

OPINION

The socio-economic factors behind the Arab revolutions[†]

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Western and Arab media have understated the socio-economic factors behind the various mass uprisings in different Arab countries. Focus has been placed on demand for political freedom and the ousting of corrupted dictators. The demand for greater social justice and a different developmental model has been largely ignored in most cases. For Western media, it was only natural that values of *political* freedom which were part of the revolutionary slogans should be emphasized, on the consideration that such represents a virtuous Western influence that animated the Arab revolts against tyranny and the deprivation of human rights. For pan-Arab media largely owned and managed by Saudi wealth, joining the chorus of condemnations of corrupted dictators originating from the military establishment in various Arab republics was intended to make the monarchy be looked upon as a regime that cares for its people.

In fact, both Western and pan-Arab media avoided discussion in any depth of socio-economic issues that caused the uprisings of large masses of people for whom poverty and marginalization prevent them aspiring to priority or individual political liberties and freedoms. These masses who emerged in huge numbers to demonstrate together with other more well-to-do social strata of the population were first and foremost motivated by the need to improve their socio-economic situation and gain access to decent employment opportunities.

For Western media and decision-makers emphasizing the political demand for democracy and human rights almost exclusively permitted escaping the discussion of the negative socio-economic effects of implementing neo-liberal economic prescriptions and recipes that Arab countries have been following over the last decades under the powerful influence of the International Monetary Fund (IMF), The World Bank and the European Union. IMF annual reports based on Article IV Consultation on Tunisia, Morocco, Egypt, Syria and other Arab countries have shown a significant degree of optimism and approval of progresses realized in these countries thanks to the drive for liberalization. These reports have emphasized a number of issues including: (1) the improvement in fundamental macro-economic variables (inflation, budget deficit, balance of payment deficit); (2) the positive developments of local capital markets; (3) institutional modernization in terms of market liberalization (free trade,

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free flows of capital, central bank reform, privatization and the reduction of the size of the public sector); and (4) improvement in banking market performance.

Both IMF and World Bank reports on the Middle East and North Africa (MENA) region analysed the lack of productivity and economic diversification or the moderate gross domestic product (GDP) annual growth rates as being due exclusively to the need to deepen the neo-liberal reform drive. In their view, Arab states should increase labour 'flexibility' and should not adhere to overvalued currencies so that their exports might be more dynamic. Government-funded social protection networks should be rationalized to target exclusively the poorest strata of the population only and thereby reduce the burden of state subsidies and the percentage of budget deficit in relation to the GDP. The World Bank reports look favourably on encouraging more emigration as a way to reduce domestic unemployment. In general terms, the IMF, World Bank and European Union considered Arab governments on the whole to be successful reformers implementing their recommendations consistently if rather slowly. No one within the Western donor community would have anticipated that revolts would erupt in the Arab world due in large part to deteriorating socio-economic conditions, which were neither properly monitored nor addressed.

What was actually happening in terms of real economy in Egypt, Tunisia, Morocco, Syria, Yemen, Saudi Arabia, Bahrain and Oman was out of their respective fields of vision. In spite of many studies by Arab economists indicating the deteriorating living conditions in rural areas along with the development and proliferation of shanty towns in the outskirts and suburbs of Arab cities, and despite available data on the burgeoning unemployment crisis and brain drain detrimental to the productivity of the real economies, Western attention has remained focused exclusively on macro-economic balances and liberalization drives according to neo-liberal ideology. In general, pan-Arab financial institutions such as the Arab Monetary Fund or the Arab Fund for Economic and Social Development were not party to a markedly different attitude, except for their focus on rural poverty and on the widening trade gap in food products.

In fact, the recent economic history of the Arab world is one of an increasingly negative model of 'bad growth' to which few have yet paid attention which largely explains the vital socio-economic dimension of the Arab revolts. It is under this bad growth model that corruption has flourished and that unhealthy multifaceted links were created between the business establishment and the political establishment. Complete silence prevailed with regard to this phenomenon in the media as well as in academic research communities along with the technical reports of the international financial institutions (IFI), the European Union or the Arab IFI.

This paper will examine successively in the next section the components of this bad growth model and the subsequent section the way to transform bad growth into good growth.

The main characteristics of the Arab bad growth model

When compared with successful emerging countries, Arab economic growth and social performance have been characterized by average low rates of GDP per capita growth (with the exception of the Arab oil-exporting countries with small populations) as well as by very high rates of increasing unemployment, in spite of good endowment in natural resources. Eight strong indicators of the underperformance of the Arab economies can be mentioned here.

The lowest rate of active population to total population

International Labour Organization (ILO) statistics show that, on average, the rate of the active population to the total population in the Arab countries, which is 45%, contrasts sharply with the average world rate of 61.2%; and where the average rate in the East Asia region is as high as 70%. In addition, labour statistics in Arab countries show a very low participation rate for women in the labour markets and a very high rate of informal employment yielding very low revenues. This rate accounts for 70% of total employment in Morocco and 48% in Egypt (ILO 2011).

