



**CONCEPT PAPER**

**Enhancement of the Law-making Process for  
Economic Reform in Arab Countries:  
Studies in Morocco, Egypt, Jordan**

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## **1. A POLITICAL ECONOMY OF INSTITUTIONAL REFORM: ACCOUNTABILITY AND INCLUSION**

In the last 15 years, several Mediterranean Arab countries, outside the oil-rich sub-group, have focused their reform efforts on stabilization and then embarked on a slow process of structural adjustment and market liberalization. Recently, some Arab countries on the Mediterranean have signed free trade agreements with the European Union. Jordan signed a free trade agreement with the USA, Morocco and Egypt are negotiating similar ones. Morocco, Tunisia, Egypt and Jordan have created the Agadir free trade area among themselves and the Arab free trade agreement is underway.

Such developments require a comprehensive overhauling of institutional structures characterized by high protectionism and public sector domination. After decades of experience with rapid development in Asia, southern Europe and lately in post-communist countries, we have come to realize the ineffectiveness of structural adjustment measures beyond stabilization when not followed by a comprehensive process of catching up especially on the institutional front (H. Handousa 1994; D. Rodrik 2000) <sup>1</sup>.

However, the institutional reform needed to open Arab economies, increase domestic competitiveness, accelerate growth and raise social development indicators has been problematic. Two problems characterize the Arab institutional reform efforts. Firstly, the process of making laws and regulations is not transparent and often clientelistic (as opposed to participative); call it a problem of lack of accountability and inclusion into the process of deliberation on laws and regulations. Secondly, the process of enforcement is ineffective and often raises transaction costs for economic actors; call it a problem of ineffective governance.

Both lack of accountability and inclusion and ineffective governance are situated in a context of highly problematic economic and human development, partly an issue of laws and regulations and partly one of weak commitment by rulers to the well being of the ruled.

On the face of it, the aforementioned problems appear distinctively different. In reality they are related. Figure 1 summarizes the issue: Ineffective governance, is often embedded in an exclusive design process that is in turn part of a weak institutional framework of accountability. To an extent, ineffective governance is a problem of laws, regulations and decrees that are misapplied by bureaucrats who are not interested in their application and who align themselves to economic actors not interested in abiding by the law or regulation. If the deliberation process during which laws and regulations are drafted excludes the voices of

