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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 put on demand for political freedom and the ousting of corrupted dictators. The demand for more social justice and a different developmental model has been ignored in most cases. For Western media, it was only natural that values of political freedom that were part of the revolutionary slogans would be emphasized, as they would consider that it is the virtuous Western influence that animated the Arab revolts against tyranny and 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 would make monarchy to be looked upon as a regime that cares to its people.

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

For Western media and decision makers emphasizing the demand for democracy and human right allowed escaping the discussion of the negative socio-economic results of implementing the neo-liberal economic recipes that the Arab countries have been following during the last decades under the influence of the IMF, the World Bank and the Union European. IMF annual reports based on Article IV Consultation on Tunisia, Morocco, Egypt, Syria and other Arab countries have shown a large degree of optimism and approval of progresses realized in these countries thanks to the liberalization drive. These reports emphasized namely (i) the improvement in fundamental macro-economic variables (inflation, budget deficit, balance of payment deficit); (ii) the positive developments of local capital markets; (iii) institutional modernization in terms of markets’ liberalization (free trade, free flows of capital, central bank reform, privatization and the reduction of the size of the public sector); (iv) improvement in banking markets performances.

Both IMF and WB reports on the MENA region would analyze the lack of productivity and economic diversification or the moderate GDP annual growth rates as exclusively due to the need to deepen the neo-liberal reform drive. In their view, Arab States should increase labor “flexibility” and should not stick to overvalued currencies so that their
exports could be more dynamic. Government funded social protection network should be rationalized to target exclusively the poorest strata of the population, thus reducing the burden of State subsidies and the percentage of budget deficit to GDP. WB reports would be highly favorable to encouraging more emigration as a way to reduce unemployment. In general terms, IMF, WB and EU considered on the whole the Arab governments to be successful reformers implementing rather slowly but consistently their recommendations. No one would anticipate within the Western donor community that revolts would erupt in the Arab world due to a large part to deteriorating socio-economic conditions that were not properly monitored or addressed.

In fact, what was happening in the real economy in Egypt, Tunis, Morocco, Syria, Yemen, Saudi Arabia, Bahrain and Oman, was out of their vision. In spite of many studies by Arab economists showing the deteriorating living conditions in rural areas, but also the development of shanty towns on the suburbs of Arab cities, and in spite of available data on the increasing unemployment crisis and brain drain detrimental to the productivity of the real economies, Western attention has been exclusively focused on macro-economic balances and liberalization drive along neo-liberal ideology. In general, pan Arab financial institutions as the Arab Monetary Fund or the Arab Fund for Economic and Social Development did not have a different attitude, except for focusing on rural poverty and on the increasing trade gap in food products.

In fact, the recent economic history of the Arab world is one of an increasing “bad growth” model to which few paid attention and that largely explain the important socio-economic dimension of the Arab revolts. It is under this bad growth model that corruption has flourished and that unhealthy multi-facet links were created between the business establishment and the political establishment. Complete silence was made on this phenomenon in the media as well as the academic research or the technical reports of the International Financial Institutions or the EU or the Arab IFIs.

We will successively examine here in a first part the components of this bad growth model and in a second part the way to change from bad growth to good growth.

I. The main characteristics of the Arab bad growth model

Compared to successful emerging countries, Arab economic growth and social performance has been characterized by average low rate of GDP per capita growth (to the exception of the Arab oil exporting countries with small population) and by very high rate of increasing unemployment, in spite of a good endowment in natural resources. We can mention here eight strong indicator of the underperformance of the Arab economies.

1. The lowest rate of active population to total population

ILO statistics show that on average the rate of active population to total population in the Arab countries which is 45% contrast sharply the with average world rate standing at 61,2% and the average rate in East Asia region which is as high as 70%. In addition, labor statistics in the Arab countries show a very low participation rate of women in the
labor markets and a very high rate of informal employment yielding very low revenues. This rate is 70% of total employment in Morocco and 48% in Egypt\(^1\).

