

The Politics of Weak Control: State Capacity and Economic Semi-Formality in the Middle East

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After years of mystification and theoretical overemphasis on the role and functions of the state, an increasing number of scholars have recently begun to “demystify” and “disagregate” the state’s powers and ability to affect change in society.¹ Observers of the Middle East have been no exception, with an overwhelming majority focusing on the impressive, often massive edifices of the state, its leaders, or its institutional arrangements.² Equally prevalent have been recent studies that zero in on the limitations of Middle Eastern states, especially those without substantial oil resources, and on developments compelling them to readjust and in some cases abandon their traditional *modus operandi*.³ Almost all of these works have focused on the institutional and economic exigencies of the Middle East’s rentier states and their ensuing vulnerabilities to pressures from civil society.⁴

This article examines the limitations of the Middle Eastern state from a somewhat different angle, namely the nature of its relationship with a type of economic actor that may best be described as “semi-formal.” These are primarily comprised of members of the petite bourgeoisie and owners of small and medium-sized enterprises (SMEs). The article begins with an examination of the phenomenon of economic semi-formality within the larger context of the political economy of non-oil rich Middle Eastern states. It argues that these states face diminished capacities in their efforts to regulate the economic activities of the petite bourgeoisie and some SMEs. At best, the state can only partially enforce its regulative agendas on the activities of these economic actors, resulting in the emergence of the economic phenomenon of “semi-formality”: those economic activities that are only partially or episodically regulated by the state. Semi-formality, the article argues, is not simply the result of entrepreneurs’ natural impulse to evade state regulations. It is, more fundamentally, a function of the state’s own limited capacities to fulfill the regulative tasks it sets for itself. The state’s uneven enforcement of regulative policies—uneven over time or in relation to different economic actors—allows nonstate economic actors, whether overwhelmingly in the formal sector or in the informal sector of the economy, to slip in and out of semi-formality.

Those whose economic activities can be classified as semi-formal tend to come from one of two overlapping, interrelated economic backgrounds: the petite bourgeoisie, and the SME sector. The petite bourgeoisie, the article argues, exists in a condition of near-permanent semi-formality, as neither the state nor the petite bourgeoisie itself makes concerted efforts to actively engage the other. At best, the interaction between the two tends to be episodic and, when it does occur, often superficial. The economic activities of most SMEs, on the other hand, are technically supposed to be

regulated by the state. However, limitations in the state’s capacities, which are mostly a product of its institutional and information deficiencies, often allow the SMEs to slip into and out of semi-formality.

Relative economic autonomy from the state does not necessarily translate into overt political activism. In fact, semi-formal economic actors are among the groups least likely to engage in open political activities directed against the state. This reluctance to partake in political endeavors is largely rooted in their precarious existence both in relation to the vagaries of the national macro-economy and the occasional harassments of state agencies and their officials. For the most part, petite bourgeois semi-formals, similar to industrialists and organized labor groups, are “contingent democrats,” casting their lot with or against the ruling establishment when it suits their material interests.⁵ Put differently, the political dispositions of semi-formals are largely shaped by practical economic considerations.

Limited or impaired capacities are not unique to the states of the Middle East and can be found elsewhere in the developing world, and even in countries with advanced capitalist economies. Nevertheless, it is within the late developing countries where states’ capacities generally confront their greatest challenges, rendering them “weak” in relation to comparatively “strong societies.”⁶ This article’s focus on limited state capacities and economic semi-formality in the Middle East should not be construed as the region’s exceptionalism in this regard. Both phenomena can be found elsewhere in the developing world, and, to a lesser extent, even within highly advanced, industrialized countries.⁷ The purpose here is to explore the causes and consequences of these two phenomena in specific relation to the Middle East.

The Middle East, of course, is far from monolithic, and, at the broadest level, two general types of political economy may be found there. There are a small number of “oil monarchies,”⁸ in which the state has substantial oil revenues at its disposal and governs over a relatively small number of citizens through the largesse of the “petro-economy.” More common, however, are states whose economies are more integrated and are non-oil rich, or, as in the case of Iran, Iraq, and Algeria, even if they have oil, the revenues accrued from it are insufficient to placate the population by buying off their political quiescence. This latter group of Middle Eastern states has had a harder time coping with the difficulties of rentierism over the last two decades, and, as a result, their reactions to mounting societal pressures—ranging from degrees of accommodation to heightened repression—have been more extreme.⁹ For analytical and comparative purposes, the focus here is on these less wealthy, more integrated economies, found primarily outside of the Arabian Peninsula.

The Politics of Negative Equilibrium

Unlike actors within the formal and the informal sectors—whose economic activities tend to be marked by extremes of procedural formality versus near-complete informality—semi-formal enterprises operate out of formally established businesses, but conduct their business with little regard for formal procedures or regulations. The inability of the state to firmly establish its authority over these semi-formal entrepreneurs is due to a complex, dynamic series of interactions and processes. Both in its stated policies and in actual practice, the state tries to bring semi-formal enterprises under its control, at least financially if not bureaucratically. It thus creates bureaucratic institutions and agencies for this specific purpose (e.g. the Ministry of Economy, Chambers of Commerce, etc.). However, state agencies and their functionaries are often simply ignored by petit bourgeois small and medium-sized enterprises, whose commercial practices straddle formality and informality. The merchants' successful snubbing of the state is partly due to the state's own inherent limitations: quite simply, the state needs to preserve its available resources in order to more effectively co-opt and regulate the activities of wealthier industrialists and organized labor. Despite pretensions to the contrary, the state simply does not have the omnipresence that its policies would require. Equally important are the dispositions and the capabilities of the entrepreneurs themselves. Many neither trust the state's intentions nor agree with its overall ideological, political, or economic agendas. Consequently, they circumvent state procedures and regulations whenever possible. In short, in the Middle East one finds what Joel Migdal calls "limited states" both in general and in specific relationship to semi-formal enterprises.¹⁰

A negative equilibrium of sorts has thus developed between a state that is not quite able to implement many of its economic agendas and a society whose economically autonomous actors, in the form of the semi-formal SMEs and the petite bourgeoisie, are only partially able to evade the regulatory reaches of the state. The state, of course, is far from completely irrelevant. Its orchestration of the national macro-economy still influences the lives of all citizens, irrespective of the economic sector to which they belong. The non-economic initiatives of the state can also be just as profoundly consequential for the lives of the citizenry: conscription, policies toward ethnic or religious minorities, state-sponsored gender equity or discrimination initiatives, and compulsory education laws, to mention only a few. But in terms of routine economic interactions between the state on the one hand and those outside of the formal sector on the other, the prevailing pattern of relationship is one of general disconnect. State control over social actors, their resources, and their activities is neither as direct nor as complete as state actors would like. At the same time, it is sufficient for state actors to continue holding onto power and, if they wish, to maintain the status quo seemingly indefinitely.