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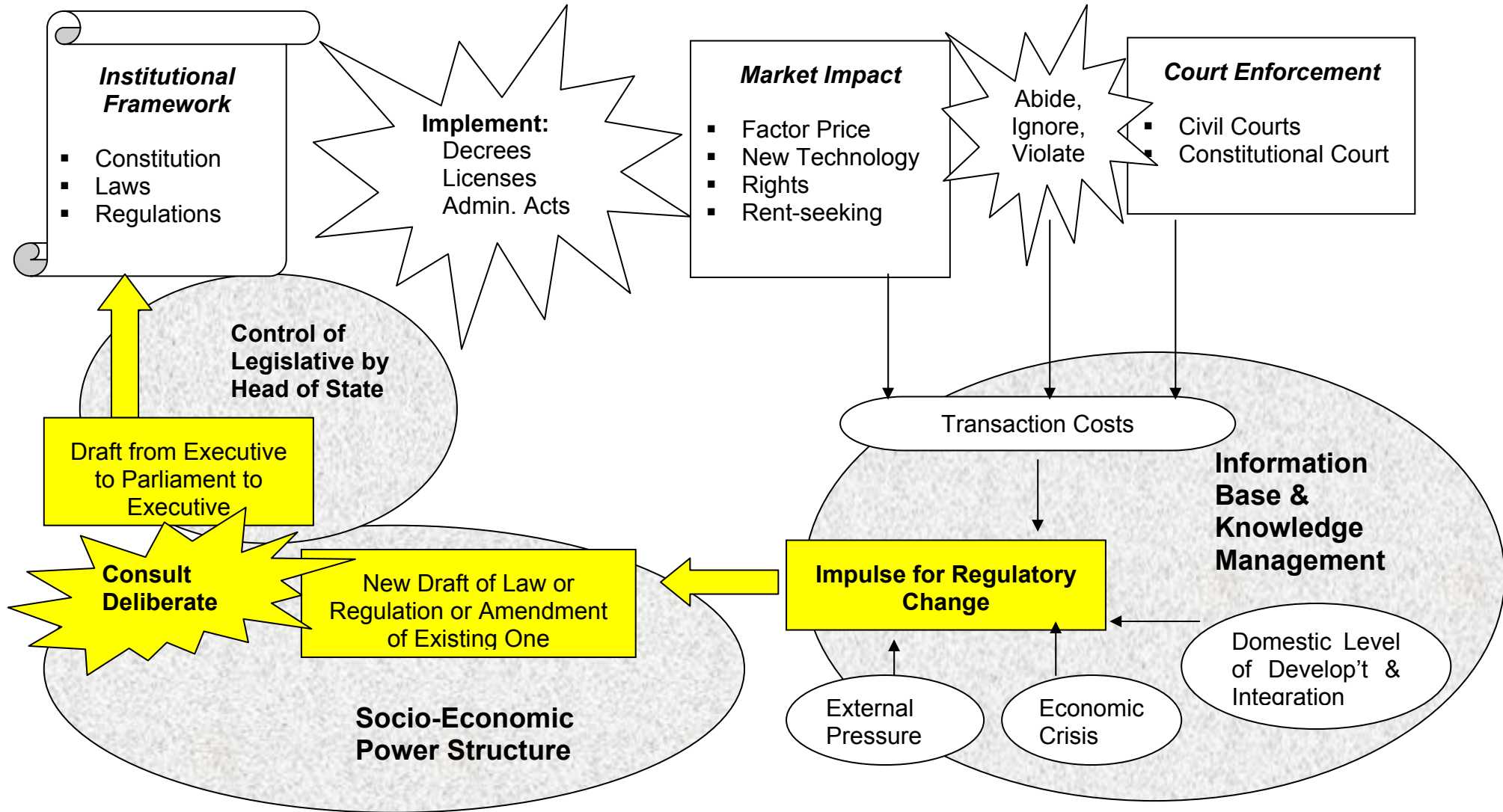
<sup>1</sup> The record, as stated in the World Bank Development Report of 2000, shows that reaping greater and socially sustainable benefits of economic stabilization, re-structuring, liberalization and privatization requires a reform of the institutional environment (WDR 2000; Olson 2000; North 1990).

some (or many), the deliberative process fails to capture the failures in the status quo and the anticipated failures to come. Such failures in accountability or inclusiveness are often part of a bigger socio-economic power structure which may be reinforced by a weak information base and knowledge creation / dissemination system.

The institutional design phase is a less studied aspect of reform although it is in that phase that failures of implementation re-enter the reform process as corrective feedback (i.e. impetus for new laws and regulations). When the design of laws and regulations is not sensitive to economic reactions of the major stakeholders, or when it does not anticipate potential problems of administrative discretion nor take into account the technical and human capacities required for enforcement, then the enforcement function is more likely to fail. It is becoming ever more important to anticipate the reaction of economic groups towards laws and regulations and integrate the gained knowledge into the design of such institutions. This is being done more readily in policy analysis than in institutional reform as observed in the expanding literature mapping stakeholders' interests in various policy issues (Stakeholders analysis, interest mapping, veto power analysis).

However, the socio-political power structure is often only weakly integrated in such studies. More needs to be done to make the analysis of power structures an integral part of institutional reform because power structures affect whether or not the design phase of laws and regulations is accountable and inclusive and to what extent it is so. Thus it is an imperative to perceive the deliberation on economic laws and regulations as a political process of conflict management because laws and regulations are distributive. In fact, institutional reform entails more than the amendment of existing legal and regulatory frameworks. It is an adjustment of the rules defining rights and governing transactions in multiple areas, hence an inherently distributional endeavor.

**Figure 1: The Socio Economic Nature of Institutional Reform as LawMaking**



## 2. THE INCLUSIVE AND INFORMATION-INTENSIVE NATURE OF INSTITUTIONAL REFORM

A fundamental nature of institutional reform is that it is information dependent and for that reason interactive and consultative. In the Arab countries, there is a solid consensus around the need for reform; there is far less clarity on how to reform and using which instruments. Answering both questions requires an information base.

Institutions that govern the workings of an economy range from constitutions, laws, regulations, decrees and licenses to informal institutions and behavioral patterns of innovation and cooperation. These Institutions vary, however, in their consultative nature: Constitutional amendments and laws are the most deliberation intensive (executive, parliament, interest groups, research institutes and think tanks). Decrees and licenses are the least in both respects, though lobbying also at that phase is known to exist (Table 1).

