajikistan most closely fit the profile (based on the probability of correct placement) of first stage countries. Of course, Iraq's situation, and to a much lesser extent Libya's, has changed dramatically since 2002. Iraq has introduced a number of positive economic reforms, and has also made some beginnings in the governance area. However, as of the summer of 2004, neither country had undertaken those major reforms in governance necessary to lay the foundation for movement to stage two. Also it is not clear how many of these U.S. initiated reforms will be retained by the Iraqi Interim Government.

On the other hand, Pakistan, Armenia, Bosnia, and Albania show some of the characteristics often associated with the second stage group. They are currently addressing many of their governance deficiencies, albeit still short of the effort needed to graduate to stage two status.

In the context of Bremer and Kasarda's theory, the first stage countries are unable to sustain their take-offs due to diminishing returns caused by poor regulation, corruption, ineffective government, and the lack of democracy. The high rates of investment and industrialization noted by Rostow were not sufficient to overcome the barriers imposed by these institutional shortcomings.

As noted, a large number of Middle Eastern countries were profiled in this group: Iran, Iraq, Libya, Pakistan, Saudi Arabia, and Syria. While improvements in the sixteen areas of reform eventually occur as countries move to higher stages, progress in government effectiveness and political stability appear particularly critical for the advancement of the first stage countries to the second stage ([Table 4](#)). Based on the large gap in discriminant values between the first and second groups, with the exception of

Pakistan, most of these countries have a long way to go before reaching second stage status. A realistic time frame for this transition, assuming persistent efforts at reform, is at least ten years.

As Bremer and Kasarda suggest, stage two is likely to be a fairly long and peaceful period of growth and consolidation. Egypt and Turkey are well profiled to be in this group, with India best positioned to advance to the next stage. To advance to the third stage however, several areas of reform appear critical (Table 5). While significant strides have to be made in a number of reform categories, voice, regulation, and foreign investment are the areas in need of special attention.

Taiwan appears to be the country currently best placed to reach advanced country status (Table 6). Of the sample Middle East countries, only the UAE falls in this group. A wide variety of reforms appear essential for advancement, including fiscal burden, informal markets, voice, monetary policy, and property rights.

In sum, the findings presented above are quite encouraging. Usually significant progress in only several key reform areas at a time is necessary to produce significant results. In this regard great flexibility exists. In the case of movement from the first to second stage, progress is critical in government effectiveness and political stability. However, equal efforts are not required in both areas. Depending on internal political constraints some countries might want to opt for relatively more effort in the effectiveness area, while others might feel more comfortable in the political stability area—both strategies have the potential to be successful in elevating a particular country to the next stage.

Constraints on GMEI Reforms

While an honest effort at reform appears to pay extremely high dividends in terms of economic progress and stability, initiating serious action in this area in the GMEI countries will be another matter. As noted above, few in the Middle East appear neutral when it comes to U.S. reform initiatives. While many appear to feel economic and political reforms are necessary and overdue, many are highly skeptical over those proposed by the U.S. Those Arabs with serious doubts about the Initiative fall into three distinct groups^[21] :

Cautious optimists: This group sees the U.S. reform initiatives as a positive project in principle with the potential to help the region modernize itself politically and economically, but only if certain preconditions, involving acceptability of the core concepts to the regional actors, are met. Just as importantly, participation would be wise only under the understanding that each country has its own special needs and aspirations that must be respected. In Iraq this group is represented by many of the returning expatriates as well as a fairly large number of technocrats from the former regime.

Pessimists: This view dismisses the project as unwise and undoable. A foreign made project designed to transform Muslim countries through foreign social engineering will trigger deep regional resistance. The Initiative will only create greater instability. In Iraq, the inability of the U.S. neoliberal economic reforms^[22] to date to produce tangible results in the form of job creation and economic growth has resulted in large segments of the population subscribing to this interpretation.

Rejectionists/Conspiracy Theorists: This group is largely comprised of Islamists who believe that the Initiative is simply another ploy by Western imperialists designed to destroy their culture and identity.

A very casual reading of the Iraqi and regional newspapers suggests most observers fall into the second group. Still large segments of the populace subscribe to the third position. Significantly, however, the United States' two main allies in the region fall in the first group. Egyptian President Hosni Mubarak and Saudi Arabian King Fahd and Crown Prince Abdullah are on record to the effect that Arab states proceed

on the path of development, modernization, and reform in keeping with their people's interests and values.

Assessment

The analysis above demonstrates the basic soundness of the U.S. GMEI initiative. While that initiative's early versions have been frustratingly vague on details, it is easy to conceive of a range of reform programs with strong links to improved economic performance and stability. In the last several decades, scores of the current stage three countries initiating similar packages of reforms have made significant progress in assuring their long-run prosperity. However, unless the United States finds a way to work within the set of parameters noted above by the cautious optimists, U.S. reform initiatives in the region will have little chance of living up to their potential.

