PART II

Societal vulnerabilities

Economic development, rentierist legacies, environmental challenges, and refugees

CHAPTER

5

Economic development

Bread, jobs, and beyond

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THE RUNDOWN: KEY TOPICS COVERED

- State-led development
- Neoliberalism
- Non-inclusive growth
- Informality
- Unemployment
- Divergent development

INTRODUCTION

This chapter discusses the challenge of equitable economic development throughout the Middle East and North Africa (MENA), focusing primarily on the Arab countries. Beginning in the post-World War II era (a deliberate cutoff to maintain a modern focus), it evaluates the paths taken by the region's various economies following independence. Particular attention is paid to economic sectors that profoundly shaped the well-being of rapidly growing populations, such as agricultural production, industrial investments, and government services. Initially, a state-led economic development model prevailed throughout the region, characterized by import substitution and protectionist barriers to trade, the nationalization of key sectors of the economy, generous subsidies to energy and housing, and the provision of widespread employment by way of an enlarged public sector. Up until the 1980s, this development model proved successful in improving material living standards, health, and education. During this time, the MENA enjoyed high rates of economic growth, exceeding many of the world's other developing regions.

However, by the 1980s the state-led economic strategy had exhausted itself, exposing regional populations to rising food prices, inefficient production, a bloated public sector, and rising debt. The high growth and rising living standards to which many societies had become accustomed in the 1960s and 1970s vanished, and the MENA began to fall behind other regions in economic development. In response, many countries embarked upon economic and institutional reforms to pursue greater integration with the world economy. Yet such liberalization policies of openness were stymied by political factors, leaving the process of reform incomplete and results inconsistent. Reactive policies and strategies available to MENA governments, as well as those proposed by multilateral entities like the International Monetary Fund (IMF) and World Bank, have sought to address these challenges, but with unequal results for both national economies and social life. This failure to reinvigorate economic growth and provide sufficient employment opportunities for growing populations inevitably gave rise to disaffection and protest among the masses. Relative economic deprivation played a major role in igniting the Arab Spring, as well as its 2018–19 aftershocks in Iraq, Palestine, Egypt, Algeria, Lebanon, and Sudan. The fallout from the 2020 coronavirus pandemic will require the most urgent attention in the coming years, given the economic paralysis induced by the disease as well as government responses to contain it.

As in other developing regions, the MENA region and the Arab world in particular have also seen the emergence of a large informal economy, and its implications for employment and living standards are examined. The chapter then provides an overview of how different economies in the region have experienced markedly different trajectories in the past few decades, with a widening rift evident between the resource rich and sparsely populated countries of the Arabian Gulf and the region's more populous but resource-deprived nations. In closing, the chapter reflects on the contemporary economic challenges faced by these countries.

POSTWAR ECONOMIC TRAJECTORY

How should a state organize its economic affairs to provide jobs for its people, generate economic growth to improve standards of living over time, and structure its economic relations with the rest of the globe so as to remain competitive? These are not easy questions to answer. Certainly, the discipline of economics has not always been in unanimous agreement about which model works best to provide bread, jobs, and opportunity. In common with much of the developing world, MENA countries have gone through various models of economic development. Some were indigenous ideas, but many were borrowed from other countries or international organizations and highly influenced by foreign donors and corporations. We can see phases when MENA countries adhered to the standard pattern of economic development common throughout the developing world, while at other times the region went against the grain of conventional thinking. Of course, as this chapter demonstrates, economic development cannot be easily divorced from politics.

The politics of the region often shaped how MENA governments designed their economic programs, and changing economic development models were more often than not determined by the region's political realities rather than economic rationality. Whether a country chooses to promote a given industry, liberalize its exchange rate, sign a trade agreement, welcome foreign investors, or impose tariffs and taxes on certain goods can have significant political effects on particular groups and individuals. Vested interests can also shape government decisions, and who wins out in policy choices can often be better explained by politics than by economics.

The state-led development model

After World War II, many developing countries adopted a state-directed development model characterized by heavy government intervention and regulation, attempts to deliberately direct the growth of infant industries, the nationalization of many private entities in key economic sectors, tariffs and protections that favored local producers and state-owned enterprises, and reforms to break up the concentrated ownership of agricultural land. Developed countries also witnessed relatively substantial economic intervention by the state during this time period, providing models that could be imitated by aspirant developing nations. Although popular in other regions during the immediate postwar era, the MENA region was particularly enthusiastic in its embrace of state-led economic development, falling behind only the socialist economies of Eastern Europe in the level of state direction of economic affairs.

Imbued with a newfound sense of nationalism, postcolonial MENA governments used state-led economic development models to assert their sovereignty and autonomy. Referred to as import-substitution industrialization (ISI), the economic logic was to manufacture goods for the domestic market that had previously been imported from the colonial powers in order to generate local employment and allow national industries to progress up the value chain, using these early profits to become more sophisticated and advanced over time. Among the MENA countries that adopted an import-substitution industrialization plan were Turkey, Iran, and the largest Arab states – Egypt, Algeria, Syria, and Iraq. These countries possessed relatively substantial populations capable of supporting an industrial strategy, which relied on a large and growing domestic consumer market in order to employ the growing urban working class.

BOX 5.1 CASE STUDY, PART I – EGYPT DURING THE BOOM YEARS

An illustrative example of statist development can be found in Egypt. The country gained independence from Britain in 1922 and became a republic following a military revolution in 1952. Egypt's executive was (and remains) headed by a president, armed with sweeping powers and usually the rubber-stamped approval of the Egyptian legislature. Following the 1952 coup, Egypt was ruled by the Arab Socialist Union (ASU), a political party grounded in Arab nationalism and socialist ideologies, in a single-party system ruled by President Gamal Abdel Nasser. Under the ASU, Egypt pursued an agenda of land redistribution and the nationalization of banks, factories, and firms. University graduates had easy access to jobs in the bureaucracy or public sector upon graduation. Accordingly, the public sector became the economy's primary buyer and seller.

At the same time, the banks of the Nile, long the breadbasket of impressive empires, had turned their bountiful farmland to more profitable enterprises than bulk cereals. For instance, at the beginning of the twentieth century, three-quarters of Egypt's exports consisted of raw, unprocessed cotton. Rather than exporting the cotton to be processed in more developed economies such as Britain or France, Egypt's leaders decided to take advantage of its large population by employing them in a state-owned textile industry. There was an inherent logic in this; Egypt had the largest population in the Arab world, and the textile industry was labor-intensive, meaning that this was a relatively efficient way of generating employment. To this end, ISI measures were engaged: private textile producers were nationalized and protectionist measures enacted to shield domestic factories from foreign competition. One example was tariffs, or taxes on imports. By increasing the price of imported fabrics, clothes, and other textiles, the government could induce Egyptians to purchase locally made varieties instead. The same ISI policies of statist investment into domestic industries protected from global market pressures held for a broad array of other industries, from foodstuffs to more advanced goods and inputs like iron, steel, fertilizer, cement, and paper. Through the mid-1960s, the strategy seemed to work. In 1963, Egypt's GDP growth rate peaked at nearly 10 percent – an astounding figure seldom seen outside the most developed countries at the time, whether Western or Communist.

To support the growing role of the state, the public sector also expanded. The public sector encompassed the economic domains that were partly or wholly controlled by governments. This included the bureaucratic civil service positions charged with carrying out government functions and implementing regulations. It also included jobs in constructing and maintaining public infrastructure in transportation, communication, and other areas; public services such as the police and military; and state-owned enterprises, or firms where the governments retained majoritarian or total ownership. Increasing numbers of people came to work in this sector, whose newly expanded role in guiding political and economic administration required a relatively educated and urban population.

Hence, investment in education, urban infrastructure, and the state bureaucracy were intertwined. Reducing illiteracy and creating universal access to education was a major theme in many of these countries' development through the 1950s through 1970s. High school graduates were often able to find decent employment in major cities, working in public agencies, departments, and offices. Built to help educate the new cadre of public-sector workers, universities became important sites for building national identity and political conformity. A system of using standardized high school exit exams ranked and sorted students into various subfields and universities, granting authorities further control over the education system.

As ruling coalitions in the MENA – meaning not only governments but also their core supporters – came to rely on the support of both industrial and public-sector workers, many leaders found it politically sensible to increase their wages and dispense more and more state benefits in the form of rent control, free university education, and subsidized food and energy. Though an expensive ruling formula, this made good political sense. Authoritarian regimes needed popular backing and legitimation, and in the absence of democratic participation, economic prosperity functioned as a substitute.

And indeed, the state-directed (often termed "statist") development model pursued in Egypt and other MENA states through ISI appeared successful throughout the 1950s and 1960s. New industrial factories and powerplants were created in short periods of time, creating plentiful urban jobs that helped quicken the pace of diversification away from rural life (Photo 5.1). Agriculture began to fade in importance in many countries. A strong state apparatus managed and directed these industrialization schemes, drawing popular support in the promises made by many ambitious leaders – such as the Nasser regime of Egypt – to allow their countries to "catch up" with the West in a short period of time.