**Table 1:** Regulatory Regimes

<b>Form of Regulation</b>	<b>Source</b>	<b>Process</b>
<b>Constitutions</b>	Constitutional Experts	Extensive public consultation
<b>Laws</b>	Executive, Parliament Experts, Interest Groups, civil society	Public Consultation
<b>Regulations</b>	Head of State Ministers	Administrative process; little or no consultation
<b>Decrees &amp; Licenses</b>	Administrators	Administrative process

Source: Jacobs 1994, p. 9.

The need for information collection and processing as well as for deliberation on the economic impact of laws and regulations is to be explained by the scope of questions that have to be asked during the design phase (Table 2). None of those questions are to be answered with limited information nor with an exclusive circle of domestic policy makers and international policy experts.

## 3. INCENTIVES

There is often a disparity in the incentive structure of rulers when it comes to economic, political and human development reforms. Conventional wisdom on development in the Arab region says the region's institutional reform process is afflicted with a number of illnesses which reduce the rulers' incentive for accountability and inclusiveness.

**Table 2:** Reform of Regulatory Systems

Area of Deliberation on law / regulation	Questions Asked by Those Involved in Institutional Reform
Managing regulatory systems	When and how to use regulatory means
Assessing economic effect	Who wins and who loses (inside the executive and in the economy at large); will it reduce current transaction costs
Ensuring public consent	Who supports and Who opposes (inside the executive and in the economy at large)
Ensuring legal quality	Is it consistent with other laws &/or regulations; does it reduce transaction costs, increase accuracy of using the legal system, foster efficient allocation of resources?
Ensuring effective implementation	Which resources are needed for effective implementation

Source: adapted from Jacobs 1994, p. 12-13; see also “Rule of Law and Development” in the World Bank Website: [www1.worldbank.org/publicsector/legal/role.htm](http://www1.worldbank.org/publicsector/legal/role.htm)

Economically, the region is characterized by highly fluctuating rents (e.g. tourism & remittances) and heavy development aid (especially in the case of Jordan and Egypt). Fluctuation of rent revenue has brought the message of reform home, especially since the mid 1980s. It is, however, true that some difficult junctures on the path to institutional reform may have been cushioned with development aid and grants because both countries are geopolitically important for the USA and the EU. Along the same lines, some see the region locked-in in a history of protectionism, over-regulation, and heavy handed political controls. Only countries with poorer resources managed to reverse the path (Morocco, Jordan, & Tunisia); those with exogenous resources have been less able to<sup>2</sup> (Egypt, Algeria). The region is also afflicted with weak private entrepreneurship. Less autonomous and more dependent on the state, private entrepreneurs are seen to be in an “alliance for profit” with the state, as John Waterbury argued<sup>3</sup>. This seems to be the case in Egypt, Jordan and in Morocco. Furthermore, the region is also characterized by mobile factors of production which may, according to the literature, reduce the effectiveness of interest representation groups and their reliability as partners in conflict management arrangements<sup>4</sup>. Whether it is labor unions or professional associations, the bargaining power of these interest groups in the three countries is hampered by high unemployment rates, exodus outside the country, and individualistic solutions to internal problems. Individualistic solutions weaken resort to

<sup>2</sup> See H. Biblawi and P. Pawelka on the rentier state; B. Glasser on resource dependent countries and reform stagnation; G. Salame and E. Kienle on lack of democracy.

<sup>3</sup> John Waterbury “Democracy Without Democrats” 1994. In: Democracy Without Democrats: The Renewal of Politics in the Muslim World. Ghassan Salame ed. London: I.B. Tauris, p. 23-47.

collective action and thus also the strength of civil society in the face of dominant ruling elites.

Socially, the family-oriented and communalistic (tribal or religious) nature of civic action- a consequence of failing state service provision in a political context where the state had assumed total responsibility- encourages traditional and individualistic solutions which weaken the rational, collective nature of the public sphere and of civil society. This reduces the programmatic deliberative content of public discourse about institutional reform in the face of polemically constructed discourse (religious vs secular or pro globalization vs anti)<sup>5</sup>. The fact that interest representation is weak, and accordingly civil society, harms the prospects for effective laws and regulations by making the process of deliberation exclusive and by increasing the rate of non-abidance by the law.