The highest unemployment rate to active population

If the overall average unemployment rate in the Arab world does not appear very high at around 10%, it remains the highest in the world (with the exception of Spain and Central Europe). The unemployment rate among young people (15–35 year olds) is much higher, hovering around 25%, while in other parts of the developing world the corresponding rate ranges between 8.9% and 15.7%. Another characteristic of youth unemployment in Arab countries is the very high rate of unemployment affecting young graduates of higher or secondary education. Thus in Tunisia, for example, the unemployment rate among higher education graduates jumped from 3.8% 1994 to 17.5% in 2006, while the share of jobseekers with degrees of higher education in the total rose from 23% in 2001 to 55% in 2007; and the percentages of job offers for the category were far lower. In Egypt the proportion of unemployed workers with a secondary education is estimated at 80% of the total number of unemployed; in Morocco the figure is 29.6%, in Algeria 37.8% and in Tunisia 42.5%.¹

Stagnation of real salaries and poverty indicators

Furthermore, according to the ILO, real salaries in the MENA region have increased only minimally, if at all. Additionally, the productivity of workers, which is the reference for real wages, increased less in the 1990s in the MENA region than anywhere else except in Central Europe and Central Asia, which undertook extensive economic restructuring. In a sample of four Arab countries (Algeria, Jordan, Morocco and Syria) and Turkey the official minimum salary is extremely low, ranging from a low of US\$164 per month in Syria to a high of US\$425 per month in Turkey, while in Morocco the minimum salary for non-agricultural work is US\$235 per month and for agricultural work a mere US\$152 per month.² Another statistical source estimates that the average yearly per capita income in rural areas in the Arab countries did not exceed US\$320 in 2008, against an average annual GDP per capita of US\$5858 for the same year (including the oil-exporting countries of the Arabian Peninsula).³

Moreover, available statistics on poverty in the MENA region confirm the fact that the percentage of people living in conditions of poverty is probably greatly underestimated as the share of the GDP corresponding to per capita consumption in terms of US\$ per day shows the extent of poverty at the national level in several Arab countries. It ranges between a minimum of US\$2.34 per day in Mauritania to a maximum of US\$11.05 per day in Jordan, though daily per capita consumption in most cases hovers around US\$5 (with the exception of Lebanon at US\$22.63 attributable to the highest level of emigrant remittances to GDP in the region).

A recent report charting the progress of the Millennium Development Goals in Arab countries (Economic and Social Commission for Western Asia (ESCWA) 2010) stated that although only 5% of the population in the Arab world falls within the definition of extreme poverty, which is pegged to people with an available income of less than US \$1.25 per day, the figure under an adjustment of this definition of poverty to subsume those earning less than US\$2 per day would account for 21% of the population. Moreover, 22% of the population in the area has *no* access to basic healthcare, education or a decent standard of living. The same report points out that infant malnutrition and malnourishment is still high and that in this respect the Millennium Development Goals are far from being attained. Furthermore, although there has been substantial progress in the primary and secondary education of girls, women's empowerment still remains a distant objective. Additionally, while infant mortality has been greatly reduced, recent statistics show an alarming rate of maternal mortality and premature pregnancies.

These poverty levels are especially shocking because not only is the MENA region very rich in energy and phosphate resources, but also some of its countries possess extensive areas of fertile land as well as water resources (Algeria, Egypt, Lebanon, Morocco, Sudan, Syria and Tunisia).

High economic growth rate dependency on external variables

Arab economies have become highly dependent on external variables to sustain growth rates, that is: oil prices, rainfall, tourism revenues and migrant/expatriate remittances. This why GDP annual growth rates are highly volatile for both oil-exporting- and non-oil-exporting countries. In the last 50 years international oil price variations (and accessorially phosphate and chemicals prices) have become the main determinant of the overall rates of growth in the region. This is due to the fact that oil-exporting countries are now importing manpower from other Arab countries and the demand for immigrant manpower increases with higher oil prices, while it decreases with falls in prices. Boom conditions in Arab oil-exporting countries due to sudden rises in oil prices activate foreign direct investment (FDI) by rich Arab nationals from these countries. Thus, growth rates in non-oil-exporting Arab countries have become dependent on Arab FDI and Arab migrant/expatriate remittances that accrue also from Arab emigrants to Europe or the United States and Canada.

Over and above this, in countries with agricultural potential like Morocco, Syria and Tunisia (in addition to Egypt and the Sudan), lack of adequate hydraulic infrastructure and water management programmes has largely kept agricultural income dependent on the amount of annual rainfall.

Finally, mass tourism from both Europe and the rich Arab oil-exporting countries is also an important source of income that is highly dependent on domestic political stability and on the variation in GDP in the countries of origin of the tourists. In fact, the main engines of growth in the Arab countries are *not* locally based (such as in industrial innovation, economic diversification or high value-added services that can be exported). These remain dependent to a large extent on external variables unrelated to the local economic dynamic.

Emigration and brain drain as a major indicator of deficient growth

Emigration is a consequence of the high unemployment rate, but in case of some Arab countries the dependence developed on remittances from migrants/expatriates has

become very high. According to an ILO study, the flood of migrants from the MENA regions, especially the countries of the southern Mediterranean basin, is a major symptom of bad growth and of the resulting distortions in the labour markets. Between them the five Arab countries of the Mediterranean mentioned above (Algeria, Egypt, Lebanon, Morocco and Tunisia) have an emigrant population of over 8.1 million. These emigrants are distributed as follows: 55.44% in Europe (mainly Belgium, France, Germany and Spain), 23.76% in oil-exporting Arab countries employing unskilled workers and middle-management executives (see below), and 7.33% in traditional destination countries of immigration (Australia, Canada, New Zealand and the United States), the rest having migrated to various other Sub-Saharan countries of Africa and Central or South America (ILO 2010a).