2. The highest unemployment rate to active population

If the overall average unemployment rate in the Arab world do not appear very high at around 10% it remains the highest in the world (to the exception of Spain and Central Europe), the unemployment rate among young people (15 to 35 year olds) is much higher, around 25%, while in other parts of the developing world the corresponding rate ranges between 8.9 and 15.7 per cent. Another characteristic of youth unemployment in Arab countries is the very high rate of unemployment affecting young higher education or secondary education graduates. Thus in Tunisia the unemployment rate among higher-education graduates jumped from 3.8 per cent in 1994 to 17.5 per cent in 2006, while the share of jobseekers with higher education in the total rose from 23 per cent in 2001 to 55 per cent in 2007; job offers for the category were far below. In Egypt the proportion of unemployed workers with secondary education is estimated at 80 per cent of total unemployed; in Morocco the figure is 29.6 per cent, in Algeria 37.8 per cent and in Tunisia 42.5 per cent\(^2\).

3. 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. In addition, 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 five Arab countries and Turkey (Algeria, Jordan, Morocco, Syria and Turkey) the official minimum salary is extremely low, ranging from a low of 164 US dollars a month in Syria to a high of 425 dollars in Turkey, while in Morocco the minimum salary for non-agricultural work is 235 dollars a month and for agricultural work a mere 152 dollars.\(^3\) Another statistical source estimates that the average yearly per capita income in rural areas in the Arab countries do not exceed 320 dollars in 2008, against an average annual GDP per capita of 5,858 dollars for the same year (including the oil-exporting countries of the Arabian Peninsular).\(^4\)

In addition, 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 dollars per day shows the extent of poverty at the national level in several Arab countries. It ranges between a minimum of 2.34 dollars in Mauritania to a maximum of 11.05 dollars in Jordan, though daily per capita consumption in most cases hovers around 5 dollars (to

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\(^4\) Unified Arab Economic Report, published by the pan-Arab financing institutions and the General Secretariat of the League of Arab States, Kuwait, September 2009
the exception of Lebanon with 22.63 dollars attributable to the highest level of emigrant remittances to GDP in the region).

A recent report charting the progress of the Millenium Development Goals in Arab countries\(^5\) stated that, although only 5 per cent of the population in the Arab world falls within the definition of extreme poverty as referring to people with an available income of less than 1.25 dollars per day, the figure would be 21 per cent of the population under a definition of poverty as including those earning less than 2 dollars a day. Moreover, 22 per cent of the population from the area has no access to basic health care, 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 Millenium 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 is still a distant objective. And though 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 some of the countries are have extensive areas of fertile land and water resources (Algeria, Egypt, Lebanon, Morocco, Sudan, Syria and Tunisia).

4. High economic growth rate dependency on external variables

Arab economies have become highly dependent on external variables to sustain growth rates. These variables are the following:

- Oil prices
- Rainfall
- Tourism revenues
- Migrant remittances

This why GDP annual growth rate are highly volatile, as it is shown by the following graph which includes both oil and non oil exporting countries. In the last fifty years international oil prices 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 important manpower from other Arab countries and the demand for immigrant manpower increases with higher oil prices, while it decreases with downward prices. Booming conditions in the Arab oil exporting countries due to sudden rise in oil prices activates FDI by rich Arab nationals from these countries. Thus, growth rates in non oil Arab exporting prices have become dependant on Arab FDI and Arab migrant remittances that accrues also from Arab emigrants to Europe or the United States and Canada.

\(^5\) Charting the progress of the Millenium Development Goals in the Arab region. A statistical portrait, Economic and Social Commission for Western Asia (ESCWA), Beirut, 2010.
In addition, in countries with agricultural potential like Morocco, Syria and Tunis (in addition to Egypt and Sudan), lack of adequate hydraulic infrastructure and water management have kept agricultural income dependent on the amount of yearly 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 countries of origin of the tourists. In fact, the main engine of growth in the Arab countries are not locally based (industrial innovation, economic diversification, high value added services that can be exported). They remain to a large extent dependent on external variables not related the local economic dynamism.