Politically, economic reform (i.e. liberalization) is an occasion for political de-liberalization (Eberhard Kienle 2001). Correct as that may be, this opinion may be underestimating the dynamic which is set in motion by partially liberal constitutional designs of rulers who want to stay in power in the face of turbulences of economic liberalization. Institutional reform in this case may be tactical maneuvers on the part of the rulers. Yet if such institutional reforms are half way democratic, the dynamic of democratization may be set in motion especially during moments of democratic “slippage” which rulers cannot control (Jean Noel Ferrie 2003). The Moroccan case in 1998 is a good example. The Monarch admitted to the democratic game of allowing the opposition to head the governing cabinet, a step which established precedence in the region. Yet, it also weakened the opposition by making it look (and act) as if it was in collaboration with the Palace. Now, it seems as if all political parties in Morocco are part of the establishment, a point that strengthens the Monarch rather than weakens him. On the other hand, it is also Morocco that has the most liberal NGO law in the region, one which gives civil society more freedoms to form and organize with much less state tutelage or intervention than in Jordan or Egypt; indeed amendments to this law may be disadvantages to civil society, but that only demonstrates the tug of war between ruler and ruled and the state of flux in the governance regimes of the Arab states.

### **3.1 Law Makers’ Incentives**

The incentives of the state, as initiator of a law bill and of a regulation draft, as well as the incentive of parliament, which has the final say in passing a law, are determined by:

- a) Need of ruling elite to stay in power and maintain existing power regime

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<sup>4</sup> This argument is made by Ronald Rogowski 1989 *Commerce and Coalitions: How Trade Affects Domestic Political Alignments*. Princeton: Princeton University Press.

- b) Need to redistribute resources to particular firm(s), industry(ies), sector(s), class(s).
- c) Market failures which result from high transaction costs of the existing rules.
- d) Need to increase state revenue.
- e) External pressure / commitments to increase domestic market openness & competitiveness.

All three countries manifest tendencies towards all of the above. Due to a prevalent sense of “I am the state and the state is me” on the part of most heads of state and their ruling entourage, the first incentive is quite prevalent coupled by the second as a means of maintaining loyalty of certain groups. Yet global and regional competitiveness records and external pressure seem to show a need for legal reforms to improve economic competitiveness especially in investment and export performance. Thus transaction costs are sometimes considered as an incentive to change the status quo. But as neo liberal economics has also weakened state revenues especially from customs and tariffs, expanding the revenue base is sometimes an incentive for reform.

### **3.2 Parliamentarians’ Incentive**

In the case of parliamentarians, their incentive is affected by career considerations just as much as by their perception of an economic need for the law. The incentive of an MP to fully support, partially support or fully oppose a law draft is influenced by the hope of getting re-elected or of using the parliamentary career to get other jobs thereafter <sup>6</sup>. The following factors affect MPs incentives:

- a. A constitutional framework that privileges the head of state, including his right to dissolve parliament
- b. A party system which includes dominant parties who control nominations to parliament and then to government (Egypt)
- c. A party system where ideological affiliations are important in reaction to government policy programs (Morocco)
- d. An election system dominated by tribal and local community loyalties over public policy issues (Jordan)
- e. Internal parliamentary operating procedures (regulating the functions of standing committees, their relationship to the parliamentary executive group, and their relationship to the general assembly) which hinder inclusive

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<sup>5</sup> This argument is proposed by Sami Zubaida 2003, p. 22-25.

<sup>6</sup> For a pioneering study of the role of parliamentarians in countries with a weak democratic tradition see S. Morgenstern & B. Nacif eds. *Legislative Politics in Latin America*. 2002. For an overview of the role of re-election incentives see D. Mayhew 1974; J. Schlesinger 196 & 1991.

deliberation and flow of information, thus reduce the incentive of an MP to take his/her legislative role seriously (all three countries).

Parliament's incentive to exercise its role in the legislative process is highest in political systems of parliamentarism (Germany) and in systems of strong checks and balances between Presidents and Parliaments (USA). Incentives are also higher when the party system includes well established parties with grass roots and clear programs which guide MPs when they legislate. The power balance between Head of State and Parliament as well as the electoral system would have less of an effect if not assisted by internal Parliamentary functions. The parliamentary elite, parliamentary committees and parliamentary resources need to reflect an Ernst will to play a legislative role. If any of these three weakens parliament as deliberator of laws, the incentive of individual MPs will certainly be weakened. The two parliamentary monarchies under study do give parliament considerable powers to deliberate laws, vote on them as well as to scrutinize the cabinet and even vote ministers out of office. However, when the Head of State has the constitutional right to dissolve parliament and even uses this right, Jordan being a case to the point in the 1970s and 1980s and again from 2001 till 2003, then the threat of retaliation does weaken parliament considerably.