It is worth noting that between 1998 and 2007, the flow of migrants from the five aforementioned Arab countries more than *doubled* in volume, in spite of the restrictive measures adopted by many European governments. Their numbers rose from 90 800 immigrants in 1998 to 195 600 in 2007. All in all, there were 1.55 million new migrants to Europe between 1998 and 2007. Some of them were students travelling to study abroad (an estimated 100 000 a year from the five countries plus Iraq), a large proportion of whom (recently estimated to be 54%) would never return to settle in their home countries. In point of fact, the surge in migration is increasingly taking the form of a brain drain and an exodus of qualified manpower, and this has led to an even greater decline in productivity as well as its becoming one of the primary features of the bad growth with which we are concerned.⁴

Of course, the Arab countries are not the only ones facing a surge in migration. The same phenomenon exists in other countries, whether in Sub-Saharan Africa, Central and South America, or Asia. Many studies have actually vaunted the ‘merits’ of emigration and the value of migrants’ remittances to their countries of origin as doing much to resolve the problems of poverty and unemployment back home. However, it is now obvious that it is not the countries themselves that encouraged or even organized the extensive migration of their citizens abroad in order to benefit from their remittances whose economies have grown fastest. Indeed, in eleven countries that are particularly concerned by such migration movements (Algeria, Bangladesh, Egypt, India, Lebanon, Morocco, Nigeria, Philippines, Sri Lanka, Sudan and Tunisia), overall remittances increased by 800% for a total of US\$800 billion between 1990 and 2008, whereas the average per capita increase in GDP during the same period was just 170%; in seven of the countries cited it was still under US\$2000 per year in 2008, and in five cases under US\$1000 per year (World Bank n.d.). Such statistics clearly show the absence of any appreciably positive impact of migration on the countries of origin.

Over the same period the group of countries exporting human and natural resources received over US\$190 billion in development aid. In other words, between 1990 and 2008 they benefited from around US\$1 trillion in external resources without a single one of them entering into a virtuous cycle of development based on dynamic local policies to acquire technology, unlike the Asian countries which instead of encouraging emigration opted for a proactive human resources mobilization policy and thus benefited from the spread of globalization by developing their capacity to export goods and services and then to satisfy domestic demand.

The cases of Nigeria (with its per capita GDP of US\$1370 in 2008) and Algeria (whose per capita GDP rose to US\$4845 for the same year after stagnating at under US\$2000 for ten years before finally taking off in response to the boom in oil prices) are particularly dramatic, as neither managed to raise their domestic standard

of living to any substantial degree, despite the additional advantage of a major inflow of financial resources from the energy sector – unlike some other countries that had no such rent-based income.

Indonesia provides another case in point. Although a major exporter of petroleum and also of wood, and for all its abundant natural resources, the country's per capita income between 1990 and 2003 was between a lowly US\$640 to US\$1000. As in the case of Algeria, Indonesian per capita GDP did not move substantially upward until the spectacular boom in energy prices from 2005 onwards bringing the per capita income to the level of US\$2246 in 2008. By way of comparison, in 2008 three economies that were devoid of any natural resources but which did not encourage the emigration of their human resources had an annual average per capita GDP that was far in excess of those just mentioned: the Republic of Korea with US\$19 115, Singapore with US\$37 597, and Taiwan with US\$16 988.

In fact, between 1970 and 2009 the Arab countries to the south and east of the Mediterranean received US\$396 billion. The inflow of annual remittances has been steadily increasing over the last ten years – growing from US\$10 billion per year in 2000 to over US\$27 billion by 2009. Remittances constituted an ever-increasing proportion of the GDP of the countries concerned, reaching a level of around 20% in Lebanon but also 6% in Egypt and 9% in Morocco, according to World Bank (n.d.) statistics. Moreover, available data on the use of migrants' remittances confirm that when they are not used to increase consumption, these savings go towards financing the acquisition or construction of housing or of commercial businesses, which further increases the concentration of local investment in the property market (real estate) and local trade sector (European Investment Bank 2005).

As far as the brain drain is concerned, it is mainly attributable to the phenomenon of students studying abroad but not returning to their countries of origin, in addition to a high number of professionals who are unemployed or dissatisfied with local working conditions (like doctors, engineers, biologists) and therefore opt to leave their countries. Recently, an employment agency specializing in qualified manpower and operating in the Gulf Cooperation Council (GCC) countries estimated that over 54% of the Arab students abroad did not return home and that 70 000 university graduates from the Arab world emigrated each year.⁵ It is also significant that the estimated 120 602 Arab students registered in foreign universities in 1999 was higher than the number of Chinese (106 036) or Indian (52 932) students (United Nations Educational, Scientific and Cultural Organization (UNESCO) 2005). It is also estimated that 100 000 scientists, doctors and engineers leave the Arab world *each year* not to return to their home country, constituting a brain drain that costs their countries of origin over US\$1 billion annually.⁶ Another study notes that the exodus of 450 000 'brains' from the Arab world, which has cost the countries from which they migrated upwards of US\$200 billion.⁷

The high concentration of investments in a few sectors hindering economic diversification

Although foreign investment grew considerably in the Arab region, it did not revitalize the region's economies. In fact it remained well below foreign investment in other emerging economies. Moreover, it encouraged the concentration of investment in a few sectors, some of them offering little value added and entailing little risk (oil, gas and petrochemical sectors; luxury housing and tourism; the banking and financial

sector; large retail outlets). This is clearly apparent from available data on some of the MENA economies. A recent ESCWA report for 2008, for instance, notes that the sectors that attracted the most foreign investment were energy and allied industries, services (especially financial services) along with real estate (ESCWA 2009, also United Nations Conference on Trade and Development (UNCTAD) 2008, n.d.).