The gains made during this industrializing zenith were impressive. As shown in Figure 5.1, the MENA experienced the world's highest rates of economic growth as measured in gross domestic product (GDP) per worker during the 1960s; this also compared favorably with other developing regions into the 1970s. Many countries in the region were able to maintain low unemployment rates close to those found in advanced economies. Such

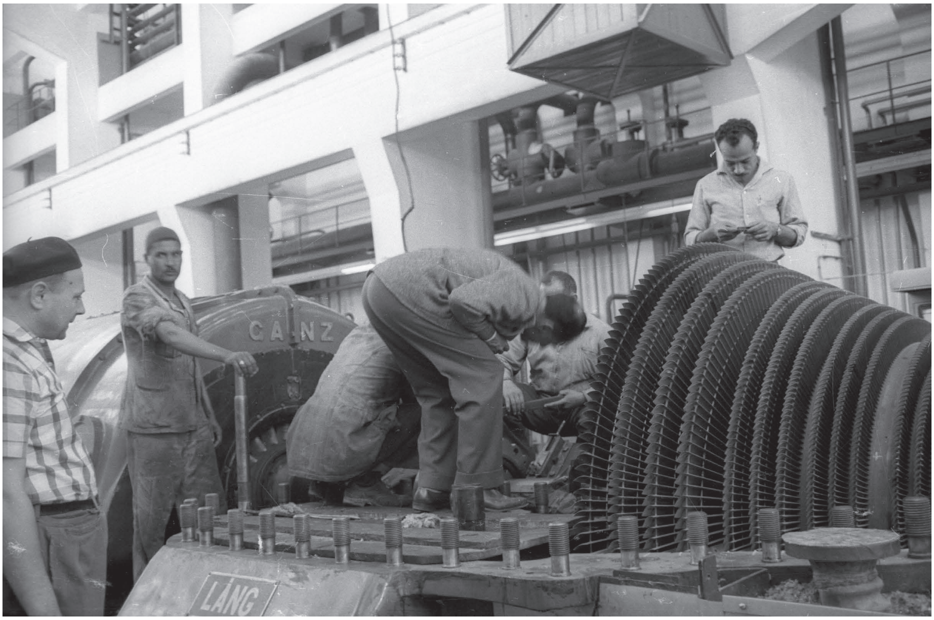

PHOTO 5.1
Egyptian power plant in Helwan district, 1962.

Source: Photo by Inkey Tibor, Wikimedia; licensed under CC BY-SA 3.0.

economic expansion allowed for tangible gains in poverty reduction and life expectancy by the 1990s. According to the World Bank's 1995 report, *Claiming the Future: Choosing Prosperity in the Middle East and North Africa*, in 1990 only 5.6 percent of the MENA's population lived on less than a dollar a day (a global standard indicating extreme poverty), compared to 14.7 percent in East Asia and 28.8 percent in Latin America. Average life expectancy at birth rose from 46.7 years in 1960 to 58.7 years in 1980, and finally to 73.5 years as of 2016. The primary education completion rate rose from 49 percent in 1970 to 73 percent in 1985 and 91 percent in 2016. By these standards, we can conclude that most societies in the Middle East advanced considerably over these decades, and that though benefits were uneven, the quality of many lives improved.

Stagnation and the limits of state-led growth

Yet as Figure 5.1 shows, robust productivity growth tapered off over time: most MENA economies in the 1990s were not roaring as they had been decades earlier, especially not compared to the more advanced economies of the Organisation for Economic Co-operation and Development (OECD).

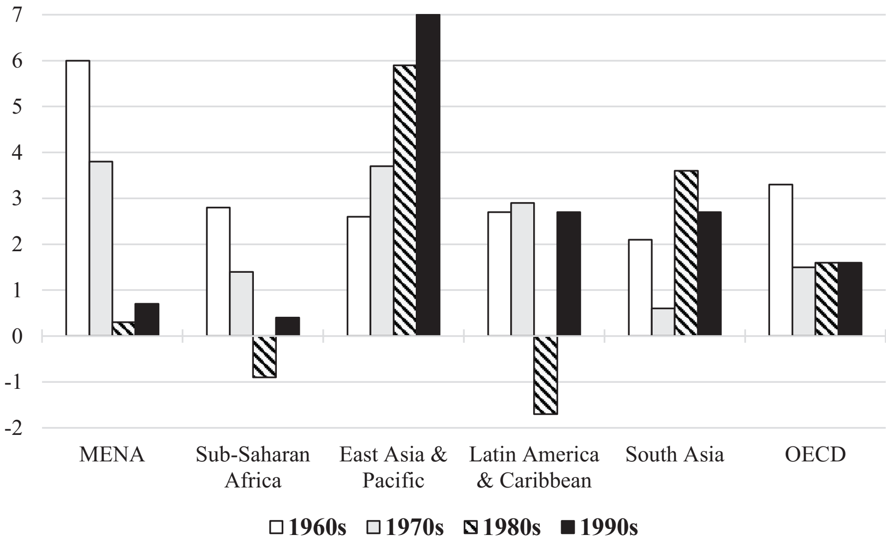

FIGURE 5.1
MENA vs. global regions – GDP growth per worker (percent), 1960s–1990s.

Source: Data from Tarik Yousef, "Development, Growth, and Policy Reform in the Middle East and North Africa since 1950," *Journal of Economic Perspectives* 18, 3 (2004): 91–115.

Over time, the products offered by state-owned companies – from food to steel to leather – became relatively expensive compared to goods that could be imported (factoring out overvaluation of currencies, which made the foreign products artificially expensive), while the public sector became bloated and unproductive. The monopolistic nature of the ISI model and high tariffs all contributed to poor quality control and produced less-than-desirable consumer goods. The expected shift to an export-led strategy where these consumer goods could become sophisticated and high-quality enough to be sold on the international market, as had been the case with the "Asian Tiger" economies of Hong Kong, Singapore, South Korea, and Taiwan by the 1980s, did not materialize for the MENA.

Moreover, the agricultural sector was often neglected during statist development. As a consequence of overvalued exchange rates used to protect the industrial sector, there was less of an export market for MENA agricultural goods, harming the profitability of farmers. Agricultural goods were often heavily subsidized in order to benefit urban workers, leading many farmers to leave their fields in search of work in burgeoning cities – a pattern found especially in the largest agrarian countries like Egypt and Iran. In such countries, the ISI period saw agricultural production decline, as there was less and less profit to be made in farming. Many states that had once been net exporters of food became net importers. This drained governments' coffers of foreign exchange and often forced them to borrow from foreign banks and governments simply to purchase food.

The Arab republics in particular, such as Algeria, Egypt, Syria, and post-1958 Iraq, also ideologically pursued development policies inspired by socialist principles. This went hand-in-hand with ISI, resulting in extremely high financial drain by the 1970s. The costs of subsidized consumer goods, foodstuffs, energy, and the public wage bill were all absorbed by the government, while there was little in the way of consumer or income taxation to contribute to state budgets. Indeed, most regional governments refused to impose adequate tax policies due to both political sensitivities and lack of foresight. State-run companies were anointed the engines of growth yet began to sputter, given their lack of competition. Workplace conditions did not incentivize productivity, and managers were hardly motivated to generate profits. Government support was politically motivated because even when state-run companies were bleeding money and profits, public funding was necessary to keep alive these symbols of national development. Moreover, the prevailing social contract produced a highly empowered and vocal working class that was increasingly committed to keeping the statist development model intact and unchanged. Workers were directly connected to ruling political parties, akin to unions that were led by the state. Consequently, the urban working class became highly politicized and came to expect ever more extensive government subsidies, especially during periods of high inflation.

Crucially, while only the largest countries attempted large-scale industrialization through ISI, the notion of providing public employment, social goods, and other welfarist measures through state-run development also came to characterize smaller Arab countries that similarly could not rely upon oil exports for wealth, in particular Morocco, Tunisia, and Jordan. Across the board, by the 1970s, these governments' national financing became increasingly stressed as they were forced to spend at high rates without adequate taxation and other domestic revenues. Perhaps the greatest drain outside ISI-driven economic investments, however, was the public sector. In many countries, it was seen as an innate right for citizens to obtain a government job upon graduation from high school or university, which was even mentioned in constitutions. Public-sector jobs were perceived as relatively secure positions with many extra benefits, including subsidized housing, preferential prices, and generous health packages.

From a political perspective, maintaining ever-expanding payrolls for the civil service, educational sector, and even military made sense. Such policies were seen as maintaining popular support for ruling presidents, parties, and kings. They redistributed resources to rapidly expanding urban centers where the new middle classes demanded jobs. And they kept the social contractarian promise of prosperity and livelihood in return for political obedience and stability. This political reasoning held despite the fact that such economic institutions often became overrun with superfluous personnel and worsening inefficiencies. Indeed, in many bureaucracies and ministries, corruption and favoritism became rampant as managers and elites sought jobs and contracts for families and friends. The solution from the perspective of government planners was starkly inadequate: continue hiring and bump up wages to keep the public workforce happy, while borrowing from domestic banks and foreign lenders to close the budgetary gap.

The bottom falls out

The global economic environment starting in the mid-1970s was one of rapidly rising prices, particularly commodities like oil, food, and raw materials. Arab oil-exporting states enacted an oil embargo of Western countries as a direct result of US support for Israel in its 1973 war with the Egyptian-led Arab armies, as global demand elsewhere continued to increase. While Western audiences recognize this period as the global energy crisis, the oil-exporting countries, particularly the Gulf kingdoms of Saudi Arabia, Bahrain, Kuwait, Oman, Qatar, and the United Arab Emirates (UAE), remember it as a time of rapid enrichment due to skyrocketing energy prices. Much of their newfound wealth was deposited into commercial banks, US Treasury bills, and other bonds, or direct investment in the United States, but oil-exporting countries also began to invest in building their national infrastructure and creating rentier economies.