5. 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 have become very high. According to an ILO study, the flood of migrants from the MENA regions, especially the countries south of the Mediterranean, is a major symptom of bad growth and of the resulting distortions of the labour markets. Between them, the five Arab countries of the Mediterranean mentioned above (Algeria, Egypt, Lebanon, Morocco and Tunisia) had an emigrant population of over 8.1 million. These emigrants were distributed as follows: 55.44 per cent in Europe (mainly Belgium, France, Germany and Spain), 23.76 per cent in oil-exporting Arab countries employing unskilled workers and middle-management executives (see below) and 7.33 per cent in traditional 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.

It is worthwhile noting that between 1998 and 2007, the flow of migrants from the five 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 1,550,000 new migrants to Europe between 1998 and 2007. Some of them were students going to study abroad (an estimated 100,000 a year from the five countries plus Irak), a large proportion of whom (recently estimated to be 54 per cent) would never return home. 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 and to its becoming one of the features of the bad growth we are concerned with.

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 country of origin as doing much to resolve the

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7 For the brain drain and its cost to the economy of the migrants’ country of origin, see G. Corm: “Faits et méfaits de l’émigration des competences”, contribution to a seminar on highly qualified migration from, towards and through the countries to the east and south of the Mediterranean and sub-Saharan Africa, organized by the University of Saint-Joseph, Beirut, 27-28 September 2010.
problems of poverty and unemployment back home. But it is now obvious that it is not the countries that encouraged and even organized the extensive migration of their citizens abroad in order to benefit from their remittances whose economies have grown fastest. Indeed, in 11 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 per cent to a total of 800 billion dollars between 1990 and 2008, whereas the average per capita increase in GDP during the same period was just 170 per cent; in seven of the countries cited it was still under 2,000 dollars in 2008, and in five cases under 1,000 dollars a year. Such statistics show clearly the absence of any positive impact of migration on the countries of origin.

Over the same period the group of countries exporting human and natural resources received over 190 billion dollars in development aid. In other words, between 1990 and 2008 they benefited from around 1,000 billion dollars in external resources without a single one of them entering into a virtuous circle of development founded on local dynamic 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 1,370 dollars in 2008) and Algeria (whose per capita GDP rose to 4,845 dollars for the same year after stagnating at under 2,000 dollars for ten years and then 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 is 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 a lowly 640 to 1,000 dollars. 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 2,246 dollars 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: Republic of Korea with 19,115 dollars, Singapore with 37,597 dollars, and Taiwan (China) with 16,988 dollars.

In fact, between 1970 and 2009 the countries Arab countries from south and east of the Mediterranean received 396 billion dollars. The flow of annual remittances has been steadily increasing in the last ten years growing from 10 billion dollars a year in 2000 to over 27 billion by 2009. It constituted an ever-increasing proportion of the GDP of the countries concerned, reaching around 20 per cent in Lebanon but also 6 per cent in Egypt and 9 per cent in Morocco, according to WB statistics.

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8 See the World Bank’s online database: World Development Indicators.
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 real estate and local trade sector.9

As for the brain drain, it is mainly fuelled by students studying abroad but not returning to their countries of origin, in addition to a big number of professionals that are unemployed or dissatisfied with their working conditions (like doctors, engineers, biologists) that choose to leave their countries. Recently, an employment agency specializing qualified manpower and operating in the Gulf Cooperation Council (GCC) countries estimated that over 54 per cent of the Arab students abroad did not return home and that 70 000 university graduates from the Arab world emigrated each year10. 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.11 It is also estimated that 100 000 scientists, doctors and engineers leave the Arab world each year not to return to their home country, a brain drain that costs their countries of origin over 1 billion dollars annually.12 Another study notes that the exodus of 450 000 “brains” from the Arab world has cost the countries from which they migrated upwards of 200 billion dollars.13

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

Although foreign investment grew considerably in the Arab region, however, it did not revitalize the region’s economies. In fact it remained well below foreign investment to 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, 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) and real estate14.