This potential for stasis is largely a product of the priorities of semi-formal entrepreneurs. Though far from being a unitary class actor, the semi-formal sector has both the political autonomy and the necessary resources to resist state control and regulations and to even present a potentially serious challenge to the state. Nevertheless, the following pages argue

that the semi-formal entrepreneurs' primary preoccupation remains economic—maximizing benefits—and not necessarily political. Although semi-formal enterprises play a crucial role in the economies of the Middle East and can consequently flex their economic muscles against the state, they have so far failed to do so on a consistent basis. In fact, except for brief interludes when these entrepreneurs have entered into strategic alliances with other social actors opposing the state—as they did in Iran's 1905-11 Constitutional and 1978-79 Islamic Revolutions and as they have done in Algeria's civil war since 1992—they have generally avoided deliberate efforts to change or undermine the political status quo.

By and large, semi-formal entrepreneurs tend to be politically pragmatic and, at most, they finance activities that *gradually* help erode the legitimacy of the state. Otherwise, they tend to be apolitical, which further reinforces the lack of a viable institutional nexus in the Middle East between state and society. More importantly, semi-formality perpetuates a precarious political balance rooted in partially effective penetration by the state and partially successful evasion by potentially influential social actors. The ensuing negative equilibrium between the Middle East's non-oil rich states and the societies over which they govern is among the main reasons the region remains one of the last authoritarian holdouts.

In recent years, the rentier economies of the Middle East have experienced crises of one form or another, and in the process almost all economic actors have been affected.¹¹ The political and economic consequences have been most acute for the formal sector, whose organic links with the state are relatively the most extensive. The downturn has also affected the informal sector, but not nearly as directly or as extensively. In fact, in the Middle East, as in other parts of the developing world, there is little that the state can or is willing to do about the informal sector. As for the semi-formal entrepreneurs, while they have suffered as a result of the general economic slowdown, their relations with the state—which have been minimal and friction-ridden—have not changed. Their wealth and relative autonomy from the state have afforded them considerable economic leeway and freedom of action. However, so far at least, most semi-formal entrepreneurs have chosen not to translate their relative economic autonomy into political power or to curtail the powers of the state. The main reason for this lack of sustained political pressure by these entrepreneurs lies in their continuing preoccupation with economic endeavors. As a result, in the Middle East there is a basic economic disconnect between the state and one of society's most preponderant economic actors, which in turn perpetuates an absence of meaningful, routine procedural and/or institutional venues for state and society to interact.

The Phenomenon of Semi-Formality

Much of the literature on the political economy of the Middle East focuses on the formal sector and its relations with the state.¹² There are a few other studies, equally rich in depth and insight, that concentrate on the informal economy.¹³ Although there have been some perceptive studies of the *bazaari* merchants and other economic "informal networks,"¹⁴ none examine the semi-formal economy and the pivotal relationship between its actors and the state in a systemic manner.¹⁵

Unlike the other two “sectors” of the economy—the formal and informal sectors—it is rather difficult to speak of a semi-formal “sector” *per se*. Due to the agendas, dispositions, and capacities of the state, and its inconsistent regulation of the economic activities of social actors (discussed below), the boundaries between the formal and informal sectors are largely porous. Firms and other business enterprises, both large and small, therefore, can slip in and out of semi-formality. In many ways, semi-formality is a condition, at times temporary, within which established firms operate. Nevertheless, there is a category of entrepreneurs, conventionally referred to as members of the petite bourgeoisie, for whom semi-formality is more permanent. Michael Mann’s definition of the petite bourgeoisie is revealing in this respect:

The petite bourgeoisie owns and controls its means of production and its own labor but employs no free wage labor (as in Marxist definitions). The typical petite bourgeois business employs dependent family labor at non-market rates (usually below them). The “owner” may be a person, family, or a partnership of friends, usually on a substantially noncontractual basis—profits, losses, and labor obligations are shared according to diffuse normative understandings of family and friendship, unlike the more impersonal partnerships of larger business. The petite bourgeoisie has capitalist property ownership but with “nonfree” wage labor; it is familial and particularistic.¹⁶

In the Middle East, the petite bourgeoisie is primarily composed of small shopkeepers, bazaar merchants, petty traders, and small-scale manufacturers. Most of these merchants operate out of small, nondescript stalls often found in the commercial districts of cities large and small, especially in the bazaar area and other inner-city marketplaces.

Semi-formal enterprises, whether belonging to the petite bourgeoisie or the SMEs, can have substantial financial and economic resources at their disposal. Although these business establishments are often officially registered and licensed, much of their transactions are conducted informally and unofficially, bound not by specific government regulations but by internal, complex dynamics that have evolved within and between each of the businesses over time. The commonplace use of promissory notes and the *havaleb* system to transfer money from one party to another, in preference to going through the formal banking system, is a prime example. Due to their outward appearance, these businesses can give a misleading impression of volume of capital they generate.

Semi-formal enterprises generally fall into one of two categories. Many specialize in the sale of one or more specific goods—fabrics, carpets, jewelry, leather, copper and brass, bridal and dowry goods, herbs and spices, nuts and dried fruits, patisseries, etc. There is often only one owner, although some stores may be owned by a partnership of two entrepreneurs. Many of these businesses are found in the bazaar—in fact, these are often the *only* businesses found in the bazaar, with each wing of the bazaar or section within each wing housing similar businesses. Nevertheless, there are too many of these establishments to fit into the narrow alleys and the limited spaces available in the bazaar. They can, therefore, be found throughout the business districts of most larger towns and cities as well.

Other semi-formal businesses offer a variety of services, including lending money, selling cars or real estate, general contracting, importing industrial or automobile spare parts, and the like. In Egypt, there is an expansive informal credit market, which includes Islamic investment companies and rotating savings and credit associations.¹⁷ Similar semi-formal financial services can be found throughout the Middle East, complementing the role of commercial banks and filling gaps in their range of services.¹⁸ More importantly, they present a human face, and trusted, traditional networks of business associates, which state agencies cannot provide.

Since these types of businesses tend to be more capital intensive and require some technical or bureaucratic know-how, many of these enterprises are made-up of a partnership of two or more investors and entrepreneurs. It is not uncommon to come across an individual with investments or other types of involvement in a number of such businesses. Unlike shops and stores that sell goods and products, these service businesses tend not to be concentrated inside the bazaar. Instead, many line the streets and the neighboring areas around the bazaar and are also found in other hubs of economic activity throughout the city.