This had profound implications for the region. Here, economic patterns come into focus. When statist development began in some MENA countries in the 1950s, the rapid accumulation of wealth by the oil-exporting states two decades later became intricately tied to the region's collective economic stability. These mostly monarchical countries became massive importers, providing reliable markets for regional exporters. In expanding their economies and public sectors, they provided not only universal employment for their citizens but also work opportunities for other Arab nationals, millions of whom relocated to the Gulf for work – and in return remitted back their salaries, which infused these "labor-exporting" states like Lebanon, Jordan, Egypt, and Yemen. In addition, hydrocarbon rents were also redistributed regionally through Arab foreign aid; for instance, the oil-rich kingdoms sent billions of dollars to Egypt and Jordan during the 1970s, in solidarity with their wartime footing as "frontline" states against Israel. Finally, most Arab countries were able to obtain oil and gas from regional producers at below-market rates; this helped keep energy prices low, while oil-rich kingdoms like Kuwait could simply absorb the losses.

This all changed in the early 1980s. Due to the energy crisis starting in the mid-1970s, global markets suffered from an oil surplus characterized by falling demand and ever-rising production. Oil prices plummeted during the 1981–86 period, which created devastating ripple effects across the region – and especially Arab states – that were already beginning to feel the burden of ISI's self-defeating inefficiencies, overstocked public sectors, and public debt. The oil price shock generated a host of economic ramifications that touched every MENA economy: labor-exporting states lost remittance income, oil-exporting states lost energy revenues, trade patterns were disrupted, imports and consumption declined, Arab foreign aid dried up, and indebted governments suddenly faced financial realities. The solution for many countries like Morocco, Tunisia, Egypt, Algeria, Jordan, Lebanon, and Turkey was to turn to the world's lenders of last resort – the World Bank and IMF – and seek out emergency loans to avoid complete economic collapse.

Thus, the state-led development model persisted beyond the point at which its economic weaknesses had become painfully clear, owing to its perceived political merits. It was exceedingly difficult for MENA governments to tackle redundant labor in the public and industrial sector. The constituencies who would be adversely affected were quite skilled at mobilization through their unions, professional associations, and political parties and could take to the urban streets to protest. Fearful of regime instability, the governments of the day more often than not backed away from reforms that would incur the ire of these interest groups. Instead of restructuring, governments continued to borrow heavily from outside sources and, as is often the case in autocratic regimes, use the military and security services to clamp down on public protests against rising prices and costs of living. Indeed, Morocco, Egypt, Tunisia, and Jordan all experienced what we now term "bread riots" during the 1980s, as government efforts to cut costs by reducing food and fuel subsidies (which raised prices overnight in many cases) ran against angry publics who were not financially equipped to deal with skyrocketing living costs.

The social costs of this laggard arrangement continued to rise decades after these bread riots. The legacies of state-led development meant that by investing heavily into creating an educated middle-class in urban areas wedded to government jobs and public services, these governments had few answers when financial hardship forced them to pull back, reducing the promise of employment and prosperity given a generation earlier in return for political quiescence. The eventual response given the dissolution of this social contract was the rejection of quiescence and mobilization for change.

BOX 5.2 CASE STUDY, PART II – EGYPT DURING THE BUST YEARS

Egypt's halcyon years of rapid growth came crashing to a halt during the 1970s, the product not only of conflict and military expenditures but also the internal exhaustion of its economic model of ISI. By the early 1970s, the cash-strapped government was caught between two unenviable choices: raise more domestic revenues through taxation, which would be extremely controversial, or else cut the public spending and government involvement, hoping that market forces could rescue the economy. Anwar Sadat ascended to the Egyptian presidency in 1971, following Nasser's death, and chose the latter. With rising debt and suffocating finances, Sadat abandoned the socialist ideology of the ASU years, implementing a period of *infitah* (or "Open Door") policy in 1974, aimed at partially liberalizing the Egyptian economy – that is, reducing state spending, privatizing some industries, and encouraging foreign investment. However, this agenda met with limited success, given resistance by bureaucrats, elites, and political institutions that had invested so much in the earlier statist model.

Unable to procure the credit necessary to maintain food imports, Egypt was forced to sign a loan arrangement with the IMF in 1977 valued at $146 million. This required the reduction of subsidies in order to contain government expenses, resulting in price increases on consumer goods like bread. Yet the urban poor and middle classes alike had grown accustomed to cheap bread to meet their most basic dietary needs. In January 1977, riots exploded in the streets of Cairo. These anti-government bread riots resulted in 73 deaths and thousands of arrests and required the Egyptian army itself to fan out and restore order. Unable to withstand the political repercussions of this attempted policy reform, the Sadat government revoked the price changes, and the economic reform program stalled. This symbolized the incredible difficulty of altering two generations of calcified popular expectations that had been built around a narrow social contract; when the government sought to renege on its end of the deal and liberalize the economy, societal forces needed some other compensation – if not material alleviation, then perhaps political and democratic rights. Yet the latter was not forthcoming, which induced the Egyptian regime to shy away from further economic overhauls that were direly necessary. Three more decades of stagnant policies that prioritized political survival over financial sustainability followed under Sadat's successor, Hosni Mubarak, until the Arab Spring and revolution came to Cairo in 2011. The economy has not turned around since that uprising, and continuing protests through the end of the 2010s indicate the mounting frustration of an Egyptian public worried about scarce jobs and rising living costs.

Neoliberalism and globalization

By the 1990s, most MENA governments came to the realization that they needed greater external support from foreign governments and international financial institutions as a way to weather the hard times. Yet financial relief from the IMF and World Bank came with painful conditions known as structural adjustment policies. Some of the policies that the IMF and World Bank expected of borrowers included exchange rate liberalization, devaluation of currency, restrictions on budget deficits, decreased interest rates, increased energy prices, lower government subsidies, revised labor laws that favor employers, the implementation of sales and income taxes, privatization and selling of state-owned enterprises, banking liberalization, trade liberalization, the removal of rent control, and ease of foreign investment. In essence, following the Washington Consensus template borrowed from the canon of neoliberal economics, they desired countries to cut back government involvement in the economy, lower spending and raise taxes, and open up economies to private and global forces. Most also joined the World Trade Organization, and some, like Jordan and Morocco, later pursued free trade agreements with the European Union and the United States. The assumption shared by many technocrats was that an overgrown state apparatus was "crowding out" the private sector, and therefore MENA governments needed to step back and allow the private sector to be the engine of economic growth. The goal was to encourage the MENA countries to outgrow the old statist model and integrate with the globalizing economy through free trade, foreign investment, and harmonized practices, even if such policies exposed national populations to the material pain of adjustment.

However, such reforms did not turn Turkey, Iran, and the Arab states into Asian Tigers, led by export-oriented industries that could lead globally competitive economies. The aforementioned case study of Egypt presents perhaps the most important reason: economic change creates political losers, and few governments – least of all authoritarian regimes that rely upon some type of popular legitimation – wish to bear the wrath of urban publics who are deprived of access to all the pillars of past prosperity, from welfarist measures to public employment. While all MENA countries that accepted IMF and World Bank loans were forced to implement some neoliberal reforms, such as privatization of state-owned companies and lowering trade barriers, such measures were either rolled out partially or else not accompanied by corollary austerity (that is, cutbacks in public spending).

A closely related factor is corruption, as powerful elites – officials, magnates, politicians, generals, and other operators – have worked to exploit market-oriented economic reforms. High levels of cronyism have allowed elite businesses connected to rulers to receive access to cheaper land, subsidized energy prices, lucrative license deals, special financial arrangements, or inside information. For instance, the privatization of state-owned assets often went to these well-connected elite families – something especially seen in Egypt, Syria, and pre-revolutionary Tunisia, where the extended families of their ruling presidents themselves became inordinately wealthy by capturing key sectors and taking advantage of new rules. Thus, many liberalization reforms resulted in a transfer from state ownership to crony elite ownership.

Another reason for poor regional performance in an era of neoliberal globalization is structural. The monumental 2002 *Arab Human Development Report* (AHDR), a landmark study commissioned by the United Nations Development Programme, pointed to three fundamental deficits in the Middle East: a deficit of political freedom, a deficit of gender equality, and a deficit of knowledge creation. Ameliorating the latter means incubating a private sector to attract technology transfers and encourage innovation. Yet with high tariff barriers, excessive bureaucratic red tape, and weak links to global financial markets, the region – outside a few pockets of innovation (such as Israel and recently a few Gulf littoral cities like Dubai) – has proven inhospitable to foreign investment that could spur domestic entrepreneurship and local knowledge generation. Moreover, perceptions of regional insecurity and conflict make it difficult to woo international investors and educators.

Undoubtedly, the MENA has needed foreign investment to provide technology and technical knowledge that can create labor-intensive new industries, augment the technical and postsecondary education sector, and upgrade infrastructural development projects needed to meet urbanization challenges such as transportation, housing, food security, and waste management. There is simply not enough capital and expertise available domestically to sustain the level of production and employment necessary to satisfy the region's booming youth population. However, despite decades of attempted neoliberal reforms, MENA economies lag in their efforts to attract foreign investment. In fact, the World Economic Forum reports that the entire region attracts no more than 1 percent of global foreign investment and roughly 2 percent of foreign investments that flow to non-Western developing states.