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9 See Study on improving the efficiency of workers’ remittances in Mediterranean countries, European Investment Bank, FTF/REG/01/2005, Final Report which observes: “In terms of use of funds in recipient countries, it appears that remittances are primarily aimed at consumption, and can enhance education, health and housing conditions. Little evidence is found of remittances being used for immediate productive investment, although some interesting examples exist”.
12 http://talentrepublic.net/NewsDetails.aspx ?ID=2; reference is made to statistics of the Arab League, ILO and UNESCO.
In Saudi Arabia that year, the energy and allied industries sector attracted 41.2 per cent of total foreign direct investment, against 20.8 for real estate, 25.5 per cent for the services and 6.9 per cent 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 per cent going to just two sectors: construction (29 per cent) and financial and insurance intermediation (34.4 per cent). That year only 10 per cent of total foreign direct investment went to the industrial sector. In Lebanon 50 per cent of the total in 2007 went to the real estate sector, while tourism and financial services attracted 33 per cent. In Egypt the petroleum sector drew 57 per cent of FDI in 2008. The same year, Jordan’s hotel sector attracted 36 per cent and its industrial free zones 56 per cent. In Morocco the sectors that drew the largest share of FDI in 2001 were post and telecommunications services with 81 per cent (because of the sector’s privatization and the launching of the country’s mobile telephone system) and real estate with 31 per cent in 2002. The same happened in Tunisia, where privatization of the telephone sector drew 45.2 per cent 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.

7. The very low level of R & D and the absence of national innovation system

Most Arab countries suffer from both very low level of R & D and from the fragmentation of systems for acquiring and disseminating 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 to 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 registered 66729 patents and Taiwan (China) 77285. Considering that all these countries were at roughly the same stage of development a mere 50 years ago, the figures illustrates 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 per cent of GDP in most countries of the region, compared with a world average of 1.9 per cent and 2.5 per cent 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 technology content of the region’s exports is so low, ranging as it does from 0.3 per cent to a maximum of 7 per cent 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 per cent), Malaysia (47.1 per cent), Singapore (49.1 per cent) and Thailand (26.2 per cent).15

15 Figures drawn from the World Bank database, World Development Indicators.
Another indicator of the extent of the region’s shortfall 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 mean of combating unemployment among university graduates and by the policy pursued by many Arab governments has contributed to minimizing or distracting attention from the problem. A recent analysis of the subject estimated that the States 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 are the driving force behind economic globalization.

This shortfall in science and technology (S&T) is not due to a lack of universities – the region has many such institutions, some of them of a very high standard – but because there is no integration in a national innovation system that has 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. 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 visible 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, workers’ and agricultural trade unions. This can, be attributed to the absence of national goal for them to attain in terms of acquiring and disseminating industrial technology and no comprehensive industrial strategy and R &D policy to achieve such goals.

For example, UNESCO’s annual report on the state of science around the world for 2005 drew attention to the knowledge gap in the Arab world, as evidenced in 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 research and development, 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 and on higher education, as illustrated by the lack of autonomy of the universities and the rigidity of teaching programmes 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

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private sectors: the very large number of illiterates; the poor distribution of university-
level students among the various branches of knowledge, especially those concerned with
science and technology; and the poor standard of teaching of foreign languages.