In large measure, the phenomenon of semi-formality is a product of the evolution of the political economy of the Middle East over the last century or so. Despite occasional attempts at fostering substantive economic change and industrial growth throughout its territories, especially in Istanbul, and, under Muhammad Ali, in Egypt, Ottoman administrators largely avoided embarking on initiatives that would alter the basic class configurations of the societies over which they ruled.¹⁹ An expanding state bureaucracy did, of course, facilitate the rise of an embryonic modern middle class and a bourgeoisie. But most of the Middle East entered the twentieth century with a class make-up that was not too different from that which had existed a few centuries before. The top was occupied by a ruling class of courtiers, followed closely by a landed aristocracy, to which also belonged leading military commanders, wealthy merchants, and tribal leaders. Then came a very small middle class, members of the petite bourgeoisie, and an endless pool of unskilled (or low-skilled) landless peasants, many of whom lived in chronic, abject poverty.²⁰ Throughout Ottoman rule and even in the era of national independence beginning in the 1920s, the state basically left the petite bourgeoisie alone. The interlude of European rule—1920s to the late 1940s—did not significantly alter this class arrangement, although accelerated social change did provide further stimulus for the growth of the middle classes. Nevertheless, as far as petite bourgeois shopkeepers and *bazaari* merchants were concerned, they had pretty much been left alone by the state from the beginning of the eighteenth century until the 1950s.

Beginning in the early 1950s, earlier in a couple of countries and later in some others, in almost all Middle Eastern countries, state-led economic development was seen as the most promising paths to industrialization. Egypt’s Gamal Abdel Nasser led the way, soon to be accompanied by Habib Bourghuiba in Tunisia,²¹ Houari Boumediene in Algeria,²² Muammar Qaddafi in Libya, and Hafiz Assad in Syria.²³ Similar statist policies were adopted by the many short-term

leaders of Iraq and Turkey, as well as by the Iranian monarchy.²⁴

Across the board, the state's socialist policies were designed with an eye toward fostering infrastructural development at the *national* level, as measured by various macro-economic indices. To achieve these economic goals, and at the same time solidify its domestic base of support, the state developed and in turn relied on rather elaborate corporatist arrangements with various social classes.²⁵ The state's main goal was to encompass within its orbit of control various influential, organized economic actors. In almost all cases, these included labor unions such as those of teachers, workers in large industrial plants, civil servants, wealthy merchants and industrialists, and what remained of the landed classes.²⁶ Frequently, a ministry of *awqaf* (religious endowments) and religious affairs, or something similar to it, was also created to incorporate the clerical establishment into the state.²⁷

Left out of this corporatist formula were petit bourgeois traders and others with similarly informal means of economic production. This was largely a product of limits on the state's institutional abilities, which are discussed in greater detail in the following section. For now, it must be noted that despite the socialist rhetoric of the state, the petite bourgeoisie maintained considerable autonomy from the state even at the height of socialist experiments in the 1950s and the 1960s.

This relative autonomy was greatly enhanced when the state abandoned its socialist experiments throughout the 1970s and the 1980s. In one form or another, the liberalization drives of the past two to three decades have been designed to enhance domestic political legitimacy, improve economic performance, encourage greater foreign direct investment, and shed some of the overarching tentacles of the state.²⁸ More than two decades on, the long-term consequences of these liberalization programs for Middle Eastern economies remain unclear.²⁹ There are, nevertheless, two interrelated consequences that are so far clearly evident. To begin with, privatization has drastically increased the number and total output of private enterprises throughout the Middle East. In Algeria, for example, the number of private enterprises grew from around 10,000 in 1980 to approximately 25,000 in 1995.³⁰ A similar doubling in the number of private enterprises occurred in Syria between the early 1980s and the early 1990s.³¹ And, in Egypt, where the pace of privatization has been somewhat slower, by the late 1990s, some 104 of 314 state-owned public enterprises had been partially or wholly privatized.³² These and other state-sponsored economic liberalization programs throughout the region have made it easier for industries to slip into semi-formality (and out of it when necessary). Secondly, so far at least, liberalization has not resulted in a significant enhancement of state capabilities in relation to most social actors, especially members of the petite bourgeoisie. It is to the examination of these phenomena to which the article turns next.

State Capacity in the Middle East

Over the last few decades, states in the Middle East have engaged in concerted and largely successful efforts to significantly enhance their institutional and political capacities. Nevertheless, despite noticeable accomplishments in such areas as

infrastructural development, economic growth, national defense, and state-sponsored social change (such as literacy programs, health and welfare initiatives, employment projects, and the like), these successes have been far from unconditional. Today, the Middle Eastern state faces serious challenges not only from the outside (menacing neighbors and enemies), but, more importantly, from within. These include a myriad of economic difficulties (chronic unemployment, structurally rooted budget deficits, rising populations, insufficient foreign direct investment, noncompetitive industries, etc.), frictions with ethnic and/or religious minorities, and increasing popular demands for greater representation and political accountability.³³

In specific reference to the domestic economy, and in particular in its dealing with the formal and informal economic sectors, the state faces a more basic problem, one of penetration. Given that the formal sector is—theoretically at least—the most organized and is bound by official procedures and regulations, the state has relatively the greatest degree of influence and control over its activities and its growth in size and productivity. In contrast, the informal sector remains largely outside of the state's purview, often due to the state's deliberate neglect. But even if the state wanted to regulate the SMEs and the petite bourgeoisie, it often lacks the administrative and institutional capabilities needed to regulate the economic activities of the countless micro-businesses that operate informally. The semi-formals hover between the formal and the informal sectors. The state has neither the political will nor the institutional capacity to control those entrepreneurs whose economic activities are characterized by semi-formality.

Why is this the case? The answer lies in the state's continued reliance on three interrelated, reinforcing phenomena designed to prolong its political longevity. They include rentierism, corporatism, and the liberalization programs of the 1980s and beyond. Combined, these phenomena go to the heart of "ruling bargains" on which most states of the Middle East have come to rely.³⁴ Nevertheless, they have also had the paradoxical effect of undermining the state's penetrative capacities and its ability to satisfactorily regulate the activities of the petite bourgeoisie.

Rentierism is a deeply ingrained feature of literally all Middle East economies.³⁵ Despite its pervasiveness, however, rentierism undermines the state's penetrative capacity in relation to society in two fundamental ways. To begin with, rentierism results in underdevelopment in the state's extractive capabilities. As Hootan Shambayati has observed, "states normally have to penetrate society in order to extract and redistribute the economic surplus. Under rentier conditions, in contrast, the state's main function is distribution, not extraction. The state's extractive capacities are likely to remain underdeveloped, or actually to decline."³⁶ In particular, the state's fiscal capacities, necessary for the mobilization of domestic resources, remain largely absent, as the Libyan state realized when it sought to dismantle some of its controls over the economy.³⁷ Emphasis is on the *distribution* of rents in ways that would accrue the highest levels of political returns to state actors. The state need not, therefore, devote great energy for the *extraction* of resources, the most significant of which is

taxes, from social actors or for detailed regulation of their economic activities. Paradoxically, despite their heavy roles in the national economy, rentier states are not well integrated into the domestic economy because they often lack the necessary co-optive institutions.³⁸