Finally, the engine of economic growth in successful countries has been export-oriented development – that is, the creation of industries and sectors specifically designed to produce goods and services for global competition. This has been seen most pointedly in the East Asian economies, starting with the Asian Tigers in the 1970s, and more recently with China. Indeed, until the 1970s, MENA economies compared favorably to South Korea, Taiwan, Hong Kong, and Singapore in terms of GDP growth and per capita income. The divergence occurred starting in that decade, and by the 1990s these four developers had become OECD-level industrialized countries. Their key to success was exports. In some ways, Asian Tiger policies during the 1950s and 1960s resembled the state-led model employed in the Middle East; for instance, infant industries identified as being crucial to future national prosperity were sheltered from global competition through governmental subsidies and trade barriers. Yet governments were also keen to politically and economically pressure domestic industries to improve and become more sophisticated over time, knowing that merely servicing domestic consumers would not suffice for the long term. That degree of institutional discipline, manifest in policies such as making government financial support contingent upon export performance, forced these economies to compete and upgrade. Indeed, many of these four countries' national brands have become ubiquitous in the global marketplace – think cars (e.g., Hyundai, Kia), banks (e.g., HSBC, DBS), technology (e.g., Samsung, Acer), and airlines (e.g., Singapore Air, Cathay Pacific).

The Gulf states and the second oil boom

The picture in the oil-rich MENA economies, and especially the hydrocarbon-heavy Gulf kingdoms, is different in terms of how economic cycles have shaped social routines and the quality of life for most national societies. The Arabian Gulf states benefited from the first oil boom in the 1970s but did not diversify their national economies, and they were therefore hammered hard during the oil price collapse of the mid-1980s. In the 2000s, however, oil prices rose again after a period of stagnation, and the Gulf kingdoms began to consider the long-term necessity of diversifying their economies. Related to this were regional efforts to both internally harmonize and integrate national policies through the Gulf Cooperation Council (GCC), a regional security alliance created in 1981 that over time matured into an integrated organization that facilitated coordination. Some achievements, for instance, were a common Gulf customs union in 2003 and a common market in 2008 – benchmarks that greatly reduced trade barriers and began to create shared stances regarding employment, welfare, property rights, business regulations, and other aspects of economic production. This enhanced regional integration has contributed to some impressive years of economic growth and improved intraregional trade, although oil and gas exports have still served as the lifeline of these economies.

Spurred by high energy prices that peaked in the early 2010s, the GCC kingdoms' cash reserves ballooned. In turn, the wealthiest states like Saudi Arabia, Kuwait, and the UAE began to finance not only their domestic investments but also overseas assets, companies, and projects in the OECD economies and East Asia. As measured through their sovereign wealth funds designed to invest surplus oil and gas revenues abroad, such investments are enormous. For instance, as of 2018, the Kuwait Investment Authority holds nearly $600 billion in cash and assets and maintains (among other holdings) a nearly 7 percent stake of Daimler AG (the German manufacturer of Mercedes-Benz), making it the single biggest shareholder in this firm. At the same time, these kingdoms have also begun underwriting massive domestic urbanization schemes that have transformed the skylines of cities like Dubai, Abu Dhabi, and Doha through unprecedented construction booms, new tourism, real estate development, and banking. Finally, starting in the 2000s, the Arabian Gulf kingdoms began more aggressively investing into the rest of the Arab world, especially the oil-poor states now struggling with financial exhaustion and laggard economies. Gulf monies poured billions of dollars into telecommunication, banking, construction, tourism, and real estate across the region, but especially Morocco, Egypt, Lebanon, and Jordan.

The 2000s oil boom also enabled the richest GCC kingdoms, in particular the UAE and Qatar, to begin carving out a new identity for themselves, undergoing a slow but significant neoliberal shift – a "rebranding" of sorts, promoted by a young, entrepreneurial, and Western-educated class of technocrats and investors. The GCC states have been liberalizing their domestic regulatory space, joining the World Trade Organization and supporting private-sector investment. Yet while aware of the finite nature of their oil resources and accepting that new technologies have boosted oil production from other countries (such as the United States) while reducing global hydrocarbon demand, these states have struggled to diversify their economies. The UAE has gone farthest, attempting to transform Dubai and Abu Dhabi into a commercial, transportation, and financial hub linking the West to Asia.

NON-INCLUSIVE GROWTH, RELATIVE DEPRIVATION, AND UNREST

The causes of the political revolutions that swept the Arab world during 2011–12 are difficult to ascertain with absolute certainty. Uprisings are, by their nature, complex outcomes driven by many variables. However, economic factors played a substantial role in generating the social forces and contentious impulses behind the uprisings. The Arab Spring was not instigated by the impoverished underclass of the Arab world: peasants and the poor were not revolutionaries. Rather, it was literate, unemployed, disenfranchised, and middle-class youth – in essence, the products of historical modernization – that took to the streets to protest. The Arab Spring began in countries that were actually experiencing modest economic growth by the late 2000s: in 2009 and 2010, Tunisia achieved 3 and 4 percent GDP growth, Egypt 4.7 and 5 percent, Libya 1.8 and 5.2 percent, Yemen 3.9 and 7.8 percent, and even Syria 4 and 5 percent. Most of these countries had also attempted to liberalize their economies, at least partially, in response to neoliberal pressures. Thus, the environment in which the Arab Spring arose was not one of particularly severe recession. However, rebellions still transpired in those countries because the diffusion of the gains from growth did not keep pace with the rising expectations of many people. In other words, the region experienced what is known as *non-inclusive economic growth*.

Inclusive growth, as defined by the World Bank, occurs when growth is sustained over the long term and reaches a broad spectrum of the population across different sections of the economy. Economic growth is regarded as successful when it is diversified across different industries, encompasses various segments of the labor force, manifests in the form of productive employment (including outside the public sector), and is primarily directed to competitive markets. While the Arab world appeared to be experiencing some GDP growth in statistical terms immediately preceding the Arab Spring, it was not inclusive, being constrained by the heavy legacies of statist development from the economic side and the institutional demands of authoritarianism from the political side.

This explains matters at the macro-structural level, but why did this induce Arab peoples in so many countries to revolt? One can identify a widespread sentiment during 2011–12 that the region's population, led by its enormous youth populace, held high expectations for material prosperity that were simply not satisfied by political and economic systems unable to fill the old social contract put into place generations earlier. This is the classic definition of relative deprivation, as used in the early work of political scientist Ted Gurr. Young protesters were literate and knowledgeable, well aware of their potential capabilities and economic potential – but there was a gap between their present circumstances and what they believed they *deserved*. It was not surprising, therefore, to see a common demand among the Arab Spring demonstrators and activists to be one of *karama* (dignity).

To feel relative deprivation, a disgruntled group must make a comparison to others. Arab youths often compared themselves to similarly educated citizens, including the older generation, and questioned why they faced such deplorable economic prospects, such as their unlikelihood to obtain jobs even after university training. In countries like Egypt, unemployment among youths (defined by the World Bank as those between 15 and 24) measured 62 percent in 2011, Yemen 48.4 percent, and Syria 56.9 percent. Perceptions of grinding corruption among rulers and the wealthy interested only in perpetuating the old economic system weighted down by a sluggish public sector were endemic. Anger at nepotism amongst authoritarian elites and their cronies flared. In sum, the educated class of young people created by the MENA's past developmental trajectory had high expectations – but those expectations were never matched by the dimming prospects for economic mobility or political voice.

Conditions have not changed nearly a decade since the Arab Spring. To use one crude metric, in 2010, the MENA countries (minus Israel and the wealthy oil-exporters) exhibited an aggregate GDP growth rate of 5.3 percent; in 2017, their collective growth rate had dropped to 2.9 percent. Youth unemployment remains a dire problem, as Chapter 11's investigation of youth activism and culture notes; the regional youth unemployment rate reached 26.7 percent in 2020 – remarkably higher than the pre-Arab Spring figure in 2010 of 23.7 percent. The return of insurrections and protests in many countries during 2018–19, and which in Sudan and Algeria forced aging presidents to leave office, speaks to a persistent feeling of privation.

That the economic fundamentals have not turned around over the past decade is little surprise, given the difficulty that many governments (whether democratic or authoritarian) have faced in finding creative solutions to deeply rooted problems. Another major impediment to inclusive growth over the past decade has been the prevalence of violent conflicts, such as those in Libya, Yemen, and Syria. Those civil wars destroyed economic institutions nearly as much as they shattered the lives of ordinary people. For instance, Yemen's GDP contracted 59 percent between 2013 and 2016, while Libya's GDP declined 38 percent from its 2010 pre-Arab Spring peak.