In Saudi Arabia for the same year, the energy and allied industries sector attracted 41.2% of total FDI, against 20.8% for real estate, 25.5% for services and 6.9% for other activities: other industries attracted only 5.6% of the total. In the United Arab Emirates the structure of FDI was even more concentrated in 2006, with over 60% going to just two sectors: construction (29%) and financial and insurance intermediation (34.4%). That year only 10% of total FDI went to the industrial sector. In Lebanon 50% of the total in 2007 went to the real estate sector, while tourism and financial services attracted 33%. In Egypt the petroleum sector drew 57% of FDI in 2008. The same year, Jordan's hotel sector attracted 36% and its industrial free zones 56%. In Morocco the sectors that drew the largest share of FDI in 2001 were post and telecommunications services with 81% (because of the sector's privatization and the launching of the country's mobile telephone system) and real estate with 31% in 2002. The same happened in Tunisia, where privatization of the telecommunications sector attracted 45.2% of the accumulated total of FDI between 2002 and 2006.

It is clear that much the same phenomenon occurred with FDI as with migrants' remittances financial flows. FDI was massively concentrated on rent-based sectors while migrants' remittances were concentrated on consumption. Though this *did* create employment opportunities, notably in the mobile phone and tourism sectors, the fact remains that the increase in FDI did *nothing* to resolve the underlying problems of the employment market.

The very low level of research and development (R&D) and the absence of systems to support national innovation

Most Arab countries suffer from both very low level of research and development (R&D) and from the fragmentation of systems for acquiring and disseminating science and technology (S&T) in their societies. Because of its bad growth, the MENA region has one of the lowest productivity rates in the world, as shown by many indicators. This is particularly true of the number of patents registered by companies or individuals in the region compared with other countries and regions of the world. Thus, the total number of patents registered between 1963 and 2009 in all the countries of the MENA region was only 568, while the Republic of Korea alone registered 66 729 patents and Taiwan registered 77 285. Considering that all these countries were at roughly the same stage of development a mere 50 years ago, the figures illustrate just how little innovation has come out of the MENA countries.

This innovation deficit is also reflected in the very low level of expenditure on R&D – under 0.5% of GDP in most countries of the region compared with a world average of 1.9%, and 2.5% in the more dynamic and innovative countries. It is visible, too, in the small number of scientific publications in the region. This state of affairs explains why the relative technology content of the region's exports is so low, ranging as it does from 0.3% to a maximum of 7% of the region's total exports. The very small share of high-technology exports is in sharp contrast, for example, with that of the Republic of Korea (32%), Malaysia (47.1%), Singapore (49.1%) or Thailand (26.2%).⁸

Another indicator of the extent of the region's shortcomings in innovation is that of the brain drain, as already described. This has been a source of concern for years, but the fact that emigration has been encouraged in recent years by public policies advocated as a means of combating unemployment among university graduates and by policies pursued by many Arab governments has contributed to minimizing or diverting attention from the problem. A recent analysis of the subject estimated that nations to the south and east of the Mediterranean, with the partial exception of Turkey, have no human capital mobilization strategy conducive to the development of certain technological fields, especially those that constitute the driving force behind economic globalization.

This shortfall in S&T is not due to lack of universities – the region has many such institutions, some of a very high standard. Rather, it is because there is no integration into a national system for innovation that enjoys the strong backing of the state, the educational system and the private sector. Many recent reports and studies on the scientific and industrial lag of the MENA countries provide ample evidence that the few R&D institutions that exist have little productive potential (United Nations Development Programme (UNDP) 2010, UNESCO 2005, International Finance Corporation and Islamic Development Bank 2011). They all tend to be isolated from one another instead of forming a fully developed network integrated in all parts of the economy to provide it with an innovation capacity. And because there are no specific national technological or scientific objectives and no public policies to further them anyway, the fragmentation of R&D institutions tends to be self-perpetuating. Their usefulness is therefore not immediately apparent and the budgets they attract are correspondingly low. In addition, there is little contact between teaching institutions, private sector business associations, professional associations and trade unions, just as there is no established mechanism for consultations between the state, business and professional associations, and workers' and agricultural trade unions. This can be attributed to the absence of a national goal for them to attain in terms of acquiring and disseminating industrial technology as well as to the lack of any comprehensive industrial strategy or R&D policy to achieve such goals.