The rentier state tends to be most hands-off in relation to the petite bourgeoisie and small and medium-sized enterprises. As noted earlier, semi-formality tends to be most pervasive among the SMEs and petit bourgeois traders. Due to the structure of the national economy, especially given the continued prevalence of centralized economic decision-making and state-owned enterprises, SMEs are unlikely to be engaged in economic activities with significance for “national security,” even as broadly as “national security” is often defined in the Middle East. In other words, there is seldom a political and/or security imperative to closely monitor the economic activities of the SMEs, and even less so those of the petite bourgeoisie. When the state does interact with these economic groups, its primary purpose is to facilitate the perpetuation of the rentier system and, therefore, the distribution of rent revenues instead of detailed regulation. Eva Bellin’s observations about Tunisia can well be applied to other, similar cases:

To entice Tunisian entrepreneurs into undertaking industrial ventures, the state resorted to a wide battery of by now familiar measures. These measures included generous tax breaks, easy credit, protection from foreign competition, licensed monopolies for production for the domestic market, guaranteed profits (through controlled cost-plus pricing), and guaranteed government contracts where possible. In short, the state’s strategy was to sweeten the prospects of profitability in industry by offering entrepreneurs special opportunities to harvest rents, rents available thanks to government intervention in the workings of the market. These measures, it was hoped, would lure risk-averse entrepreneurs into the *terra incognita* of industry.³⁹

Rentierism’s emphasis on distribution over extraction has a second detrimental consequence for the state’s penetrative capacities, namely its lack of adequate information. Insufficient attention to resource extraction impedes the government’s ability to collect adequate data on various economic actors in society.⁴⁰ Few SMEs and petit bourgeois entrepreneurs are likely to voluntarily furnish information to the state’s agencies in order to be more thoroughly regulated by them, unless, of course, it is to their advantage. Even for purposes of distribution, the state often finds itself with insufficient information about entrepreneurs and their absorptive abilities. As a result, states are often forced to rely on informal contacts and other personal information sources in order to acquire technical knowledge, determine the viability of projects, and award contracts.⁴¹ The potential for corruption and cronyism is enormous. At the same time, the state’s awareness of and ability to adequately regulate the economic activities of social actors is compromised.

This begs the question of whether or not the state *wants* to know about and to regulate the petite bourgeoisie to begin with. Where does the penetration of the petite bourgeoisie—and by implication the regulation of its economic activities—fit insofar as the state’s “ruling bargain” is concerned?

The answer, in short, is that the state does not really care to know much about the petite bourgeoisie and its economic life, at least in comparison with other economically active groups, the regulation of which, or outright control, it considers to be politically more important.

As discussed above, due to its own organizational and economic preferences, the petite bourgeoisie has not really made efforts to become a part of the state’s corporatist arrangement, but neither has the state actively sought to incorporate the petite bourgeoisie within itself. Instead, most states in the Middle East have used the state bureaucracy to foster corporatist and/or clientelistic ties with members of the urban middle classes, industrialists, and, in some instances, with organized labor.⁴² The state has not, however, shown a willingness to commit its available institutional resources to organically link itself with an economically active sector that lacks its own, pre-existing means of internal organization and mobilization. Workers have unions, many of whom are either organized and hence controlled by the state to begin with, or, if initially independent, are quickly brought into line with the state’s objectives. Civil servants are organically linked to the state, and to one another, through the bureaucracy. Wealthy merchants and industrialists are also linked to the state through business dealings, various patronage networks, or personal connections.⁴³ However, although small traders and shop owners often have their own guilds and syndicates, they are generally considered both economically and organizationally too weak or insignificant to be included in the state’s corporatist scheme.⁴⁴ Often, we see the “convergence of interests of public- and private-sector elites”—as in Syria, Egypt, Algeria, Iraq, and elsewhere, which has resulted in the emergence of a so-called “new bourgeoisie.”⁴⁵ But literally nowhere in the Middle East do we see consistent efforts on the part of the state to regulate the economic activities of the petite bourgeoisie.

There are other reasons for the petite bourgeoisie’s historic exclusion from the state’s corporatist arrangements. First, the ruling class itself has had no organic links with petty traders and small entrepreneurs, coming instead primarily from the armed forces at first and, later, self-recruiting from the military-bureaucratic establishment.⁴⁶ Also, for the ideologically more aware politicians of the region, neither the SMEs nor the petite bourgeoisie had been singled out for their great mobilization potential by the prevailing ideologies of the day. If anything, within the context of the state’s frantic drive toward modernization, they were seen as parasitic and an impediment to modernization rather than as an engine of progress. In other words, the state’s political ideology saw no need for control of the petite bourgeoisie nor for its incorporation into the ruling bargain.

Furthermore, the petite bourgeoisie did not really fit into the state’s economic development plans. In fact, especially with the statist policies of the pre-*infitah* period, the mighty and urgent task of national development was entrusted to large state-owned enterprises, or at most to parastatals. More ideological states (Iraq and Syria, and to a lesser extent Egypt under Nasser) at times viewed private entrepreneurs with disdain and suspicion and were, therefore, often hostile to them.⁴⁷ Although not necessarily disdainful of the petite

bourgeoisie as a class, the state certainly saw it as devoid of developmental potential and, therefore, inconsequential for national economic development.⁴⁸ There is no evidence to suggest that the state's conception of and approach toward the petite bourgeoisie has changed in the post-*infitah* era. The upshot has been a largely hands-off approach by the state toward the petite bourgeoisie, both politically and economically, resulting in the latter's relative autonomy, at least in its economic activities.

The relationship between the state and the SMEs has been only slightly different, marked by greater bureaucratic and administrative control. If anything, the liberalization reforms of the late 1970s and the 1980s, which were invariably designed to reverse the sluggish economic performance of the past decades and revamp the state's domestic legitimacy, only loosened some of the restrictive policies of the state toward small and some medium-sized enterprises. Thus even in the most state-centered of the economies of the Middle East—Syria, Algeria, and Egypt—there were noticeable increases in private-sector participation in the economy and a concurrent proliferation of private firms. Given the authoritarian retrenchments of the 1990s, and, among other things, the troubling “bread riots” of the late 1980s in Egypt, Jordan, and Morocco and the bloody Algerian civil war that began in 1992, the political success of these privatization efforts is open to question.⁴⁹

Nevertheless, what can be surmised is that privatization did not qualitatively enhance the capacity of the state to regulate either the petite bourgeoisie or the SMEs. Economic liberalization was not concomitant with the initiation of the necessary institutional adjustments that would have enhanced the state's capacities *vis-a-vis* the economic sectors. Various privatization laws were enacted, and in literally all countries of the Middle East specific government-funded agencies have been established to help private enterprises get off the ground and operate successfully. In Turkey, Jordan, Egypt, and Tunisia, the state has especially targeted the SME sector for growth and development. Turkey's Small and Medium-Sized Industry Development Organization, *Kucuk ve Orta Olcekli Sanayi Gelifitirme ve Destekleme (KOSGEB)*, is a case in point. Among other assistance services, the organization, in coordination with other government agencies, lends consulting and technical advice to Turkish SMEs at affordable prices. By and large, however, past the initial phase of securing the necessary permits, it is still largely up to the private entrepreneurs themselves to engage with state agencies on a regular basis.⁵⁰ Despite the efforts of organizations like KOSGEB in Turkey and elsewhere, those institutional deficiencies that in the past mitigated the state's ability to collect information, to know about and accurately assess the workings of most small and micro-enterprises, continue to exist. Privatization, in short, has not fundamentally affected the phenomenon of semi-formality. If anything, by swelling the ranks of the private sector, it has given it greater depth and salience.