Unfortunately, the coronavirus pandemic that consumed much of 2020 has only amplified the difficulties of finding development strategies that equitably include the most vulnerable segments of societies. In 2019, the World Bank estimated the MENA (including Israel and the wealthy oil-exporters) to have a laggardly 1.8 percent aggregate GDP growth rate. The COVID-19 public health crisis has pummeled this slow trajectory, and in July 2020 the IMF projected the entire region would lose 4.7 of its entire collective GDP for the year, with a full recovery likely to take 1–2 years at minimum. Well into 2021, it became apparent that the pandemic had pummeled regional economies in three ways. First, government lockdowns, curfews, and other containment strategies paralyzed much public economic activity and resulted in the loss of considerable income and wage earning. Moreover, international tourism in countries like Jordan, Israel, and Egypt all but halted, thereby desiccating a vital cash-earning and job-creating sector. Second, the slowdown in global economic demand hit particularly hard those countries that relied upon certain exports. In a milder repeat of the 1980s crisis, for instance, countries like Lebanon and Morocco that relied upon remittances from emigrant workers saw those cash streams dissipate; the oil-exporting rentier states like Saudi Arabia and Kuwait likewise saw their hydrocarbon revenues sharply contract. Finally, many governments provided emergency assistance to citizens in danger of becoming impoverished due to the overall slowdown, but those financial resources came from already-strapped budgets.

Even when the MENA economies do fully recover from the COVID-19 crisis, the problem of inclusive development will remain. While most countries around the world could not have foreseen the pandemic, the effects of such exogenous shocks are always most pronounced in developing economies least equipped to palliate them.

THE INFORMAL SECTOR

The need to generate greater employment for younger generations has been an urgent priority in the MENA since the 1980s economic decline. Although employment growth has in fact been relatively large in absolute terms, it has failed to keep pace with the expanding population. Under the tenure of the state-directed economic model, most MENA states adopted the convention of lifetime employment, generous pensions, and other substantial benefits for workers. However, these factors render the labor market rigid and inflexible. Today, many companies adhering to labor regulations do not have much freedom to downsize their workforce in the event of an economic downturn or unforeseen costs. As such, firms in generally weak private sectors are hesitant to expand employment even during periods of economic growth. Furthermore, firms must typically deal with heavy regulatory burdens, typified by mountains of paperwork, inspections, and contracts. Regulations can asymmetrically disadvantage younger, smaller firms against larger, more established companies that are able to deal with regulatory burdens by hiring administrative staff and legal counsel.

The result has been the creation of a vast *informal sector* of the economy. The informal sector means areas of a national economy where workers and firms operate outside of legal and regulatory supervision. This exists in many aspects of life across the world – think, for instance, of the money made by teenagers who babysit or graduate students who tutor on the side. The problem arises when such informality characterizes such a large chunk of the overall economy that it begins to compete with and even overtake the formal private sector. In the Arab world, where informality looms large, informal employment can be so deeply intertwined with formal economic organizations that disentangling the two can be difficult. Photo 5.2, for instance, depicts a common scene in urban Cairo in the early parts of many days – a bread carrier delivering loaves of freshly baked products. While a bakery itself might be a formally registered firm, many of the people it employs, including bread carriers given cash wages or stipends for their daily runs, work off the books, earning no official incomes but still contributing to the company's operations, economic output, and food distribution.

A large informal sector is commonly taken as a sign of ill health in an economy. As the World Bank outlined in its 2014 report, *Striving for Better*

PHOTO 5.2
Bread carrier in downtown Cairo, 2007.

Source: Photo by Paul Keller, licensed under CC BY 2.0. Online: https://www.flickr.com/photos/paulk/3167762218.

Jobs: The Challenge of Informality in the Middle East and North Africa, informality can undermine economic productivity and development. The sorts of occupations found in the informal sector tend to be low-skill jobs requiring little education and affording meager opportunity for training and skills upgrading. Workers in the informal sector operate without legal contracts and do not contribute to or benefit from social security, such as pensions or health insurance. Incomes in the informal economy are generally lower (even for workers with similar skill sets), and employment security more precarious, than is the case with formal employment. Moreover, working conditions are quite often substandard, potentially unsafe or hazardous. The swollen size of the informal sector is problematic from the perspective of governments as well, since economic activity that transpires in the informal sector goes undeclared and untaxed, resulting in losses to government revenues. This in turn induces the state to try to compensate by levying heavier taxes on those companies which operate openly in the formal portion of the economy, further adding to the incentive to seek refuge in the informal sector.

In the MENA region, a significant portion of informal employment takes the form of service-based jobs in transportation, retail, tourism, agriculture, and construction. The ranks of the informal workforce are drawn disproportionately from younger generations and include an incredibly diverse array of work that makes economies operate – construction workers, vehicle drivers, miners and fishermen, cooks and clerks, street vendors, waste pickers, hotel cleaners, and the like. Critically, these informal workers were especially impacted by the coronavirus pandemic of 2020, not least because they had little to no formal protections to recover lost income due to government-imposed lockdowns; for that reason, they were also more likely to disobey stay-at-home orders, which further spurred the spread of the disease.

As the same World Bank report notes, the firms that operate in the informal sector are a combination of small companies that forgo official registration and operate entirely beneath the regulatory radar and other (typically larger) firms that do most of their business in the formal sphere but also engage in some informal activities. Informal employers like construction companies, restaurants, and tour operators must expend a portion of their time and resources concealing their operations or bribing officials. The desire to escape the reach of law discourages firms from taking advantage of the opportunities available to formal businesses, such as obtaining bank credit and judicial protection. Still, operating informally remains an attractive option for many companies, allowing them to circumvent registration, taxation, and regulations. Another factor pertinent to informal economics is state capacity, meaning its legal power and capabilities to regulate, punish, and reorganize society. This affects a firm's decision to operate informally in two ways: first, by increasing the likelihood that those who operate outside of the law and refuse to comply with regulation will be punished; and second, by increasing the quality and quantity of the state services that firms in the formal sector can make use of, further decreasing the appeal of informality.

The final problem with informal economics is one of macroeconomic reform. MENA governments received inordinate advice from consultants, planners, aid donors, and multilateral institutions like the World Bank and IMF to upgrade their economies through the pathways aforementioned – for instance, emphasize export-oriented industries, reduce corruption, attract foreign investment, and generally harness the potential of their considerable human (and especially youth) resources. Yet if a large share of their workers and businesses operate in the shadows, sequestered from the reach of formal policies, top-down reforms will simply fail to reach much of the populace and the overall economy.

The MENA economies have some of the largest informal sectors in the world. The regional informal economy constitutes a larger share of total economic activity than is the case in developed countries and most post-Soviet states, but a smaller share than in East Asia, Latin America, or sub-Saharan

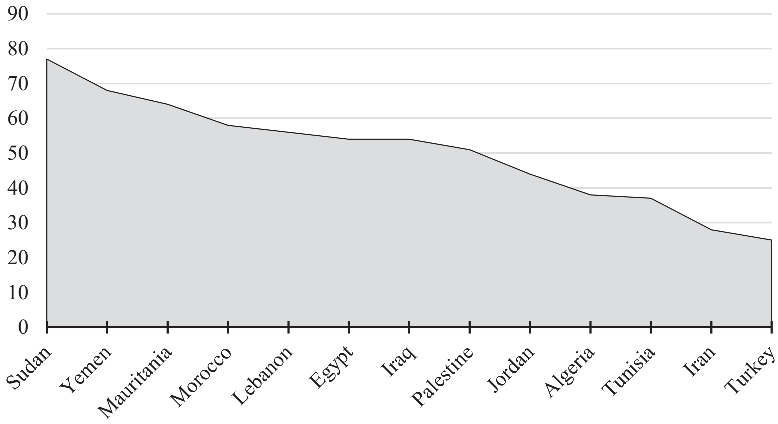

FIGURE 5.2
Selected countries – size of informal economic sectors, 2011–18.

Source: World Bank (2020), *World Development Indicators*.

Africa. As of 2018, in the *average* MENA country, the informal economic sector encompasses one-third of the entire GDP and two-thirds of the total labor force. This trend is especially evident in countries with large rural populations and high population densities, such as Yemen and Sudan. Figure 5.2 shows the latest available figures for selected states from 2011–18 for the proportion of nonagricultural employment that is informal – in essence, the size of the informal sector. (These figures somewhat underestimate, because considerable agricultural work is also informal; but the measure represents the statistical conventions of the World Bank.) The figures are austere; 77 percent of the Sudanese labor force works informally, as does 68 percent in Yemen, 64 percent in Mauritania, 58 percent in Morocco, and more than half in Lebanon, Egypt, Iraq, and Palestine.

Despite the vulnerability of informal work to economic crises like the coronavirus pandemic, researchers have argued that there are positive aspects of informality. For instance, the informal sector can be a site of innovation and entrepreneurship. Unencumbered by the onerous level of regulation faced by companies in the formal sector of the MENA region, informal businesses and workers often exhibit a comparably high level of flexibility and creative energy. Moreover, many companies begin by operating informally and transition to the formal economy once they have grown and expanded to sufficient size to contend with regulatory burdens. Indeed, in many MENA countries like Jordan and Egypt, small firms commonly operate informally to avoid the costs of worker benefits and taxes, while larger registered firms may still underreport the extent of their operations for these same reasons.

DIVERGENT DEVELOPMENT

While this chapter has described shared regional patterns and challenges for the MENA, it should be noted that the region exhibits also sharp divergence in economic outcomes. Even a casual glance at these countries illustrates the sheer variation of population, economic output, incomes per capita (a rough proxy for relative wealth), and also unemployment and poverty. Table 5.1 lists these data and illustrates how myriad factors – historical legacies, resource endowments, demographic size, external conflicts, and so forth – have shaped each economy today.