By way of example, UNESCO's annual report on the state of science around the world for 2005 (UNESCO 2005) drew attention to the knowledge gap in the Arab world, as evidenced by the following indicators: the low level of translation and publication of scientific articles and books; the almost total absence of scientific articles from the Arab world *cited in other scientific publications*; the lack of technological innovation as reflected in the very small number of patents registered in the Arab world; the minimal expenditure on R&D, making the region the least concerned with R&D in the world, especially when compared with military expenditure; the small amount spent on information and communications technology (ICT) and on higher education, as illustrated by the lack of autonomy of the universities and the rigidity of teaching curricula that are ill-suited to a knowledge-based global economy; the fact that the various levels of education are not linked to professional experience and human resource development in the public and private sectors; the very high rate of illiteracy; the poor distribution of university-level students among the various branches of knowledge – especially those concerned with science and technology; and poor standards for teaching of foreign languages.

The UNESCO report for 2010 focused on a description of the shortcomings of S&T systems (UNESCO 2010). It revealed that although many Arab countries established S&T institutions as soon as they acquired independence, they still have no national

policy or strategy in this area. Sectoral policies for agriculture, water and the environment do exist, but budget allocations for their adequate implementation are rarely sufficient. Moreover, according to the report, many Arab states have established industrial parks affording a good infrastructure for the creation of new enterprises, yet only seven countries have an academy of science. As the report notes, 'the indifference shown by decision-makers to S&T is a major contributor to the current vegetative state of S&T'.

UNESCO's 2010 report refers once again to the small number of patents awarded in the Arab region, the small number of published scientific works and articles, high rates of illiteracy, the very low level of exports with a high-technology content, and the fact that the development of the university-level systems of education is driven far more by supply than by demand. It analyses all the deficiencies of these systems and the contradictory objectives they are supposed to achieve. It concludes by recalling that although most Arab countries have had scattered and disparate elements of a science, technology and innovation system for at least four decades, 'little has changed in terms of the impact of science and the scientific enterprise for achieving socioeconomic development, or generating new knowledge'. Also, the report recalls in its Conclusion that the huge effort that is needed to catch up with other countries in the S&T field has been successfully accomplished in other countries that were once at the same stage of development as the Arab states, including the cases of Brazil, China, India, Ireland, Mexico and the Republic of Korea. Regarding the private sector, however, it does point out that there is little concern for S&T and that the sector is more attracted by trade in goods and services than in genuinely productive activities.

Finally, as in its 2005 report UNESCO (2010) or the conclusions of Antoine Zahlan analysis, the 2010 report refers once again to the problem of the S&T system fragmentation in the Arab countries and to the fact that their potential is championed only by individuals rather than by institutions. It urges the reader to bear in mind that the rentier economy is a key factor in the region's technological and scientific stagnation.

Reference should also be made to the recent publication of a periodical report on the state of knowledge in the Arab world, published jointly by the UNDP and the Mohammed bin Rashid Al Maktoum Foundation (2010). The first report, for 2009, conducted an exhaustive analysis of the principal political and institutional obstacles to knowledge build up in the Arab countries. It takes up the well-known themes and indicators concerning the region's stagnation in S&T and proposes ways and means of making up the knowledge deficit in the Arab world so as to bring about a change in the alarming state of S&T in the region. The report also contains a well-documented statistical annex concerning the relevant indicators.

Finally, the International Finance Corporation recently published a joint report with the Islamic Development Bank on youth employment and the adaptation of teaching systems in the MENA region to the requirements of development (International Finance Corporation and Islamic Development Bank 2011). The report estimates that youth unemployment costs the region some US\$50 billion per year.

Deficiencies of external trade: another major symptom of bad growth

An analysis of the foreign trade of the countries of the MENA region points to another serious consequence of the shortcomings of the growth model and of the bad development to which they give rise. This can be seen from the deficit of over US\$67 billion in the 2009 trade balance of seven countries of the MENA region (Algeria, Egypt, Jordan, Lebanon, Morocco, Syria and Tunisia), despite petroleum and gas exports worth over

US\$57 billion in the same year. In other words, if one discounts energy exports, the trade deficit of this group of countries amounts to US\$127 billion, which in per capita terms is the equivalent of US\$675 per person per annum.

A slightly closer analysis of this group's trade reveals that their industrial sector is totally dependent on other countries, since their deficit in industrial trade is over US\$82 billion, with a rate of coverage of imports of no more than 35%. And the figure would be even lower if one were to exclude products deriving from natural resources and allied industries, such as inorganic chemical products and fertilizers valued at about US\$5 billion in export earnings. Furthermore, a large share of these countries' exports of manufactured goods is attributable to industrial subcontracting activities (US\$23.9 billion), mostly in apparel and accessories, footwear, textile yarn, and fabrics as well as electrical machinery, apparatuses and appliances. All these industrial and manufacturing activities are undertaken in free zones under contract to European or United States' companies and not integrated in the local economies.

The most serious dependency is on medical and pharmaceutical products where the coverage of imports is no more than 19.3%, machinery and transport equipment where it is around 17.8%, professional and scientific instruments at 18.6%, and photographic equipment, optical goods and watches at 13.1%. However, one can also point to a very strong dependency on plastics in primary form with a coverage of only 14.8%, not to mention the enormous relative dependency of the road vehicles sector (6.7% coverage), specialized machinery and appliances (5.4%), metalworking machines and appliances (3.4%), other industrial machinery and machine parts (6.5%), and power-generating machinery and equipment (10.4%).

