

## The political economy of democratic transition in the Arab situation

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The present article is a translation of the text of a conference given in Arabic by the author in Tunis at the Presidential Palace at the invitation of President Al Mazouki in May 2014. Its main argument is that the poor quality of economic growth in Arabic economies has produced high unemployment rates, inexistent productivity and the total lack of appropriation of science and technology, in addition to a high rate of concentration of wealth in the hands of a few, including ruling elites. This lack of virtuous growth is due to the development of neo-patrimonialism within the context of rent economies that cannot produce real democratic institutions. The author first makes an attempt through several indicators to identify and describe the main symptoms of this bad growth; and then he describes how to move from a rent-based and unproductive economy to a virtuous and inclusive growth model whereby human resources are all mobilized in a national effort to appropriate an adequate cluster of technologies.

**Keywords:** Arab uprisings; political economy; economic growth; science and technology; productivity

### Introduction: The Arab revolutions and the neglected reasons for the failure of the Arab development model

During the wave of Arab uprisings, Arab and International media limited their focus to the issue of democracy and personal freedoms. Absent from the analysis of revolutionary matters was any indication of the ways and means to reach a renewed developmental style, independent from the neoliberal model popularized by international, regional, Arab and Islamic financial institutions. To our knowledge, no political party, be it Islamic or secular, has been seen to highlight this key issue in its programme and slogans so that the Arab revolutions could reach safe ground. All that we have seen were promises to improve the standard of living, materialized partially and chaotically in wage increases here and there, under pressure from workers and their trade unions, without reciprocating any plan for a rise in production aimed at breaking the chain of the rentier economy characteristic of Arab economies.

It is this chain of negative influence that has, for decades, been preventing the Arab economy's entry into the world of production, science and knowledge and, consequently, the adoption of an effective economic model such as the one in East Asian

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countries. Such a model could offer sufficient work opportunities to include all those not employed in contributing to production for Arab economies to enter into a true state of competitiveness in international markets.

Remarkably, the new governments in both Egypt and Tunisia have not yet developed alternative developmental goals to secure lost opportunities for employment. Such policies must emphasize a strategy to appropriate science and technology across all social classes, including prioritizing rural and poor urban groups. This is what has been implemented by the countries of East Asia and Japan as a priority in their modernization policies. These are aimed at developing productive capacity, relatively independently of sources of western science and technology, so as to enable the building of modern economic activities that produce the goods and services which are in demand on an international scale and competitive in terms of price and quality.

### **The East Asian model or the Washington consensus model?**

The governments of those countries have also formulated goals for the phases and sectors in this process, in a strong partnership between senior officials from the state and employers' organizations, as well as universities and institutes for vocational and technical education in some cases. In this process, the necessary financial resources have been dedicated from long-term and soft loans and direct aid from the state, to encourage research, development, innovation and exploration in industrial and modern service work (electronics, software, informatics, wired and wireless communications, etc.). This has also been the case in the traditional heavy industries, namely the manufacture of capital equipment and modes of transport, for example ships, cars and airplanes, in the case of China and Brazil.

However, in the Arab world the descriptions originating from the Washington Consensus, more than three decades ago, have made no change to the size and scope of poverty or unemployment, especially among the educated youth component. That is because the only successful policy to combat poverty is hidden in the process of indigenizing science and technology and entering the world of intensive production of goods and services demanded in the globalized economy which has become, to a large extent, a single free market. Delaying a transformation is to be doomed to remain in the rentier economy and dependent on foreign aid, with all the political, economic and financial restrictions on sources of aid which this engenders (whether it is aid from one state to another or from an international or regional funding organization). This is in addition to reliance on guest worker remittances and tourism movement in the case of several Arab economies.