The State and the Semi-Formals

A closer look at the state's relations with semi-formal enterprises reveals the emergence of a precarious, uneasy balance between the two, one marked by minimal interaction and, despite mutual feelings of suspicion and mistrust, gen-

eral neglect and avoidance. Although the state has often created highly elaborate procedures aimed at regulating the operations of businesses, semi-formal enterprises seldom bind themselves by state regulations when it comes to such crucial matters as, hiring or firing employees, lending or borrowing money, setting the price of goods and services, observing child labor laws, remaining open or closed on certain state-mandated holidays, and the like. Quite frequently, proprietors of small and medium-sized businesses consider government regulations intrusive and ill informed, tedious and cumbersome, designed to maximize the benefits accrued to the state and thus ultimately harmful to business. They therefore tend to mistrust the formal institutions of the state and view the bureaucracy in an adversarial light.⁵¹

In an attempt to derive revenues from society in forms other than what may appear as taxes or levies, many Middle Eastern states often collect “fees” of one magnitude or another from businesses. To the merchants and businessmen who bear the brunt of these fees, they often appear arbitrary and unfair, wasted at best on misguided state projects or at worst on corrupt officials. Even banks and other official lending agencies are viewed with suspicion. They enable the state to keep track of one's assets and to tax hard-earned savings. Even worse, in times of crisis or instability, the state may simply seize one's assets. Unofficial moneylenders, especially those with a history of doing fair business, are often held in much higher esteem than formal banks and other institutions affiliated with the state. Evading the state, therefore, and the multiple layers of institutions and officials attached to it, is considered as central to the economic vitality of petit bourgeois and SME businesses as almost any other endeavor.

It is important to remember that semi-formal entrepreneurs often *perceive* the state to be an obstacle to their desired economic goals. This perception tends to be more accurate than not. Most developing states do indeed see the private sector as weak, likely to engage in speculation and profiteering, and prone to sell out the national interest through alliances with foreign capital.⁵² The state also tries to regulate what goes on within semi-formal enterprises as much as possible and to collect its share of tax revenues generated by the sector's economic activities. Despite their often unpretentious and unassuming storefronts—though there certainly are plenty of glitzy shops and fancy boutiques that cater to the urban bourgeoisie—semi-formal entrepreneurs tend to be affluent and have substantial capital at their disposal. Throughout the Middle East, with the exception of the oil monarchies, the middle classes (or those who view themselves as a part of the middle class) have difficulty making ends meet.⁵³ The regional recession that started as far back as 1986 and has continued intermittently so far has not helped matters.⁵⁴ Many have to take second or even third jobs in order to be able to afford their rent or mortgage, or the countless durable goods that have become essential to middle class living (including, more recently, computers, satellite television, and cellular telephones). More and more families find it necessary to have two incomes, with an increasing number of wives having to join the ranks of the formally employed.⁵⁵ In Algeria, for example, a number of “small-time black market entrepreneurs,” the *trabendistes*, fly between Algiers and coastal

Spanish cities in search of small durable goods—tape recorders, jeans, auto parts, etc.—to sell to interested buyers back home.⁵⁶ In recent years, an increasing number of Iranians traveling to Persian Gulf states also bring back consumer goods for resale on the black market. Within such a context, when urban life and the maintenance of a certain lifestyle are struggles for most of the middle classes, semi-formal entrepreneurs are distinguished from the rest by their wealth and their disposable income. Yet unlike professional technocrats and other more affluent members of the upper classes (physicians, industrialists, high-ranking bureaucrats, etc.), not only do they not engage in conspicuous consumption, but, more importantly, their institutional and organic ties with the state are also either minimal or nonexistent.

It is here that the main significance of economic semi-formality lies. In their social and cultural outlook, in their purchasing habits, and their lifestyle, semi-formal entrepreneurs resemble (and in fact overlap with) the middle classes. As such, they do not see much that is redeeming about the state or its leaders, seldom share its ideology or its policy agendas, and have at best a utilitarian approach to its institutions and its personnel: best avoided at all costs unless they somehow further one's own cause, which, most believe, happens only rarely. Nevertheless, unlike the so-called state bourgeoisie, semi-formal entrepreneurs often enjoy considerable economic autonomy from the state. The state's contacts with semi-formal enterprises are irregular and sporadic. Its ability to collect taxes and other fees is inconsistent and depends on such variables as the wiliness of entrepreneurs to evade its institutions and its personnel, the effectiveness of the state's own agents, the whims of policymakers, the zealotry or apathy of bureaucrats charged with policy implementation, and the like.⁵⁷ Thus the state's efforts aimed at curtailing economic semi-formality and its ability to extract resources from the petite bourgeoisie and most SMEs are at best uneven and at worst minimal.

In the final analysis, semi-formal entrepreneurs come as close to exercising autonomy from the state as any of the groups or segments in society can. What makes this autonomy particularly troubling for the state is the semi-formal entrepreneurs' potential economic muscle and their ability to often influence the supply of a specific good in the country (e.g. spare parts or car tires). More troubling for the state is the ability of both the SMEs and the petite bourgeoisie to regulate themselves unofficially and to operate without the state's patrimonial guidance and supervision. In fact, on their own, semi-formal enterprises can often fulfill many of the economic functions that the state performs for other sectors, while still managing to remain commercially viable and compassionate. These include providing temporary or long-term employment for friends and family, rendering financial assistance in times of need, wisdom and guidance to those who seek it, acting as referrals (*wasta*), and the many other similar functions around which daily life revolves.

It goes without saying that there is great potential for friction between the state and semi-formal entrepreneurs over economic concerns. Suffice it to say at this point that as an entrepreneurial class, the primary focus of semi-formal entrepreneurs is to maximize their profits in an environment of minimal government regulation and interference. As such,

they often see the “over-politicized” state's ubiquitous ambitions as an inherent detriment and at times even a threat to their economic interests.