The foreign trade deficits of the countries analysed are also very high in terms of food products (US\$12.16 billion) and even animal and vegetable oils, fats and waxes (US\$1.64 billion), despite the considerable agricultural resources of Morocco, Egypt and Tunisia.

Meanwhile, it is instructive to compare these negative performances with the performance of four South East Asian economies that pursued dynamic and innovative industrial policies, namely, the Republic of Korea, Malaysia, Singapore and Taiwan. These four economies, with their combined population of 104.8 million inhabitants – roughly the same as that of the countries of the Arab East or Mashriq (Egypt, Jordan, Lebanon and Syria) managed to generate a foreign trade surplus of US\$127 billion, in which the trade surplus in industrial products accounted for US\$257 billion against a deficit of US\$80 billion for the seven countries of the MENA region, with machinery and transport goods accounting for a surplus of US\$178 billion against a deficit of US\$46 billion in the MENA countries. At the same time, the four Asian economies registered a deficit of US\$99 billion in trade in fuels against a surplus of US\$33 billion for the seven countries of the MENA region. The net result was, thus, a trade surplus of US\$127 billion where the MENA countries suffered a deficit of US\$67 billion, despite their fuel export surplus.

These indicators and comparisons drawn from foreign trade figures all go to show how little industrialization there is in the MENA countries. This being so, it is hardly surprising that trade between the countries of the region remains so low. The share of inter-Arab trade in all foreign trade of Arab countries is still miniscule, hovering between 8% and 9% for exports and between 10% and 13% for imports (including oil and gas). In some of the countries the share of exports is much larger: Lebanon (47% in 2008), Jordan (41.7%) and Syria (40.1%). Tunisia sells only 9.7% of its total exports to other Arab countries, while Algeria, Libya, Mauritania and Morocco export no more than 3.7%.⁹

As to the composition of inter-Arab trade, the share of trade in energy products is just under 60% of total exports against 13% for food products, 9–10% for chemical products, 12–13% for manufactured goods, and 4–5% for machinery and transport equipment.¹⁰ The level of inter-Arab trade is especially disappointing because an Arab free-trade area (the idea of which was first broached in 1996) has been introduced in several countries in recent years. This demonstrates once again that the rigidity of the economic structures described above is a major obstacle to the growth and diversification of these countries' productivity.

Conclusion: rentier economies and democratic systems are antagonistic

This short diagnostic can be summarized by a predominant specificity of the Arab economies which is their large rent base that prevents dynamism, economic diversification, real industrialization and high value-added service activities. It is not easy task to break with the trappings of bad growth, which depends essentially on a number of sources of state and individual rent-based revenues mainly in commodities exports, mass tourism, real estate, and import and local trade activities; these have contributed to the ossification of a socioeconomic structure characterized by a lack of dynamism and diversification and by increasing income inequalities between different regions in each country. These income disparities are most visible in the increasing gap between the rural areas in which a large population continues to live in many countries and affluent families living in large urban centres.

As history has shown, rent-based economies have always produced authoritarian political regimes, wherein the ruling elite will consider natural and human resources to be of its patrimonial inheritance of which it can freely dispose. The rise of democracy in Europe has been a long road towards dismantling the patriarchal state and substituting its economic and political culture so as to lay the bases for individual freedoms and accountability of the ruling elite towards its citizens.

What has recently happened in the Arab world in terms of mass revolts cutting across all age groups and all social strata of the population is an important historical moment, opening up new avenues to shift away from bad growth to virtuous growth and from dictatorship to democratic systems. We will try now to see how to shift from one economic model to a new one based on dynamism, diversification and full mobilization of hitherto neglected human resources. The future of these Arab revolts in terms of successfully establishing democratic systems is dependent on the capacity to implement such a shift from a deficient rent-based growth model to a virtuous innovation-based, dynamic, fair and sustainable development model. As we will see, this is not an easy task.

Shifting from bad growth to virtuous growth

Before considering what changes are required in macro-economic policy and sectoral policies to escape the rent-based system, this section will review briefly the obstacles to be encountered.

Difficult international environment

Several negative factors could be identified here that might hinder the shift from one model to the other.

A continued reliance on the approach to economic reforms based on the neo-liberal creed as ingrained by the Washington consensus

In spite of the deep financial and economic crisis that have affected Western economies, decision-makers at the level of the G7 and to a large extent the G20 (including the new emerging countries), the main dogmas of neo-liberalism have not been shaken. The recent document produced at the G8 Deauville Summit in May 2011 to support the Arab Spring movement – namely the IMF Memorandum on which financial support is to be disbursed to the new regimes in Egypt and Tunis – does not deviate from the economic stereotypes that have dominated the views of the IFI (G20-G8 France, 2011). What is being advocated is further liberalization of markets, greater labour flexibility, more privatization, a reduction in state subsidies, etc., all of which have been standard themes.

Some of the Arab new elite acceding to power after the revolutions have their careers in the IFI and are convinced that the main problems in the Arab economies derive from an insufficient effort to create the conditions for a better business climate, fewer state and public sector activities and interventions in the economy, along with more FDI and private investments.