Furthermore, parties, especially in Jordan, do not have a clear platform and the blocs that form inside parliament are more forums for exchanging political favors than party platforms with recognizable policy programs. While programs are more well defined in Egypt, the parliamentary function has suffered from the fact that the political parties have weak grass root presence as well as weak seat distribution inside parliament. The situation in Morocco is different. Seat distribution of political parties is more balanced, with several parties counterbalancing each other. However, in Morocco the credibility of political parties has been waning (even more so after the Monarch allowed an opposition member to become Prime Minister 1998 and then appointed a technocrat to form an ideologically wide ranging cabinet in 2002)<sup>7</sup>.

In all three cases, the parliamentary leadership is not keen on strengthening the parliamentary legislative function at the expense of its relationship to the Head of State. This is reflected, accordingly, in technical and human resources which are skewed against legislative research.

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<sup>7</sup> Michael Herb "Princes and Parliaments in the Arab World" 2004 *Middle East Journal*, vol 58, #3, Summer, p. 367-384.

### 3.3 Private Stakeholders' Incentives

We focus in the three countries on the incentive to exert collective influence, not the incentive of individuals representing their own interest. The latter creates lop-sided legislation, misallocation of resources and market failures, whereas a civil society that is organized around encompassing interests is considered to have a less distorting effect on regulatory regimes and economic performance (D. Narayan and P. Evans). Hence, our focus on the incentive of interest groups, not of individuals.

The incentive of collective interest representatives to participate in the legislative process is influenced by:

- a) The group's transaction costs incurred in the status quo.
- b) The group's expected benefits / losses from new law formulations
- c) The opportunity cost of collective action (as opposed to lobbying individually). This is partly a function of the environment of information sharing and freedoms of expression and organization.

## 4. CAPABILITIES

The capability to design or participate in the design of reform is based on technical, administrative and political sources. We use the term capability rather than capacity, for it better communicates the question of skills and resources for legislative performance. We rely on M. Grindle's work on capacity and on H. Esfahani's work on institutional reform<sup>8</sup> in order to identify the most relevant resources of capability and the necessary environment which may influence these resources.