These data show the MENA's mosaic of economies and illustrate some extreme contrasts between societies. The largest economies include Turkey and Saudi Arabia, with GDP figures nearing $800 billion; the smallest are

TABLE 5.1

Snapshot of Economic Vital Data, 2020.

	Population (2019)	GDP (Current USD, in billions)	GDP per capita (current USD)	Unemployment rate*	Poverty rate**
Algeria	42,972,878	170	3,948	11.5	23 (2011)
Bahrain	1,505,003	38.6	23,504	0.8	N/A
Egypt	104,124,440	303.2	3,020	10.1	32.5 (2018)
Iran	84,923,314	445.3 (2017)	5,520 (2017)	11.2	18.7 (2007)
Iraq	38,872,655	234.1	5,955	12.8	23 (2014)
Israel	8,675,475	395.1	43,641	3.8	21.2 (2018)
Jordan	10,820,644	43.7	4,330	23.9	15.7 (2018)
Kuwait	2,993,706	134.8	32,032	2.3	N/A
Lebanon	5,469,612	53.4	7,784	6.3	40 (2019)
Libya	6,890,535	52.1	7,684	18.6	N/A
Mauritania	4,005,475	7.6	1,678	9.6	31 (2014)
Morocco	35,561,654	118.7	3,204	12.7	19.8 (2020)

Oman	4,664,844	77	15,474	2.5	N/A
Palestine	2,444,174	14.6 (2018)	3,199 (2018)	26.1	29.2 (2016)
Qatar	2,900,034	183.5	64,719	0.1	N/A
Saudi Arabia	34,173,498	793	23,140	5.9	12.7 (2017)
Sudan	45,561,556	18.9	442	16.6	46.5 (2009)
Syria	19,398,448	50.3 (2015)	2,900 (2015)	8.4	82.5 (2014)
Tunisia	11,721,177	38.8	3,318	16.2	15.2 (2015)
Turkey	82,017,514	754.4	9,043	12.9	13.5 (2017)
United Arab Emirates	9,992,083	421.1	43,103	2.4	N/A
Yemen	29,884,405	27.6 (2018)	968 (2018)	12.8	48.6 (2014)

Source: World Bank (2020), *World Development Indicators*; CIA World Factbook (2020). * Unemployment figures show modelled estimates from International Labour Organization; Jordanian and Moroccan figures are from December 2020 government reports, taking account of the coronavirus pandemic. Other rates, as reported in early 2020, are likely to rise rapidly as the full effects of the global health crisis play out. ** Poverty rate measure proportion of national populace (including migrants and refugees) living below official poverty lines set by national governments, with latest reliable years indicated. N/A denotes no available data.

Mauritania ($7.6 billion) and Palestine ($14.6 billion). Qatar's relative affluence, with its $64,719 per capita GDP, starkly differs from the poorest countries of Sudan ($442) and Yemen ($968). The high poverty rates of Lebanon (40 percent) and war-torn Syria (82.5 percent) soar above the negligent rates reported in the Gulf kingdoms. Outside the Gulf, unemployment is still extremely high, particularly in Jordan (23.9 percent) and Palestine (26.1 percent). Notably, however, these official jobless figures do not include those in the informal sector – a major reason why unemployment rates in countries like Morocco, Egypt, Iraq, and Iran are misleadingly low.

The MENA economies therefore differ along many axes. Focusing on the Arab countries alone, the World Bank has suggested three general categories to help make sense of these variations: 1) resource-rich, labor-importing countries; 2) resource-rich, labor-abundant countries; and 3) resource-poor countries. As per Table 5.1, the most prosperous area of the MENA region (excluding Israel) is the resource-rich, labor importing countries of

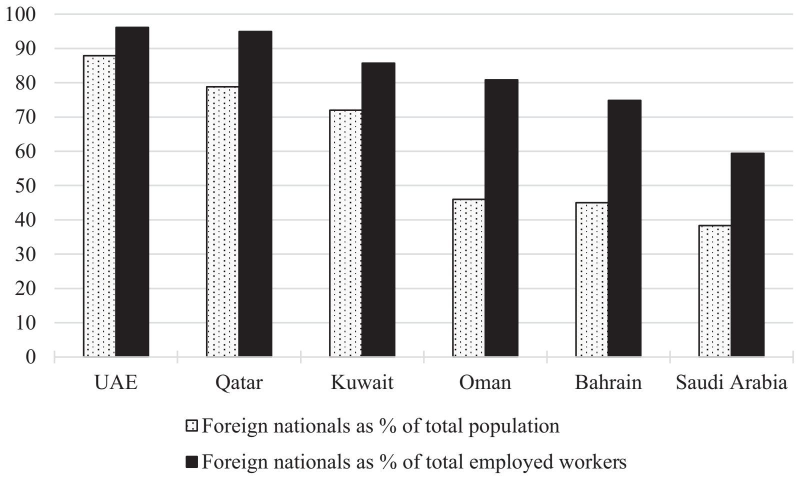

FIGURE 5.3
GCC kingdoms – foreign nationals in population and employment, 2019.

Source: Population data from United Nations, Department of Economic and Social Affairs, Population Division (2020), *World Urbanization Prospects*. Employment data show latest available year during 2015–18 period from Gulf Labour Markets, Migration, and Population Programme (2018), online <http://gulfmigration.org>.

the Arabian Gulf – essentially the GCC, or Saudi Arabia, Kuwait, Bahrain, Qatar, Oman, and the UAE. Indeed, at purchasing power parity, the IMF and the Word Bank estimate that Qatar and the UAE rank among the ten wealthiest countries in terms of per capita income in the world, outpacing even the United States. These high levels of income are the consequence of accruing oil and natural gas wealth, which is then divided among a small population. Unemployment rates remain the lowest in the MENA region, hovering in the low single digits for all six Gulf kingdoms. Yet it is also important to point out that few GCC citizens work in the private sector, preferring instead government-related work financed almost wholly by these energy rents – an artefact of rentierism, as Chapter 6 notes.

Thanks to their hydrocarbon revenues, the Gulf kingdoms reaped economic prosperity, as characterized by rapid urbanization and new commercial development. Their small local populations were never able to fill these labor demands. Instead, they have long relied upon migrant workers, or expatriates, to take up these jobs. Approximately half the entire GCC population consists of foreign workers, and in most states, they outnumber nationals by a wide margin. Figure 5.3 shows that a staggering 96 percent of the UAE's workers (and just under 88 percent of its national population) are classified as nonnational (i.e., holding only a foreign passport). Expatriates similarly comprise 95 percent of the all employed workers in

Qatar, 86 percent in Kuwait, 81 percent in Oman, 75 percent in Bahrain, and 59 percent in Saudi Arabia. The bulk of these migrant workers come from South and Southeast Asia, as well as labor-exporting MENA countries like Morocco, Yemen, Sudan, and Lebanon. It is a common arrangement for such expatriates to remit funds back to their families. The MENA is not exceptional in this regard; remittances sent from relatives working abroad are a crucial source of income for many households in developing countries across the world, particularly those in Central Asia, Central America, South Asia, and West Africa.

The second category of MENA economies consist of resource-rich, labor-abundant countries. Essentially, this means Iraq, Algeria, and to a lesser degree Syria. The non-Arab case of Iran also fits into this category. These countries have some oil and gas resources, and thus earn some revenues from their export. However, they have far larger populations than the Gulf kingdoms. They followed the model of statist development in the postcolonial period to a close degree, given the higher difficulty of sustaining universal employment and welfarist schemes resembling the generous arrangements found in the Gulf. Another factor is that though the hydrocarbon industry is a vital economic activity, it is not labor-intensive. The production of oil and gas does not employ many workers, because the extraction and refining of raw energy products requires more mechanized equipment than human labor. For instance, while oil and gas generated more than one-third of the MENA's total GDP as of 2019, it contributed only 5 percent to regional employment.

As a result, these countries today feature more diversified economies than the Gulf states. However, they also still maintain very large public sectors, with small but growing private sectors that struggle with informality, innovation, and competitiveness. This should be put into historical context, because violent conflicts have embroiled all of them in some form since the 1980s. Iraq suffered long periods of economic desolation, from the Iran–Iraq war to the 1991 Gulf War and the violence that followed the 2003 US-led invasion as well as the more recent civil war. Iran has not faced large-scale militarized conflict since the 1980s, but its relations with many Arab countries as well as the West remain extremely tense. Syria is the most tragic story, as its entire economy has been devastated by the civil war that began during the Arab Spring. Even though much of the fighting had ceased by the late 2010s, it will be some time before Syrians regain their footing, not least because millions are still displaced as refugees both within and beyond the country.

The final category consists of resource-poor, labor-abundant states such as Egypt, Lebanon, Jordan, Morocco, Tunisia, Palestine, and Sudan.

Lacking much oil and gas resources, these countries are densely populated by regional standards and feature among the lower incomes per capita. Nowhere is this more evident than Egypt, with a population of over 100 million crowded along the banks of the Nile. In 2020, its GDP per capita stood at $3,020 – less than 8 percent of Saudi Arabia's and under 5 percent of Qatar's. Egypt, Jordan, Morocco, and Tunisia pursued statist development to a close degree, inaugurating ambitious development schemes from the 1950s and 1960s onwards characterized by public employment, rapid urbanization, ISI policies, and the promise that such a social contract would last forever.