This very traditional approach totally disregards the lessons of economic history, and particularly those of ‘late industrializers’, be they Germany and Japan in the nineteenth century or those of the Republic of Korea, Taiwan, mainland China, Singapore, Brazil and others in the twentieth century, whereby well-focused state interventions have supported and oriented private entrepreneurs towards the mastery of technology and innovation, full mobilization of human resources, and adequate planning of social and economic change to adapt to ferocious trade competition between nations. None of these models has been followed in the Arab world (except for very short periods in Egypt under Muhammed Ali in the nineteenth century and under President Jamal Abdel Nasser in the twentieth century). Over the last decades, no Arab government has attempted to follow the example of one of the new emerging countries in South East Asia.

Increase in budget and current account deficits

Given the political turmoil that has been created by the revolutionary movements and the necessity to yield to some of the demand for greater social justice, governments could not avoid increasing subsidies on essential goods and in some cases also increasing salaries. This will undoubtedly precipitate an increase in budget deficits. In addition, the instability has caused a sharp drop off in tourist activities and consequently a decline in foreign exchange receipts. Exports may also have declined due to weak demand in European markets and declining production due to the many days when protest demonstrations paralysed economic life. FDI will necessarily decrease as foreign investors wait for the political situation to stabilize. The result will most probably be a deterioration in balance of payment flows. In turn, these short-term negative developments have affected local markets.

The speculative nature of markets and the behaviour of rating agencies and the IMF

Domestic stock exchange and foreign exchange markets are highly volatile and investors, as everywhere else, like to speculate on any bad news. The Arab revolts have tended to depress markets and wealthy people have been transferring money abroad

through official or unofficial channels, which has contributed to the depletion of foreign exchange reserves. Rating agencies in such cases can be prompt to downgrade the credit worthiness of large companies or state bonds, which only accentuates 'market fear'. Any broad change in traditional macro-economic policies as recommended by the IMF, World Bank and European Union to try and innovate in terms of growth models might attract sharp criticism of the sort that will also adversely impact markets and 'investors' confidence'.

In general, market investors make their decisions based on short-term considerations; seldom do they have a long-term perspective based on positive economic changes that might occur in the wake of a restoration of the previous stability.

This why we now need to consider the long-term perspective and the conditions under which specific reforms could possibly liberate repressed productive capacities due to the rent-based economic system and the bad growth model that has been analysed.

Six policy measures to shift from a rent-based to a productive economy

Curbing corruption and promoting the accountability and social responsibility of the private sector

The Arab revolts have undoubtedly uncovered the amount of corruption linked to the nature of political regimes as a rent-distributing mechanism among a closed circle of elite and promoted businessmen. Corruption cannot be curbed by exclusively designating state officials as being responsible for the corruption. Transactions based on corruption always require at least two partners: a businessperson, on the one hand, and an official, on the other. This is why the time has come in the Arab world to focus attention on both sides of the equation and to introduce through local legislation effective procedures to detect and punish misconduct by some of the private sector businessmen close to government circles who are taking advantage of such links and enjoying special privileges or confidential, insider information. This is not only contrary to the principle of fair competition, but also it creates economic wastage and maintains low productivity.

The private sector should also be made to realize its economic and social responsibilities. Managing a business operation is not reducible only to owning and maximizing returns of a 'profit-making machine'. Private sector companies are also part of the society and owe it to work for its benefit, in terms of the quality of products and services delivered, as well as the training of human resources and the provision of decent job opportunities. They should not predate natural and human resources of the country by underpaying for such natural resources or degrading the environment; and they should offer decent work and salary conditions to their employees and workers. For its part the judicial system of Arab countries should be well attuned and trained to judge infringements to fair competition, the degradation of natural resources and environment, the misuse of influence through friendship with officials, and other pernicious practices.

Better and more ethical behaviour by the private sector along with its adherence to its social responsibilities could greatly improve the productivity of the economy and reduce corrupt practices considerably between high officials and rich businessmen.

The diversification of investments and the curbing of the brain drain

This another urgent issue to be tackled. The Arab world has witnessed a very high concentration of local and foreign investments in a few production and services sectors

with high profits but low value-added or low employment potential (tourism, real estate, banks, local trade distribution, in addition to traditional energy and petrochemical sectors). Diversifying investments into many other productive activities will reduce unemployment and the migration of skills and those with high professional or scientific qualifications. There are many fields in which the private sector – eventually with the support of the state along the lines of the East Asian growth model – can engage in activities, and among these are:

- Producing alternative and renewable energy (solar, wind, water).
- Producing equipment for such alternative sources of energy (solar panels) or for waste treatment or water purification.
- Medical research and pharmaceutical production.
- In-sourcing R&D from other more technologically developed countries in ICT sectors.
- Developing rural areas and macrobiotic food produce.
- Developing mechanical and equipment industries to reduce the total dependence on foreign suppliers.
- Halting desertification through reforestation.

Integrating the informal sector into the modern sector

Another urgent need in the Arab economies is that of integrating the very small informal and family enterprises into the modern production sector through outsourcing and subcontracting to them small parts of the production process, as has been done successfully by many other countries. This requires that local modern firms determine what parts of their production could be outsourced to indigenous informal producers and what training and equipment material would necessarily have to be supplied to the small enterprises.

Given the size of the informal sector and the role it plays in employment, this is an urgent task. It requires a very active policy that should be designed by the main business associations (Association of Industrialists, Chamber of Commerce and Agriculture) as well as the professional orders such as the Order of Engineers.