### 4.1. Different Types of Capabilities

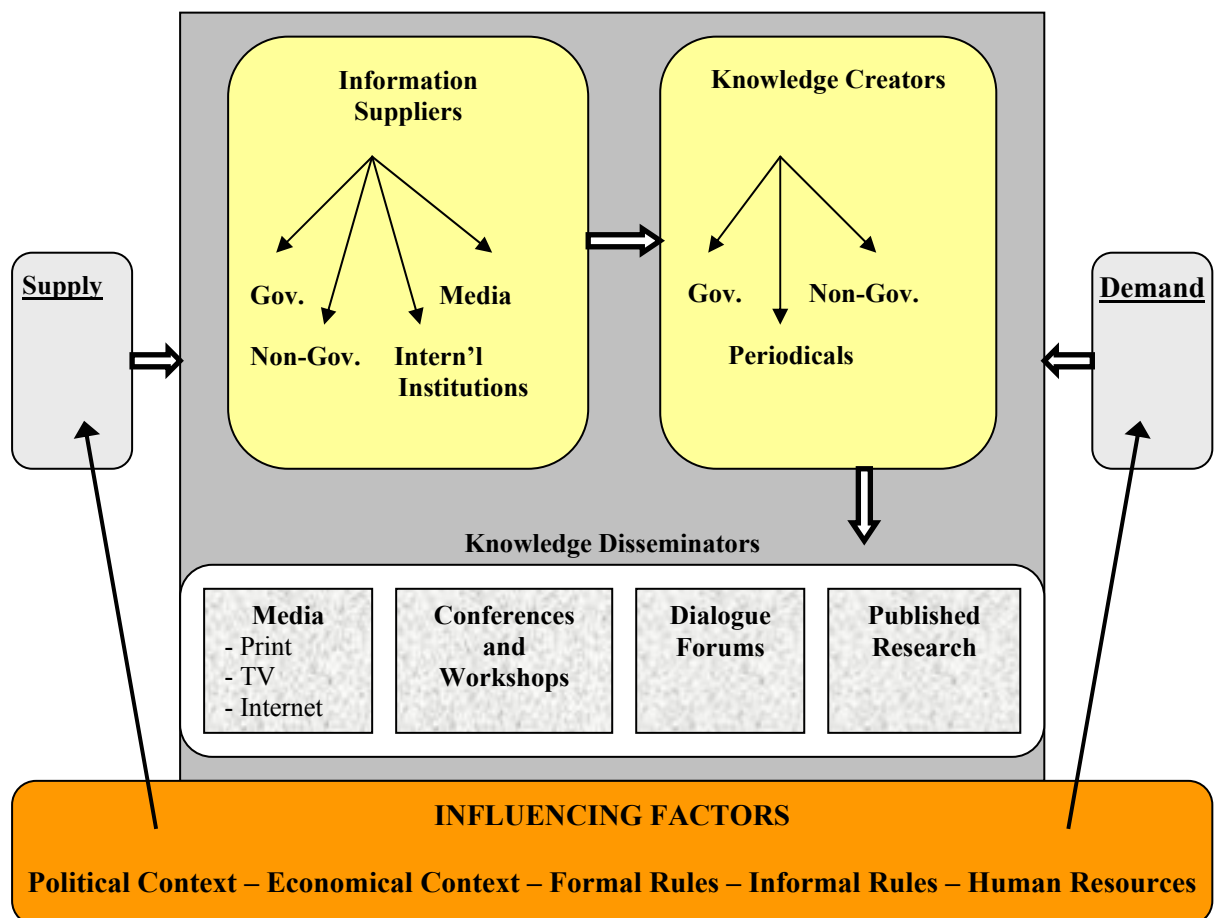
- **Technical** resources such as datasets and analytical information to set up alternatives and trade off. The information flow is a principle - agent problem. When

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<sup>8</sup> Merilee S. Grindle offered a useful definition of state capacity in her work *Challenging the State* (1997). She defined the state as a "set of ongoing institutions for social control, authoritative decision-making and implementation of policies." Such powers are bound to have a fundamental effect on parliament's capacity and that of societal forces. Grindle defined state capacity in four categories: institutional, technical, administrative and political (Grindle 1997, p. 8). Hadi Esfahani understands capacity as a more complex effect of four functions: Representation which may correspond to Grindle's political capacity, coordination which may correspond to Grindle's technical capacity, commitment which one could equate with Grindle's institutional capacity, and administration which is Grindle's administrative capacity.

elections, votes and journalistic professionalism do not matter much for political power, it is not easy to detect the reasons why those who have information should share it with others. It is also not clear how much does information cost and how are the costs shared in society. Finding out the flow of information or lack thereof, as well as the causes of high costs of information is of policy relevance so are the areas of under-investment in human and physical resources. We use the following approach (Figure 2).

**Figure 2:** Approach to Information and Knowledge Analysis



- **Administrative** resources such as the personnel who manage and do the work in legislative units (whether in ministries, in parliamentary committees or in interest groups). Administrative capability is hampered when the battles between organizations or among various subgroups of one organization are ill-managed and when the command chain and responsibilities are not clearly defined. Often the law or regulation drafting process is sensitive to bureaucratic competition among different

ministries<sup>9</sup>. When responsibility is lost between two or more ministries because of lack of an effective conflict resolution mechanism during the drafting phase, then an implementation weakness is pre-programmed. Battle turfs also happen inside organizations, which could take away from the administrative resources of an interest group or civil society organization. The existence of parallel structures (e.g. technical offices, consultative councils) may help and impede administrative capabilities.

- **Political & institutional** resources such as skills of communication and negotiation within the group and with other groups relevant to the legislative issue at hand. Political capability entails the political skill for consensus building. Any actor who becomes involved in a process of drafting laws and designing regulations is engaged in an act of conflict management, sometimes this means managing conflict among ministries and sometimes it means managing conflict among interest groups. Thus the relevance of bridging skills. This is what some call the difference between hegemonic and polyarchical political capital<sup>10</sup>, or the difference between bonding and bridging capital<sup>11</sup>. When skills that bridge differences between actors and organizations are weak, we find less inclination to share information and less readiness to open up deliberation processes. Institutional resources which are rules that define the scope of freedom of organization, expression and information.