The UNESCO report for 2010 focused on a description of the shortcomings of S&T
systems. 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 the budget
allocations for their adequate implementation are rarely sufficient. Moreover, according
to the report, many of the 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 comments: “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, the large
number of illiterates, the very low level of exports with a high-technology content, the
fact that the development of the university-level systems of education is driven far more
by supply than by demand. The report analyzes 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 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 on achieving socioeconomic development, or
generating new knowledge”. But the report also 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, such as 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 or the conclusions of Antoine Zahlan analysis, the 2010
UNESCO 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.17 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 science and technology 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

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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. The report estimates that youth unemployment costs the region some 50 billion dollars a year.\(^\text{18}\)

8. *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 that they gives rise to. This can be seen from the deficit of over 67 billion dollars 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 57 billion dollars in the same year. In other words, if one discounts energy exports, the trade deficit of this group of countries amounts to 127 billion dollars, which in per capita terms is the equivalent of 675 dollars per person per year.

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 82 billion dollars, with a rate of coverage of imports of no more than 35 per cent. And the figure would be even lower were one to exclude products deriving from natural resources and allied industries, such as inorganic chemical products and fertilizers valued at about 5 billion dollars in export earnings. Furthermore, a large share of the countries’ exports of manufactured goods is attributable to industrial subcontracting activities (23.9 billion), mostly in wearing apparel and accessories, footwear, textile yarn, fabrics, made-up articles, as well as electrical machinery, apparatus and appliances. All these industrial activities are manufactured 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 per cent, machinery and transport equipment where it is around 17.8 per cent, professional and scientific instruments at 18.6 per cent and photographic equipment, optical good and watches at 13.1 per cent. But one can also point to a very strong dependency on plastics in primary form with a coverage of only 14.8 per cent, not to mention the enormous relative dependency of the road vehicles sector (6.7 per cent coverage), specialized machinery and appliances (5.4 per cent), metalworking machines and appliances (3.4 per cent), other industrial machinery and machine parts (6.5 per cent) and power-generating machinery and equipment (10.4 per cent).

The foreign trade deficits of the countries analyzed are also very high in terms of food products (12.16 billion dollars) and even animal and vegetable oils, fats and waxes (1.64

billion dollars), despite the considerable agricultural resources of Morocco, Egypt and Tunisia.

Meanwhile, it is interesting 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 (China). These four economies, with their combined population of 104.8 million inhabitants – roughly the same as that of the countries of the Machrek (Egypt, Jordan, Lebanon, Syria) – managed to generate a foreign trade surplus of 127 billion dollars, in which the trade surplus in industrial products accounted for 257 billion dollars against a deficit of 80 billion dollars for the seven countries of the MENA region, with machinery and transport goods accounting for a surplus of 178 billion dollars against a deficit of 46 billion dollars in the MENA countries. At the same time, the four Asian economies registered a deficit of 99 billion dollars in trade in fuels against a surplus of 33 billion dollars for the seven countries of the MENA region. The net result was thus a trade surplus of 127 billion dollars where the MENA countries suffered a deficit of 67 billion dollars, 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. That being so, it is hardly surprising that trade between the countries of the region is so low. The share of inter-Arab trade in all foreign trade of Arab countries is still very small, hovering between 8 and 9 per cent for exports and between 10 and 13 per cent for imports (including oil and gas). In some of the countries the share of exports is much larger: Lebanon (47 per cent in 2008), Jordan (41.7 per cent) and Syria (40.1 per cent). Tunisia sells only 9.7 per cent of its total exports to other Arab countries, while Algeria, Libya, Mauritania and Morocco export no more than 3.7 per cent.19

As to the composition of inter-Arab trade, the share of trade in energy products is just under 60 per cent of total exports against 13 per cent for food products, 9 to 10 per cent for chemical products, 12 to 13 per cent for manufactured goods, and 4 to 5 per cent for machinery and transport equipment.20 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 shows 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: Rent economies and democratic systems are antagonistic

This short diagnostic can be summarized by a predominant specificity of the Arab economies which is its 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,

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20 Ibid.
real estate and import and local trade activities; these have contributed to ossifying a socioeconomic structure characterized by the 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 base economies have always produced authoritarian political regimes, whereby the ruling elite will consider natural and human resources as its patrimony which it can freely dispose of. The rise of democracy in Europe has been a long road towards dismantling the patrimonial State and changing its economic and political culture to lay the basis of individual freedoms and accountability of the ruling elite towards its citizens.