The experience to date with reforms in the GMEI region suggests several lessons the United States and other like-minded countries will have to absorb before significant progress at meaningful reform takes place in the region:

1. Although textbook economics provides a number of guidelines for reform, the actual reforms should be homegrown and should take into consideration internal conditions, national objectives, and limitations of the individual countries.
2. Care should be taken so that reform efforts are not undermined by poor macroeconomic policymaking. Governmental actions should consciously take economic ramifications into account.
3. While adequate financing reforms are essential in many cases, it is more important to change attitudes—people need to see how they are benefiting from the reforms.
4. In turn, the beneficiaries of reform will place pressure on the authorities for further reform. In this regard, the sequencing of reforms will be critical in assuring that the reform process will not become stalled
5. Economic reforms will be unsuccessful in permanently improving standards of living in the region unless there is a fundamental change in attitudes towards markets and competition.

Perhaps Henry Azzam best sums up this last point:

Allowing markets to prevail requires having a set of cultural values that emphasize the virtue of competition, the ability to create and gain in a socially acceptable way, the legitimacy of profits and the importance of freedom of transaction. Spreading a market culture in the region is therefore not only an exercise in economic restructuring but also an acceptance of the basic values and standards that make the system work.^[23]

For more insights into contemporary international security issues, see our [Strategic Insights](#) home page.

To have new issues of *Strategic Insights* delivered to your Inbox at the beginning of each month, email ccc@nps.edu with subject line "Subscribe". There is no charge, and your address will be used for no other purpose.

References

1. Quoted in Paul Wiseman, "Iraq to Get New Start With Bond Market," *USA Today*, July 8, 2004, 8.
2. Quoted in Rajiv Chandrasekaran, "Attacks Force Retreat From Wide-Ranging Plans for Iraq," *Washington Post*, December 28, 2003.
3. John Hughes, "Whispers of Democracy Across the Middle East," *Christian Science Monitor*, October 22, 2003.
4. For a description of this initiative as well as its successor the Broader Middle East Initiative (BMEI) see Robert Looney, "The Broader Middle East Initiative: Requirements for Success in the Gulf," *Strategic Insights*, August 2004.
5. Anthony Cordesman, "The West is Mired in a Losing Battle," *Financial Times*, July 21, 2004.
6. See for example Marc Miles, Edwin Feulner and Mary Anastasia O'Grady and Ana Eiras, *2004 Index of Economic Freedom* (Washington: Heritage Foundation, 2004).
7. Available from: [Global Economic Software, Ltd](#), Cf Robert Looney, Iraq's Economic Transition: The Neoliberal Model and its Role," *The Middle East Journal* 57, no.4 (Autumn 2003), 568-587, for an application of this data set to the Middle East.
8. Ana Isabel Eiras, *Ethics, Corruption and Economic Freedom* (Heritage Foundation, December 9, 2003).
9. Herbert Kitschelt, "A Review of the Political Economy of Governance" World Bank Policy Research Working Paper 3315, May 2004, 1.
10. Daniel Kaufman, Aart Kraay and Massimo Mastruzzi, *Governance Matters III: Governance Indicators for 1996-2002* (Washington: World Bank, June 30, 2003).
11. As defined in Jeffrey Sachs, "Globalization and Patterns of Economic Development," *Weltwirtschaftliches Archiv* 136, no. 4 (2000), 581. Sachs considers these countries to be narrowing the income gap with the higher technology and richer countries through a process of technological diffusion and capital flows from the leader to follower.
12. W.W. Rostow, *The Stages of Economic Growth* (Cambridge: Cambridge University Press, 1960).
13. Ibid, 284.
14. Earlier criticisms are summarized in Stephen Enke, "Economists and Development: Rediscovering Old Truths," *Journal of Economic Literature* 7, no.4 (December 1969): 1125-1139.
15. Jennifer Bremer and John Kasarda, "The Origins of Terror: Implications for U.S. Foreign Policy," *The Milken Institute Review* (Fourth Quarter 2002), 34-.
16. Other GMEI countries in the sample, Egypt and Turkey were grouped as stage 2 countries, while the UAE was placed in stage 3 (along with Israel a non-GMEI country).
17. A discussion of this technique together with several examples is given in: "Discriminant Analysis," in *SPSS Base 10.0 User's Guide* (Chicago: SPSS Inc., 1999), 315-322.
18. Based on the data sets, the period of analysis was 1995-2002.
19. The one exception was Mexico, which was originally classified as a phase 3 country, but was placed in phase 2 by the discriminant program.

20. High values for the governance variables are best, while low values for the economic freedom variables indicate high levels of attainment.

21. Following, Duygu Bazoglu Sezer, "The Greater Middle East Initiative, A Turkish Perspective," *Dar al Hayat*, June 13, 2004.

22. Cf. Robert Looney, "Iraq's Economic Transition: The Neoliberal Model and its Role," *The Middle East Journal* 57, no. 4 (Autumn 2003):568-587; and Robert Looney, "The Viability of Economic Shock Therapy in Iraq," *Challenge*, forthcoming September/October 2004.

23. Henry T. Azzam, "Changing the Legacy of Failure in the Arab World," *Arab News*, May 17, 2004.