Adding to this potential economic friction is the monopoly that many Middle Eastern states maintain on access to much needed heavy equipment, advanced machinery, and raw materials (fuel, coal, cement, iron, paper, etc.) that semi-formal entrepreneurs *may* need to conduct their business. Due to the nature of their business concerns, semi-formal entrepreneurs seldom need these or other materials to which the state has ready access. Nevertheless, in those rare instances where they might be needed, there is potential for competition and friction.

In the face of the state's insistence on modernizing the economy—enforced with varying degrees of intensity and conviction throughout the Middle East—many entrepreneurs in the semi-formal sector are accustomed to relying on tried and tested traditional methods and procedures for conducting business. In essence, the state tries to promote an economic and financial culture that is ostensibly modern (“modern” as defined by the state), but one that most semi-formal entrepreneurs see as alien and untested, and, therefore, refuse to embrace wholeheartedly. An example of this occurred in Egypt in the late 1980s and the early 1990s when the state built a modern-looking shopping mall in the outskirts of Cairo and sought to rent or sell store spaces to merchants from the *sug* (bazaar) at subsidized prices. To this day, many of the spaces remain vacant. In its efforts to give the economy a more modern look, the Egyptian state underestimated the strength of traditional economic networks and ways of conducting business.

Yet another potential source of friction between the state and semi-formal businesses is the latter's preference for non-state and nonformal venues for financial transactions. The birth and spread of parallel financial institutions and practices, especially in Egypt, and the widespread use of Islamic finance, both in Egypt and elsewhere, tend to erode the legitimacy of the state, but it does so only gradually and over time. In fact, in the larger scheme of things, it is unclear, and indeed questionable, how effective of an opposition strategy such alternative investments might be. Nevertheless, most such extra-state actors that make the functions of state agencies redundant can have a politically oppositional flavor, however ineffectual. In essence, the sector's oppositional stance is rather pragmatic: it opposes the state in whatever subtle ways it can, but it refrains from openly antagonizing state actors or agencies.

It is important to note that the semi-formal entrepreneurs' relations with the state are not always oppositional. There may, in fact, develop a relationship between the two that is mutually beneficial and reinforces at once the political and the economic *status quo*. This is the type of relationship that appears to have developed in the mid- to the late-1970s in Egypt when a number of entrepreneurs benefited from and in turn vigorously supported President Sadat's *infitah* policies.⁵⁸ Also throughout the oil monarchies, there is a wealthy and influential class of merchants, often situated just below the royal family, with whom the royals maintain extensive familial, clientelistic, political, and economic ties.⁵⁹ And, in Iran, in the early years of the Islamic Republic at least,

there appeared to be substantial support for the new regime and its policies in the bazaar and in other segments of the semi-formal economy.⁶⁰ There is little doubt that in these and in other countries of the Middle East, the pursuit of clientalist politics and rentier economics by the state has kept the semi-formal sector content and politically quiescent for relatively lengthy periods of times. Clearly, favorable conditions for growth, prosperity, and high levels of consumer spending, as fostered and encouraged by the state, go a long way toward alleviating the potential irritations of semi-formal entrepreneurs with the state and, over time, may even turn many of them into one of the state's main sources of financial support. It is pragmatism rather than ideological commitments that characterize the economic and political predispositions of most semi-formal entrepreneurs.

Conclusion

This article has examined the two interrelated phenomena of limited political capacity and economic semi-formality in relation to the non-oil rich economics of the Middle East. Petit bourgeois entrepreneurs and most SMEs have a proclivity to avoid extensive and regular contacts with the state, especially when it comes to regulating their economic activities over time. Instead, these "semi-formal" businesses, while keeping their contacts with official state agencies to a minimum, often rely on existing networks of contacts, information, and resources. They neither welcome in-depth contacts with the state, nor do they necessarily have favorable perceptions toward the state's agencies or their agendas. Despite the much-propagated economic and political liberalization programs of the 1980s and the 1990s, the semi-formal sector's perceptions of and relations with the state have changed little. Even with their new democratic rhetoric, the microeconomic nexus between the states of the Middle East and the societies over which they rule—whether in the form of regulation or control, or even various means of assistance and encouragement—remains largely limited to the employees and owners of the formal sector. An equally sizable segment of the economically active population remains oblivious to much of this economic interaction between the state and society.

The ensuing gap between the state on the one hand and a significant segment of the economically active population on the other has consequences that go beyond economics. In a sense, in the Middle East the state and society remain largely isolated from one another, and their occasional contacts revolve around the distribution of rent revenues by the state to social actors. Not only do state agendas become harder to implement, but society's own capabilities to mobilize around political goals also become somewhat compromised. Because of their particular economic and political positions, semi-formal entrepreneurs tend to be highly pragmatic in their pursuit of political ideals. Thus the relative autonomy that the SMEs and the petite bourgeoisie enjoy from the state does not automatically make them natural agents for demands for political change or accountability. Semi-formal entrepreneurs are likely to put their economic interests above political ideals. Even more likely to do so are members of the informal sector, for whom earning a livelihood is simply a matter of survival. It is little wonder, then, that despite highly adverse economic conditions throughout the Middle East in recent years, especially in the non-oil rich states under discussion here,

political activism by both the semi-formals and the informals have at best been episodic and very infrequent. In short, the political control of the state remains intact, even in the face of reduced capacity and pervasive economic semi-formality.

NOTES

¹Joel Migdal, "Studying the State" in *Comparative Politics: Rationality, Culture, and Structure*, ed. Mark Irving Lichbach and Alan Zuckerman (Cambridge: Cambridge University Press, 1997), 208-235; Joel Migdal, Atul Kohli, and Vivienne Shue, eds., *State Power and Social Forces: Domination and Transformation in the Third World* (Cambridge: Cambridge University Press, 1994).

²A very small sample includes: James Bill and Robert Springborg, *Politics in the Middle East*, 5th ed. (New York: Longman, 2000); Simon Bromley, *Rethinking Middle East Politics* (Austin: University of Texas Press, 1994); Fred Halliday and Hamza Alavi, eds., *State and Ideology in the Middle East and Pakistan* (New York: Monthly Review Press, 1988); Jamil Jreisat *Politics without Process: Administering Development in the Arab World* (Boulder: Lynne Rienner, 1997); Ghassan Salame, ed. *The Foundations of the Arab State* (London: Croom Helm, 1987); Iliya Harik and Denis Sullivan, eds., *Privatization and Liberalization in the Middle East* (Bloomington: Indiana University Press, 1992); Roger Owen, *State, Power and Politics in the Making of the Modern Middle East*, 2nd ed. (London: Routledge, 2000); and Abdo Baaklini, Guilain Denoeux, and Robert Springborg *Legislative Politics in the Arab World: The Resurgence of Democratic Institutions* (Boulder: Lynne Rienner, 1999).