What has recently happened in the Arab world in terms of mass revolts cross cutting all age groups and all social strata of the population is an important historical moment, opening new avenues to shift from bad growth to virtuous growth and from dictatorship to democratic systems. And 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 neglected human resources. The future of these Arab revolts in terms of successfully establishing democratic systems is dependent on being able 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.

II. Shifting from bad growth to virtuous growth

Before considering what changes are required in macro-economic policy and sectoral policies to escape the rent base system, we have to review briefly the obstacles to be encountered.

1. Difficult international environment

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

a) Continued approach to economic reforms based on the neo-liberal creed as ingrained in 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 extend 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 – do not change from the economic stereotypes that have dominated the views of the International Financial Institutions.
What is advocated is more liberalization of markets, more Labour flexibility, more privatization, more reduction in Stat subsidies, etc.

Some of the Arab new elite acceding to power after the revolutions have their careers in the IFIs and are convinced that the main problems in the Arab economies is an insufficient effort in creating the conditions for a better business climate, less State and public sector activities and interventions in the economy, more FDI and private investments.

This very traditional approach disregard totally the lessons of economic history, and particularly those of “late industrializers”, be it Germany and Japan in the 19th century or those of South Korea, Taiwan, Mainland China, Singapore, Brazil and others in the 20th century, whereby well focused State interventions have supported and oriented private entrepreneurs towards technology mastery and innovation, full mobilization of human resources, adequate planning of social and economic change to adopt to ferocious trade competition between nations. None of these models have been followed in the Arab world (except for very short periods under Mohammed Ali in Egypt in the 19th century and President Jamal Abdel Nasser also in Egypt in the 20th century). And during the last decades, no Arab government has tried to follow the example of one the new emerging countries in South East Asia.

b. Increase in budget and current account deficits

Given the political turmoil that have been created by the revolutionary movements and the necessity to yield to some of the demand for more social justice, governments could not avoid increasing subsidies to essential goods and in some cases increasing also salaries. This will undoubtedly create an increase in budget deficit. In addition, the turmoil has created a sharp decline in the 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 where protest demonstrations would have paralyzed economic life. FDI will necessarily decrease, as foreign investors waited for the political situation to stabilize. The result will probably be a deterioration of the balance of payment flows. In turn, these short term negative developments have affected local markets.

c. 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. Arab revolts have tended to depress markets and wealthy people have been transferring money abroad through official or unofficial channels, which contributed to deplete foreign exchange reserves. Rating agencies in such case can be prompt to downgrade the credit worthiness of large companies or State bonds which will only accentuate the “market’s fear”. Any broad change in traditional macro-economic policies as recommended by the IMF, WB and EU to try to innovate in terms of growth model might attract sharp criticism also affecting markets and “investors’ confidence”.
In general, market investors make their decisions based on short term consideration; seldom do they have a long term perspective based on positive economic changes that might happen following the previous stability.

This why we need now to look at this long term perspective and the conditions under which specific reforms could liberate repressed productive capacities due to the rent based economic system and the bad growth model that we have analysed.

2. Six policy measures to shift from a rent based to a productive economy

a) Curbing corruption and promoting 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 rent distributing mechanism among a closed circle of promoted businessmen. Corruption can not be curbed by exclusively designating State officials as responsible for the corruption. Transactions based on corruption always require two partners: a businessman on one hand and an official on the other. This is why it is high time to focus attention on both side and to introduce effectively in the local legislation the procedures to detect and punish misconduct by some of the private sector businessmen close to government circles and taking advantage of such links to enjoy special privileges or confidential information. This is not only contrary the principle of fair competition, but it creates economic wastage and maintain low productivity.