They were, not coincidentally, also hit hardest with the regional economic recession from the mid-1980s onwards. Remittances and foreign aid from the oil-exporting kingdoms like Saudi Arabia and Kuwait dried up, and they could not compensate with greater trade, given the uncompetitive nature of their industries. Of all the MENA countries, they were heavily pressured by aid donors and multilateral institutions to adopt neoliberal economic reforms. While these countries did recover somewhat, their struggle to provide economic opportunities showed in the Arab Spring and its more recent aftershocks. They also remain highly vulnerable to regional trends, such as oil price shocks; as a common Jordanian refrain goes, when the oil-rich Gulf sneezes, the Hashemite Kingdom catches the cold.

CONTEMPORARY CHALLENGES: THE CASE OF UNEMPLOYMENT

Outside the wealthy oil-exporting states, many people in MENA societies face the unnerving prospects of chronic unemployment. There are simply not enough paid formal jobs for those who need them – partly because the private sector remains weak in many countries and partly because the public sector can no longer dole out employment as it once did. As the earlier section on statist development strategies has explained, many countries in the Middle East adopted economic models that entrusted job creation to the government long ago. While neoliberalism after the economic bust of the 1980s and 1990s sought to replace this logic with market-oriented reforms, the reality is that decades since that seminal crisis point, public employment remains disproportionately large across the region. As Figure 5.4 shows, the MENA region as compared to other global regions has the largest public sector, as measured by the proportion of government spending spent on wages of government-related workers, at 30 percent. The OECD figure, by contrast, is half this, at 15 percent.

These figures also undercount. They include civilian rather than military salaries, and they also do not include the lifelong pensions guaranteed to

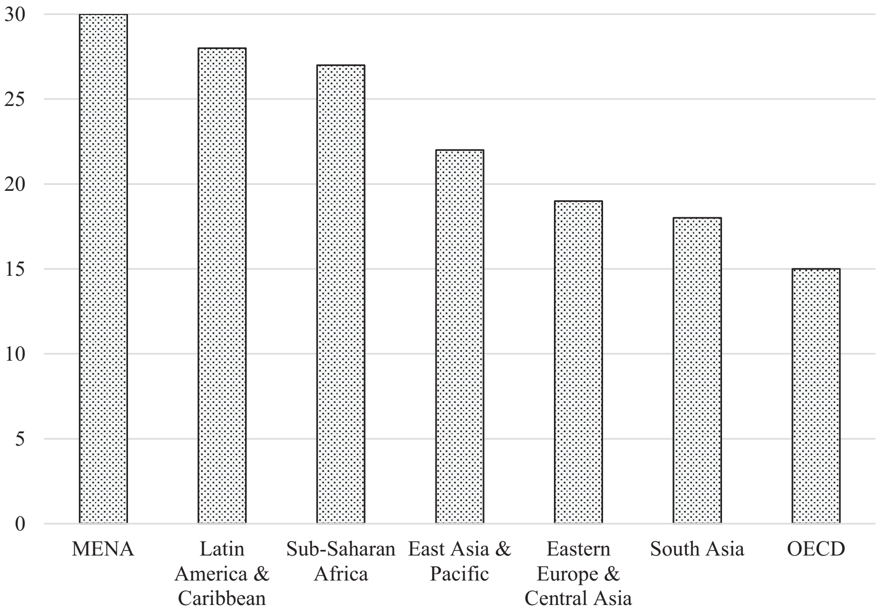

FIGURE 5.4
MENA vs. global regions – size of public sector by government wage bill, 2016.

Source: Data from World Bank, *Size of the Public Sector: Government Wage Bill and Employment* (Washington, DC: World Bank, 2016).

teachers, civil servants, bureaucrats, and other public sector retirees. When those are taken into account, the reality is that an enormous chunk of many national budgets are devoted to maintaining the livelihoods of current and retired employees under the government's responsibility. For instance, about two-thirds of Jordan's 2019 government budget of $13 billion was devoted to civilian and military salaries and pensions, leaving the small remainder to finance everything else expected by society – e.g., education, health care, food subsidies, infrastructure, and other public goods.

The problem is that many citizens still prefer to work in government-related positions, given their reputation for providing lifelong job security – even if their salaries can no longer keep pace with living costs. Yet outside the oil-rich GCC states, if the public sector can no longer be relied upon as a job generator, where else can employment originate? Agriculture is not the answer, given its general decline over time (as Chapter 2 duly noted) as well as the marginalized role of many rural communities. Existing industries in the private sector have some potential, and many economists point to services in some form – retail, financial, transportation, and so forth – as the solution. However, job creation requires overcoming the twin dilemmas of informality with competitiveness; too many service jobs already fly under the radar because they are informal, while leading formal businesses that have broken out and become profitable on a regional and even global scale (such as Jordan-based Arab Bank, Qatar-based Al-Jazeera, and Kuwait-based Zain Telecommunications Group) see extremely intense competition for the small number of skilled positions they offer.

Part of the problem may rest in the cultural psyche of many Arab societies, in which the availability of high-paying, office-based employment associated with the public sector has become such an entrenched desire that low-skilled work, such as retail and construction, are not seen as viable opportunities. This "culture of shame," as some economists term it, remains a severe impediment to matching youths to jobs in countries like Jordan and Tunisia. In such countries, as Chapter 11's discussion of youth joblessness and demographic pressures divulges, unemployment is paradoxically higher among the best educated. University graduates often have a higher unemployment figure than those that just finished primary school, partly because of a lack of skilled positions across the economy and partly because university graduates cannot conceive of working in jobs involving any kind of manual labor or basic servicing, such as retail.

Most MENA economies also wrestle with the problem of low female participation in the workforce due to a variety of social, familial, and cultural pressures, as well as government policies (such as insufficient maternity leaves and poor public transportation) that often discourage women from seeking long-term employment. For 2020, the female labor participation rate (the percentage of women aged 15 years and up who enter the workforce and look for jobs) for the OECD stood at 52 percent; by contrast, the MENA region's figure is 20.1 percent. In some countries, the rate is far lower; Algeria, for instance, in 2020 reported a 14.6 percent female labor participation rate, while Iraq's corollary figure was just 12 percent – among the five lowest figures in the entire world. However, the absence of women from the workforce robs a country of productivity. It prevents vital talent and skills from reaching the economy while also reinforcing patterns of patriarchy that feed gender inequality. This provides some clues into the gender inequalities witnessed in the region, as explained in Chapter 10.

Finally, while some optimists point to the oil-rich Gulf kingdoms as models of development, given the surreal level of high-tech urbanization that has transformed cities like Dubai and Doha, this too cannot be the answer. Economic development in the Arabian Gulf is the product of unique geological and historical factors that cannot be replicated elsewhere; not all societies and states rest atop hydrocarbon reserves. Those kingdoms, excepting Saudi Arabia, also have another advantage in their tiny citizenries, which makes it comparatively easy for governments to offer sufficient public employment and welfarist protections.

The path forward will require a combination of policy creativity and political flexibility. Economic planning over past generations was as much a product of political imperatives as it was technical rationality, and divorcing both governments and societies from long-held expectations about the boundaries of their social contract will require meaningful change emphasizing the *inclusive* aspect of development. The Arab Spring gave a hint of this democratic potential. Policy creativity comes into play with more innovative reforms that capitalize on youth populations, reduce social and gendered inequalities, link informality to the overall economy, emphasize export-oriented growth and industrial competitiveness, reduce public-sector overhead, and kickstart the private sector with the promotion of entrepreneurship, smarter regulations, and national prioritizing. It is telling, however, that popular expectations for such positive change – at least in the Arab world – wildly vary, as Figure 5.5 shows. Citizens in conflict-stricken Yemen remain extremely hopeful that their economic situation will improve in the next few years; those in Tunisia, Sudan, and Egypt are more cautiously split

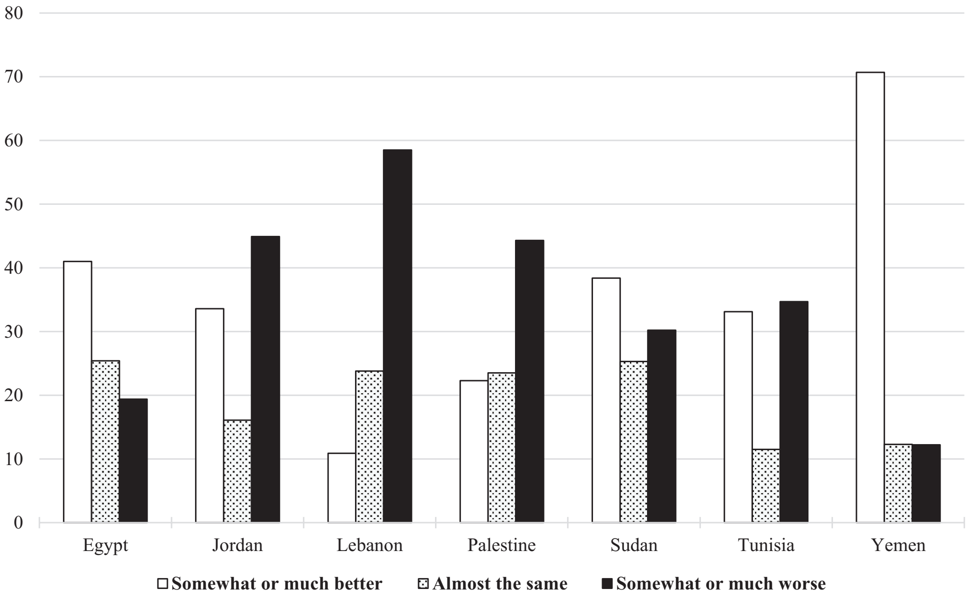

FIGURE 5.5
Future economic expectations in selected Arab countries, 2018–19.