³John Esposito and John Voll, *Islam and Democracy* (Oxford: Oxford University Press, 1996); Najib Ghadbian, *Democratization and the Islamist Challenge in the Arab World* (Boulder: Lynne Rienner, 1997); Mohamed Hamid, *The Politicization of Islam: A Case Study of Tunisia* (Boulder: Westview, 1998); and, Emad Eldin Shahin, *Political Ascent: Contemporary Islamic Movements in North Africa* (Bloomington: Indiana University Press, 1998).

⁴Rex Brynen, "Economic Crisis and Post Democratization in the Arab World: The Case of Jordan" *Canadian Journal of Political Science* 25, no. 1 (1992): 69-97; Steven Dorr, "Democratization in the Middle East," in *Global Transformation and the Third World*, ed. Robert Slater, Barry Shutz, and Steven Dorr (Boulder: Lynne Rienner, 1993), 131-157; Saad Eddin Ibrahim, "Crises, Elites, and Democratization in the Arab World," *The Middle East Journal* 47, no. 2 (1993): 292-305; Kanan Makiya, "Toleration and the New Arab Politics," *Journal of Democracy* 6, no. 1, (1995): 90-103; and Richard Augustus Norton, ed. *Civil Society in the Middle East* (Leiden: E.J. Brill, 1995).

⁵Eva Bellin, "Contingent Democrats: Industrialists, Labor, and Democratization in Late-Developing Countries," *World Politics* 52 (January 2000): 179.

⁶Joel Migdal, *Strong Societies and Weak States: State-Society Relations and State Capabilities in the Third World* (Princeton: Princeton University Press, 1988).

⁷See for example Friedrich Schneider, "What Do We Know about Shadow Economies: Evidence from 21 OECD Countries," *World Economics* 2, no. 4, (2001): 19-32.

⁸F. Gregory Gause, *Oil Monarchies: Domestic and Security Challenges in the Arab Gulf States* (New York: Council on Foreign Relations Press, 1994).

⁹Morocco and Egypt represent two extremes of accommodation and repression respectively, with the Moroccan state giving greater freedom of action to the legislature in the 1990s more than ever before while the Egyptian state has become increasingly more repressive. See Baaklini, Denooux, and Springborg, *Legislative Politics in the Arab World*.

¹⁰Migdal, "Studying the State," 221.

¹¹For a definition of rentierism see note 34 below.

¹²Hooshang Amirahmadi, *Revolution and Economic Transition: The Iranian Experience* (Albany: SUNY Press, 1990); Kiren Aziz Chaudhry, *The Price of Wealth: Economies and Institutions in the Middle East* (Ithaca: Cornell University Press 1997); Manochehr Dorraj, "State, Petroleum, and Democratization in the Middle East and North Africa," in *The Changing Political Economy of the Third World*, ed. Manochehr Dorraj (Boulder: Lynne Rienner, 1995), 119-143. Ellis Jay Goldberg, ed., *The Social History of Labor in the Middle East* (Boulder: Westview, 1996); Iliya Harik, "Privatization: The Issues, the Prospects, and the Fears," in *Privatization and Liberalization in the Middle East*, ed. Iliya Harik and Denis Sullivan (Bloomington: Indiana University Press, 1992), 1-23; Homa Katouzian, *The Political Economy of Modern Iran, 1926-1979* (New York: NYU Press, 1981); Timothy Piro, *The Political Economy of Market Reform in Jordan* (New York: Rowman & Littlefield, 1998); and Alan Richards and John Waterbury, *A Political Economy of the Middle East*, 2nd ed. (Boulder: Westview, 1996).

¹³Edmund Burke ed., *Struggle and Survival in the Modern Middle East* (Berkeley: University of California Press, 1993).

¹⁴Guilain Denooux, *Urban Unrest in the Middle East: A Comparative Study of Informal Networks in Egypt, Iran, and Lebanon* (Albany: SUNY Press, 1993).

¹⁵An insightful exception is Deborah Harrold, "The Menace and Appeal of Algeria's Parallel Economy," *Middle East Report* (January-February 1995): 18-22. Also, Sanchez, Palmiero, and Ferrero discuss a "quasi-formal" sector, although they apply the concept to "those earning a high income either because of advanced skills, or because of high capital intensity or because of oligarchical market environment," embodying "self-employed professionals like doctors, lawyers, etc.; small engineering units and manufacturing activities with significant amounts of skills and investment; self-employed construction workers including plumbers and electricians and the like; and commercial activities with a substantial capital input." Carlos Sanchez, Horacio Palmiero, and Fernando Ferrero, "The Informal and Quasi-Formal Sectors in Cordoba" in *The Urban Informal Sector in Developing Countries: Employment, Poverty and Environment*, ed. S.V. Sethuraman (Geneva: International Labour Office, 1981), 144-45.

¹⁶Michael Mann, *The Sources of Social Power, Volume II: The Rise of Classes and Nation-States, 1760-1914* (Cambridge: Cambridge University Press, 1993), 550.

¹⁷Mahmoud S. Mohieldin and Peter W. Wright, "Formal and Informal Credit Markets in Egypt," *Economic Development*

and Cultural Change 48, no. 3 (April 2000): 660-1.

¹⁸Dimitri Vittas, "The Role of Non-Bank Financial Intermediaries," Policy Research Working Paper, 1892, The World Bank, 1998, 1.

¹⁹Peter Mansfield, *A History of the Middle East* (New York: Penguin, 1991), 119.

²⁰Charles Issawi, *An Economic History of the Middle East and North Africa* (New York: Columbia University Press, 1982), 8.

²¹According to one study, "by 1969 the [Tunisian] state had established more than 80 public sector industrial enterprises, producing everything from sugar, clothes, and ice cream, to phosphates, ovens, and tractors." Eva Bellin, "The Politics of Profit in Tunisia: Utility of the Rentier Paradigm?" *World Development* 22, no. 3 (1994): 428.

²²John Ruedy, *Modern Algeria: The Origins and Development of a Nation* (Bloomington: Indiana University Press, 1992), 216-17.

²³Volker Perthes, *The Political Economy of Syria under Asad* (London: I.B.Tauris, 1995), 41-2.

²⁴Richards and Waterbury, *A Political Economy of the Middle East*, 181-2; Katouzian, *The Political Economy of Modern Iran, 1926-1979*, 244-7.

²⁵Louis Cantori, "Civil Society, Liberalism and the Corporatist Alternative in the Middle East," *Middle East Studies Association Bulletin* 31, no. 1 (1997): 37.

²⁶Daniel Brumberg, "Survival Strategies vs. Democratic Bargains: The Politics of Economic Reform in Contemporary Egypt," in *The Politics of Economic Reform in the Middle East*, ed. Henri J. Barkey (New York: St. Martin's, 1992), 76.

²⁷Nazih Ayubi, *Over-Stating the Arab State: Politics and Society in the Middle East* (London: I.B.Tauris, 1999), 211.