The private sector should also be made to realize its economic and social responsibilities. Managing a business operation is not only owning and maximizing a “profit machine”. Private sector companies are also part of the society and owe to it to work for its benefit, in terms of quality of product and services delivered, as well as of training of human resources and providing decent job opportunities. They should not predate natural and human resources of the country by underpaying the price of such natural resources or degrading the environment and by offering decent work and salary conditions to their employees and workers.

The judicial system of Arab countries should be well trained to judge infringements to fair competition, degradation of natural resources and environment, misuse of influence through friendship with officials.

A better behaviour by the private sector and its adherence to its social responsibilities could greatly improve the productivity of the economy and reduce considerably corruption practices between high officials and rich businessmen.

b) The diversification of investments and the curbing of the brain drain

This another urgent issue to be tackled. We have seen the 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 high professional or scientific qualifications. There are many fields in which the private sector – eventually with the support of the State along the model of East Asian growth model – can deploy activities, among them:

- Producing alternative and renewable energy (solar, wind, water),
- Producing equipments for such alternative sources of energy (solar panels) or for wastage 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 total dependence on foreign suppliers,
- Stopping desertification through reforestation.

c) 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 in the modern sector through outsourcing and subcontracting to them small parts of the production process as has been done successfully by many other countries. This requires from the local modern firm to determine what parts of its production could be outsourced and what training and equipment material would have to be supplied to the small enterprise.

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 like the Order of Engineers.

d) Private Public Partnership in defining national objectives in terms of mastering clusters of technologies

In the context of economic globalisation, 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 science and technology 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 sector.

Given the lag in science and technology that affects all the 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 requires much 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 needs urgently to adopt such policies.

e) 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 NGOs caring to alleviate poverty.

It is to be noted that illiteracy is concentrated in rural areas which is an additional reason for the Arab States to become more active 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 the last decades and this fact has hindered overall growth dynamism in the Arab world.

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

Arab tax systems are totally maladapted to the main characteristics of their rent based economies. Tax burden on financial or real estate capital gains are in most cases non existent. Rent revenues from investing in shares or bonds are low taxed. Under the cover of investment codes, many tax holidays are applied to type of business that does not require any economic or technological risk. In the rich oil exporting countries in the Arabian Peninsula, income tax is inexistent or existent in Saudi Arabia only as Zakat (or tax for the poor).

No where in the Arab countries is there an income tax based on external signs of wealth in terms of real estate properties, 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 so that the foreign and the local private companies will be induced to investing 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 to a virtuous model

There is no doubt that the biggest challenge facing the Arab revolutions is the change in the Arab rent economy bad growth model. It has been the base of generalized corruption, State patrimonialism and authoritarian political regimes. This bad growth model has created and deeply ingrained a certain number of socio-economic behaviour antagonistic
to productivity, fair competition, economic diversification and entrepreneurship and innovation.

The predominance of neo-liberal economic thinking not only has prevented up to now to any in-depth analysis of the rent model, but it can be said that the way the Washington consensus has been implemented in most Arab economies through World Bank/IMF/EU assistance programs have probably been responsible – at least partially - for the increase in corruption, social marginalization of large segments of the rural and urban population, and 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 more labour flexibility, deregulation and lack of protection of natural and human resources will continue to be the recipe for additional hardship that may lead to a radicalization of marginalized parts of the population. In this respect the IMF document adopted at the Deauville G7 meeting in May 2011 to serve as a guide to financial assistance conditioned by new reforms along the neo-liberal agenda should be put aside.

New way of thinking 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. The analysis of bad growth conducted here as well as the proposals formulated for a real transition in the Arab growth model is a contribution to help Arab citizens access to a better life where their talents, brains and energies are mobilized to achieve economic diversification out of rent sectors and promote real creative and productive entrepreneurship within 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 which economic base is totally dependent on rents’ flows that are not properly distributed and invested in the economy to promote social equity and full employment based on economic productivity and diversification.