Source: Arab Barometer, Wave V (2018–2019). Online <www.arabbarometer.org>. The survey question was: "What do you think the economic situation in your country will be during the next few years (2–3 years) compared to the current situation?" The responses ranged from don't know, much worse, somewhat worse, almost the same, somewhat better, and much better.

about the future; and those in Jordan, Lebanon, and Palestine exude far more cynicism.

Whether the MENA and especially the Arab world can take this step forward is unclear, particularly as the worst effects of the coronavirus pandemic buffet regional economies. However, societies cannot be imprisoned in the dustbin of underdevelopment forever. In 1960, South Korea's per capita income was barely $160, one-tenth of Egypt's during that heyday of statist development and ISI. Sixty years later, their outcomes have radically diverged – not because history willed it but largely due to effective initiatives and economic policies, alongside social change and modernization. The same could very well happen in the Middle East, with the stakes never higher for everyday people.

CONCLUSION

In the postcolonial era, MENA countries looked to chart their own course on the international stage, and many adhered to a state-led development model involving ISI and a politically driven set of economic projects. This resulted in measured gains regarding education, employment, and growth, but austerity and recession from the mid-1980s onwards signaled the exhaustion of this strategy. From that point, regional economies meandered into divergent directions, ranging from the wealthy hydrocarbon-heavy Gulf kingdoms to less prosperous, labor-abundant countries like Sudan, Egypt, and Jordan. Today, as social memories of the Arab Spring linger and the coronavirus pandemic passes, the region faces a critical juncture in terms of inclusive growth. The challenge is how to attain a pathway of consistent, self-sustaining development that can meet popular demands for greater participation, productivity, and contributions. The most immediate concern is unemployment; reducing dependence on the public sector, dealing with high degrees of informality, and creating more job opportunities in the private sector remain the most salient obstacles.

QUESTIONS FOR DISCUSSION

1. What was the statist model of economic development, and how did it affect growth in the MENA region starting in the 1950s?
2. What is neoliberalism, and why was it prescribed as a solution to the economic troubles that began in the 1980s?
3. Why have certain other developing countries in the world, such as the Asian Tigers, outperformed most MENA countries in achieving sustainable industrialized development?
4. Why is non-inclusive economic growth so devastating to young, growing populations?

5 How does a large informal sector help or hurt a productive economy?
6 Why would relative deprivation related to economic underachievement have political consequences?
7 What are various categories of economic outcomes we see in the MENA region today, and what makes each distinctive?
8 The mantra coming out of the COVID-19 pandemic has been for economies to "build back better" – what should this mean for MENA societies?

FURTHER READING

There are excellent general surveys of the region's economic history and prevalent strategies that combine theoretical narratives with case studies of specific countries. Social dynamics and demands coincide with political institutions in these studies (thus the notion of *political* economy). A representative sample includes Melani Cammett, Ishac Diwan, Alan Richards, and John Waterbury, *A Political Economy of the Middle East*, 4th ed. (London: Routledge, 2015); Adam Hanieh, *Money, Markets, and Monarchies: The Gulf Cooperation Council and the Political Economy of the Contemporary Middle East* (Cambridge: Cambridge University Press, 2018); Ishac Diwan, Adeel Malik, and Izak Atiyas, eds., *Crony Capitalism in the Middle East: Business and Politics from Liberalization to the Arab Spring* (Oxford: Oxford University Press, 2019); Joel Beinin, Bassam Haddad, and Sherene Seikaly, eds., *A Critical Political Economy of the Middle East and North Africa* (Stanford: Stanford University Press, 2020); and Robert Springborg, *Political Economies of the Middle East and North Africa* (Cambridge, UK: Polity Press, 2020). These comprehensive surveys all give answers to why the MENA appears so underdeveloped today, what economic policies and strategies have succeeded or failed, and how more creative solutions can be pursued.

Though many regional studies of political economy emphasize the Arab world, there is excellent scholarship on the non-Arab countries as well. For Israel, see Paul Rivlin, *The Israeli Economy from the Foundation of the State Through the 21st Century* (Cambridge: Cambridge University Press, 2010); for Turkey, Şevket Pamuk, *Uneven Centuries: Economic Development of Turkey Since 1820* (Princeton, NJ: Princeton University Press, 2018); and for Iran, Suzanne Maloney's *Iran's Political Economy Since the Revolution* (Cambridge: Cambridge University Press, 2015).

More contemporary studies of economic growth over the past few decades, which pay attention to variations across MENA countries due to different types of resource constraints and demographic endowments, also abound; one example is Paul Rivlin, *Arab Economies in the Twenty-First Century* (Cambridge: Cambridge University Press, 2009). Excellent interventions since the Arab Spring that link non-inclusive development to social and political unrest include Elena Ianchovichina, *Eruptions of Popular Anger: The Economics of the Arab Spring and Its Aftermath* (Washington, DC: World Bank, 2018); Ahmed Galal and Ishac Diwan, eds., *The Middle East Economies in Times of Transition* (London: Palgrave Macmillan, 2016); and Bahgat Korany, ed., *Arab Human Development in the Twenty-first Century: The Primacy of Empowerment* (Cairo: American University of Cairo Press, 2015). There are also robust article-length works, such as Tarik Yousef, "Development, Growth, and Policy Reform in the Middle East and North Africa Since 1950," *Journal of Economic Perspectives* 18, 3 (2004): 91–115; Felina B. Duncan and Zulal S. Denaux, "Determinants of Economic Success in the Middle East and North Africa," *Global Journal of Business Research* 7, 5 (2013): 25–34; and Samir Makdisi, Zeki Fattah, and Imed Limam, "Determinants of Growth in the

MENA Countries," in *Explaining Growth in the Middle East (Contributions to Economic Analysis, Vol. 278)*, eds. Jeffrey Nugent and N. Hashem Pesaran (Amsterdam: Elsevier, 2007).

Many authors also put the MENA in global perspective, given the obvious effects that external factors like trade, capital, conflict, and interventions have played upon social and economic development. See, for instance, Hassan Hakimian and Jeffrey Nugent, *Trade Policy and Economic Integration in the Middle East and North Africa: Economic Boundaries in Flux* (London: Routledge, 2005); Clement Moore Henry and Robert Springborg, *Globalization and the Politics of Development in the Middle East*, 2nd ed. (New York: Cambridge University Press, 2010); and Laura Guazzone and Daniela Pioppi, eds., *The Arab State and Neo-Liberal Globalization: The Restructuring of State Power in the Middle East* (Reading, UK: Ithaca Press, 2012). These all critically highlight the interplay between the regional economy and global trends.

Other works discuss the region's future growth potential as well as the challenges hampering it. Multilateral aid pressures and neoliberal conditionalities are explored in Jane Harrigan and Hamed El-Said, "The Economic Impact of IMF and World Bank Programs in the Middle East and North Africa: A Case Study of Jordan, Egypt, Morocco and Tunisia, 1983–2004," *Review of Middle East Economics and Finance* 6, 2 (2010): 1–25. The distorting social effects of public-sector employment in Arab countries are likewise unpacked in Ragui Assaad, "Making Sense of Arab Labor Markets: The Enduring Legacy of Dualism," *IZA Journal of Labor and Development* 3, 6 (2014). The World Bank's *Striving for Better Jobs: The Challenge of Informality in the Middle East and North Africa* (Washington, DC: World Bank, 2014) addresses the question of informal unemployment head on, much like its other excellent reports and studies of regional development, which can be found online (see next section).

Online sources (also available on the companion website)

There is a colossal amount of economic data on the MENA online. The World Bank maintains its *World Development Indicators,* which track social and economic trends since 1960 (http://databank.worldbank.org/data/home.aspx). It also has a public library of books and volumes about Middle East development, including some of the reports used in this chapter (https://openknowledge.worldbank.org/handle/10986/2168). The ILO maintains detailed information about employment trends (www.ilo.org/beirut/publications/). The IMF's trove of fiscal and budgetary data, including its Finances Dataset, are also available online (www.imf.org/en/Data), as are its regional economic outlook reports (www.imf.org/en/Publications/REO/MECA).

Beyond quantitative data, there are excellent periodicals, too, that track regional economic developments; among them are the World Bank's *MENA Economic Monitor* (www.worldbank.org/en/region/mena/publication/mena-economic-monitor), the GCC-oriented Gulf Labour Markets, Migration, and Population Programme by the Gulf Research Center (https://gulfmigration.org/), and the OECD's own programs and materials on the MENA Region (www.oecd.org/mena/). Periodicals that report on economic news from the MENA include *Middle East Economic Digest* (www.meed.com/), *Arabian Business* (www.arabianbusiness.com/), and *Gulf Business* (https://gulfbusiness.com/). For more advanced academic research, consult the Cairo-based Economic Research Forum, including its conference proceedings and academic papers (https://theforum.erf.org.eg/).