## 4.2 Capability Enhancing Environment

Capability resources will be mobilized more readily in a suitable context. Two factors seem fundamental to such context: a) the constitutional framework; and b) the overall level of social polarization. The constitutional sanctions which guarantee parliament

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<sup>9</sup> For instance, when a tariff regulation is drafted to suit a trade objective set by the ministry of trade, the revenue thereof is simultaneously an issue for the ministry of finance. Or, when a regulation regarding standardization and quality control is devised, it could very well be seen as within the turf of the ministries of health, trade and scientific research.

<sup>10</sup> Robert Dahl used the terminology hegemony and polyarchy to get away from the value-laden terminology of authoritarianism and democracy. He coined the term polyarchy to mean a number of conditions: relatively independent organizations, the right to expression free of the threat of punishment, inclusive right to information, inclusive right for all adults to run for office in free, frequent and fair elections in a system where government decisions are vested in elected officials. See R. Dahl 1971.

<sup>11</sup> One such thesis is by Peter Evans on synergies between state and society. He argues that state societal synergy requires the upgrading of social capital to make it encompassing capital (P. Evans, 1996, p. 1119-1132). The issue of encompassing capital has been reiterated by D. Narayan in a paper to the World Bank Poverty Group. He insists that social capital alone (i.e. the existence of networks of associations which is the Robert Putnam definition of social capital) is not enough for economic performance. There need be social capability, by which he means the ability to reach out to others in the community and to restrain the powerful few from co-opting groups to represent special interests. He argues that social groups need to strengthen their cross-cutting ties to others and move away from service delivery to “take on the role of mobilizing social movements to demand changes in governance.” (D. Narayan, p.35-37).

legislative prerogatives and protects it from the threat of dissolution are capability-enhancing factors<sup>12</sup>. By the same token, the constitutional sanctions of freedom of information, freedom of expression and of organization are critical enhancing the capabilities of interest representatives and civil society organizations. The issue of egalitarianism (which amounts to weak social polarization) is emphasized by Peter Evans (1996) and Knack and Keefer (1997). They define social capital not as membership in associations, but as trust and civic norms which are to be found in societies with high income, high equality indicators, and a restrained executive (also high education and ethnic homogeneity) (S. Knack and P. Keefer 1997, p. 1251-1289).

## CONCLUSION

The most pessimist theories of change would consider existing economic and political power constellations in the three countries under study as no guarantee for change towards more participation. The entire system of change is locked-in on a path of protectionism which has created uncompetitive industries, using exogenous revenues to distribute benefits inefficiently via big public sector employment which only adds to the overall lack of competitiveness. The institutional argument using cultural norms and values does not reduce such pessimism. It rather emphasizes that the authoritarian nature of Arab development and Arab reform is part of a historico-cultural tradition which de-emphasizes pluralism (which contains a certain amount of aversion towards pluralism as chaos) or due to primordial, tribal groupings (*Asabiyyat*) that segment society and weaken the creation of a nation, seen by some as a necessary condition of democratization.

Our position is less pessimistic: reform of the law-making process in an inclusionary and information-intensive way could come about. Following the tradition of Dankwart Rustow and Adam Przeworski, we shall consider participation as a choice of certain alliances of forces that see in inclusion a second best solution to resolve conflict without having these forces espouse to democracy per se<sup>13</sup>. Whether that is possible, that will differ from one Arab country to the other because change is determined not by common culture, religion, external pressures or ideological orientation alone, but by real people in real institutions and in response to real situations of power erosion and popular frustration (*Democracy Without Democrats* G. Salame, 2001, p. 16, p. 19). We espouse to the view that the international

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<sup>12</sup> Morgenstern and Nacif (2002) and Abdu Baaklini (1999) show that legislative capability is a function of the overall constitutional framework that defines parliament's legislative power vis-à-vis the head of state and a function of the party and electoral systems which determine the potential for professionalism inside parliament.

<sup>13</sup> John Waterbury gives a good summary of the position of Dankwart Rustow and Adam Przeworski, 2001 reprint, p. 34-39.

commitments and domestic and international pressures to open up are windows of opportunity. These pressures expose the institutional weaknesses in the three countries, to varying degrees. This creates pressure for reform in the three countries to varying degrees and in varying ways.

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