²⁸Henri J. Barkey, "Introduction: Economic Reform in the Middle East," in *The Politics of Economic Reform in the Middle East*, ed. Henri J. Barkey (New York: St. Martin's, 1992), 5-7.

²⁹According to a 1998 study of privatization in Egypt, for example, "despite recent aggressive economic reforms, the private sector's initiatives are insufficient to drive Egypt's growth and are far behind private sector contributions to economic activity in other developing countries." Samiha Fawzy, "The Business Environment in Egypt," working paper no. 34, The Egyptian Center for Economic Studies, Cairo, November 1998, 26.

³⁰Bradford Dillman, *State and Private Sector in Algeria: The Politics of Rent-Seeking and Failed Development* (Boulder: Westview, 2000), 31.

³¹Perthes, *The Political Economy of Syria under Asad*, 61.

³²Mokhtar Khattab, "Constraints to Privatization: The Egyptian Experience working paper no. 38, The Egyptian Center for Economic Studies, Cairo, May 1999, 2.

³³Emile Sahliyeh, "The Limits of State Power in the Middle East," *Arab Studies Quarterly* 22, no. 4, (Fall 2000): 1-30.

³⁴Brumberg, "Survival Strategies vs. Democratic Bargains," 75.

³⁵The rentier phenomenon has been discussed extensively in the political economy literature of the Middle East. Briefly, rentierism is the result of earning high profits from economic activities that do not require proportionately high levels of productivity. For example, the extraction and export of oil is a relatively easy task compared to the amount of revenues and profits that are accrued from its sale abroad. In the Middle East, in fact, oil has become a primary source of rent for most of the region's governments, and the oil monarchies in particular have become rentier states *par excellence*. But rent-seeking is not limited to the export of primary products at highly profitable rates. "Rationing foreign exchange, restricting entry through licensing procedures, and instituting tariffs or quantitative restrictions on imports are all ways of creating rents." Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton: Princeton University Press, 1995), 23.

³⁶Hootan Shambayati, "The Rentier State, Interest Groups, and the Paradox of Autonomy: State and Business in Turkey and Iran," *Comparative Politics* 26, no. 3, (April 1994), 309.

³⁷Meliha Altunisik, "A Rentier State's Response to Oil Crisis," *Arab Studies Quarterly* 18, no. 4, (Fall 1996): 56.

³⁸Shambayati, "The Rentier State, Interest Groups, and the Paradox of Autonomy," 309.

³⁹Bellin, "The Politics of Profit in Tunisia," 428.

⁴⁰Shambayati, "The Rentier State, Interest Groups, and the Paradox of Autonomy," 309; Altunisik, "A Rentier State's Response to Oil Crisis," 56.

⁴¹Bellin, "The Politics of Profit in Tunisia," 432.

⁴²Claude Liauzu, "The History of Labor and the Workers' Movement in North Africa," in *The Social History of Labor in the Middle East*, ed. Ellis Jay Goldberg (Boulder: Westview, 1996), 214.

⁴³Richards and Waterbury, *A Political Economy of the Middle East*, 210.

⁴⁴Richards and Waterbury, *A Political Economy of the Middle East*, 316-17.

⁴⁵David Waldner, *State Building and Late Development* (Ithaca: Cornell University Press, 1999), 89. This class has alternatively been labeled the "state class," "bureaucratic class," or "state bourgeoisie." See Perthes, *The Political Economy of Syria Under Asad*, 10; and John Waterbury, "The Twilight of the State Bourgeoisie," *International Journal of Middle Eastern Studies* 23, no. 1 (1991): 1-17.

⁴⁶Richards and Waterbury, *A Political Economy of the Middle East*, 330.

⁴⁷Fred Lawson, "Political-Economic Trends in Ba'thi Syria: A Reinterpretation," *Orient* 29, no. 4 (December 1988): 590.

⁴⁸Significantly, when the state transferred resources to the private sector, or at least allowed it to acquire greater breathing room, its primary concern was to foster beneficial conditions for the growth of larger private companies rather than petit bourgeois entrepreneurs. Perthes, *A Political Economy of*

Syria under Asad, 61; Dillman, *State and Private Sector in Algeria*, 29.

⁴⁹Despite widespread hopes for political liberalization in the Middle East in the scholarly community, the region has witnessed a general "deliberalization" in most countries, with the exceptions of Iran, Lebanon, and to a lesser extent Morocco. See, for example, Eberhard Kienle, "More than a Response to Islamism: The Political Deliberalization of Egypt in the 1990s," *Middle East Journal* 52, no. 2 (Spring 1998): 219-35.

⁵⁰I am grateful to officials at KOSGEB's Ankara headquarters for freely discussing with me, in July 1999, the organization's activities, its successes, and the difficulties it encounters in dealing with SMEs.

⁵¹Palmer, Leila, and Yassin, *The Egyptian Bureaucracy*, 119.

⁵²Waterbury, *Exposed to Innumerable Delusions*, 5.

⁵³Mehran Kamrava, *Democracy in the Balance: Culture and Society in the Middle East* (New York: Chatham House, 1998), 95.

⁵⁴Chaudhry, *The Price of Wealth*, 7.

⁵⁵Mervat Hatem, "Egypt's Middle Class in Crisis: The Sexual Division of Labor," *Middle East Journal* 42, no. 3 (1988): 407-22; and Safia K Mohsen, "New Images, Old Reflections: Working Middle-Class Women in Egypt," in *Women and the Family in the Middle East: New Voices for Change*, ed. Elizabeth Wamock Fernea (Austin: University of Texas Press, 1985), 57.

⁵⁶Mark Tessler, "The Origins of Popular Support for Islamic Movements: A Political Economy Analysis," *Islam, Democracy, and the State in North Africa*, ed. John Entelis (Bloomington: Indiana University Press, 1997), 94. In the early 1990s, a similar "suitcase trade" emerged between Turkey and Russia, although, in 1997, Russia's seemingly chronic economic difficulties put an effective end to it.

⁵⁷Joel Migdal, "The state in society: an approach to struggles for domination," *State Power and Social Forces: Domination and Transformation in the Third World*, ed. Joel Migdal, Atul Kohli, and Vivienne Shue (Cambridge: Cambridge University Press, 1994), 14.

⁵⁸Denis Sullivan, "Extra-State Actors and Privatization in Egypt," *Privatization and Liberalization in the Middle East*, ed. Iliya Harik and Denis Sullivan (Bloomington: Indiana University Press, 1992), 24-45.

⁵⁹Michael Field, *The Merchants: The Big Business Families of Saudi Arabia and the Gulf States* (Woodstock: Overlook Press 1985).

⁶⁰Shaul Bakhash *The Reign of the Ayatollahs: Iran and the Islamic Revolution* (London: I.B.Tauris, 1985), .