Private–public partnership in defining national objectives in terms of mastering clusters of technologies

In the context of economic globalization, countries need to progress in mastering science and technologies in basic fields of modern industry and services so as to provide for economic diversification and the full employment of its qualified human resources. This requires that national objectives for S&T be identified by common consent between the state, the educational sector and the private sector. A national system of innovation should be set up with funding of both the private and the public sectors.

Given the lag in S&T that affects all Arab societies and the absence of links between education, technical skills and innovation or the fragmentation of innovation systems and R&D institutions, this a field that demands a great deal of attention and funding. If productivity of the economy and the increase in high value-added export of goods and services are to be realized, the Arab economies need to adopt such policies urgently.

Suppressing pockets of illiteracy and caring for the development of rural areas

It is a scandalous situation that the Arab world still suffers from very large pockets of illiteracy in some important countries like Egypt, Morocco, Yemen, Sudan and Mauritania. The concerned states should adopt a plan to suppress illiteracy in a few years. The implementation could be outsourced to independent non-governmental organizations (NGOs) dedicated to alleviating poverty.

It should also be noted that illiteracy is concentrated in rural areas, which is an additional reason for Arab states to become more aggressive in implementing active policies to increase investments and well-being in such areas. Rural populations in the Arab world have not seen their socio-economic situation improved during recent decades, and this fact has hindered overall growth dynamism in the Arab world.

Reviewing the tax system to equalize rates of profits between technology sectors to be developed and traditional high-profit sectors

Arab tax systems are entirely maladapted to the main characteristics of their rent-based economies. Tax burdens on financial or real estate capital gains are in most cases non-existent. Rent revenues from investing in shares or bonds are taxed at low rates. Under the cover of investment codes, many tax holidays and shelters are applied to types of business that do not entail any economic or technological risks. In the rich oil-exporting countries of the Gulf income tax is either non-existent or does not persist except as *zakat* (alms for the poor) as in the case of Saudi Arabia.

Nowhere in the Arab countries is there an income tax based on external indicators of wealth in terms of real estate properties, the number of cars or yachts or private jets, while there is an increasing number of millionaires and billionaires. This is why tax systems have to be totally revamped and overhauled so that foreign and the local private companies will be induced to invest in new high value-added activities and spending on R&D within the framework of national objectives and an integrated system of innovation designed and implemented within the framework of an association of the public and the private sectors.

Conclusion: the long road to be travelled to extricate Arab economies from the bad growth model and orient it towards a virtuous model

There is no doubt that the greatest challenge facing the revolutions of the Arab Spring is changing the Arab rentier economy bad growth model. It has been the root of generalized corruption, state patrimonialism, nepotism and favouritism, and authoritarian political regimes. This bad growth model has created and deeply ingrained a certain number of socio-economic behaviours antagonistic to productivity, fair competition, economic diversification, and entrepreneurship and innovation.

The predominance of neo-liberal economic thinking has, up to now, not only prevented any in-depth analysis of the rentier model, but also it can be said that the way the prescriptions of the Washington consensus have been implemented in most Arab economies through IMF/World Bank/European Union assistance programmes has probably been responsible – at least partially – for the increase in corruption, the social marginalization of large segments of the rural and urban populations, and the huge wastage of human and natural resources in Arab countries. This is why continuing to accept more of the same in terms of financial assistance conditioned by

greater labour flexibility, deregulation and lack of protection of natural and human resources will continue to be a formula for additional hardship that may lead to a radicalization of marginalized segments of the population. In this respect the IMF document adopted at the Deauville G7 meeting in May 2011 (G20-G8 France, 2011) to serve as a guide to financial assistance conditioned by new reforms along the neo-liberal agenda should be cast aside.

New ways of thinking about economic reforms that would help a real transition to democracy and the state of law should be developed as an alternative to traditional rigid and abstract neo-liberal thinking that leads to more of the same. The analysis of bad growth conducted here as well as the proposals formulated for a genuine transition in the Arab growth model are intended as contributions to help Arab citizens access a better life where their talents, intellects and energies can be mobilized to achieve economic diversification out of rent sectors and to promote real creative and productive entrepreneurship within the scope of national goals for mastering technologies and creating the conditions for a better life for each citizen.

In the final analysis, there can be no real democratic life in countries in which the economic base is entirely dependent on rent inflows that are not properly distributed and invested in the economy to promote social equity and full employment based on economic productivity and diversification.

Notes

1. According to data from a table in World Bank (2008).
2. Data are drawn from ILO (2010b).
3. *Unified Arab Economic Report*, published by the pan-Arab financing institutions and the General Secretariat of the League of Arab States, Kuwait, September 2009.
4. For the brain drain and its cost to the economy of the migrants' country of origin, see Corm (2010).
5. See <http://talentrepublic.net/NewsDetails.aspx?ID=2/>.
6. See <http://talentrepublic.net/NewsDetails.aspx?ID=2;> reference is made to statistics of the Arab League, ILO and UNESCO.
7. See <http://www.scidev.net/en/news/brain-drain-threatens-future-of-arab-science.html/>.
8. Figures are drawn from World Bank (n.d.).
9. Statistics are drawn from General Secretariat of the League of Arab States (2009).
10. Statistics are drawn from General Secretariat of the League of Arab States (2009).

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