It is no wonder that the Arab economies, which were affected by the popular uprisings and political changes, are suffering from greater financial dependency on foreign sources and that unemployment is increasing, rather than decreasing. This has been caused by the lack of political stability and the complete absence of any alternative developmental vision, the closing of economic institutions, laying off workers and avoiding internal or external investment, even in the rentier sectors, such as the development of real estate and tourist facilities. As a result, the new governments are falling into more severe dependency on external funding sources, given their lack of any formulation for alternative public economic and social policies and have been slow to implement the mobilization of all available human capacity among the popular classes, as well as those with skills and qualifications. They need to join the process of changing the course of development and to enter seriously into the world of

production beyond the mechanisms of the rentier economy. The result will be success in gradually eliminating the prevailing socio-economic model which is preventing such a mobilization from occurring and is the main factor in the process of fundamental non-superficial change.

### **Built on a rentier economy, the Arab developmental model has led to ‘distorted growth’**

Here we must consider the fact that Arab economies are all characterized, to varying degrees, by their dependence on different sources of rentier income, mainly the exporting of raw materials, especially oil, gas, phosphates and certain agricultural products, in addition to real estate rent. This is attributable to the means of transportation (Suez Canal, major bridges, including the wired and wireless communications sector, the right of passage for oil and gas tankers, etc.), as well as foreign aid and abundant guest worker remittances.<sup>1</sup>

It is worth mentioning in this context that penetrating the society of science and technology, indigenizing it and contributing to new innovation is a collective task in which all social classes – from the lowest to the highest – must be involved. In today’s circumstances, success in technology cannot be individual. Rather, individual success is the product of building and organizing the collective ability of the group as a whole. The devastating failure in Arab economies is the neglect of this aspect in the process of growth and the division of the object of growth into sectors separate from one another, as if one had no relation to the other.

In reality, the economic history of the Arab world, in recent times, is the history of the widespread model of ‘distorted growth’ to which attention is only rarely drawn. This explains, to a great extent, the important socio-economic dimension of the Arab revolutions. In this model, corruption has flourished and unhealthy multifaceted relationships have grown between the political establishment and the business establishment. Total silence around this phenomenon has prevailed equally in the media, academic research and in the technical reports of regional financial organizations, the European Union and Arab international financial institutions.

In the first part of this study, we will discuss the elements of this ‘distorted growth’. In the second part, we will discuss ways to change from this faulty growth to sound growth.

### **Eight primary indicators of the distorted Arab development model**

In comparison with successful developing countries, Arab economic growth and the social performance associated with it has been characterized by a low rate of growth in gross domestic product (GDP) per capita (with the exception of the Arab oil-exporting countries with a small population), and a sharp rise in the rate of growth of unemployment, despite their wealth in natural resources. Here, we can call attention to eight definitive indicators of the deficient performance of Arab economies.

#### ***The lowest rate of the employed population to the total size of the population***

Figures from the International Labour Organisation (ILO) show that the percentage of the employed population from the total population in Arab countries, which is an average of 45%, conflicts sharply with the global average of 61.2%, and the average

of East Asia which reaches 70%. In addition, the labour statistics for Arab countries show a big reduction in the rate of women's participation in the labour markets and a very high percentage of informal employment which generates very little revenue. This rate is 70% of the total employment in Morocco and 48% in Egypt (ILO 2011).

### ***The highest rate of unemployment among the employed population of working age***

The total rate of unemployment in the Arab world (approximately 10%) does not seem very high, despite being the highest in the world (with the exception of Spain and Central Europe). Nevertheless, the rate of unemployment among young people (aged between 15 and 35) is much higher (approximately 25%) while this percentage varies between 8.9% and 15.7% in other parts of the developing world. One of the other characteristics of youth unemployment in Arab countries is the very high rate of unemployment among graduates of secondary and higher education. The rate of unemployment among the higher educated graduates jumped from 3.8% in 1994 to 17.5% in 2006, whereas the rate of higher educated jobseekers rose from 23% in 2001 to 55% in 2007. However, the percentage of job offers was far lower than that. The rate of unemployed secondary-educated graduates in Egypt is estimated to be around 80% of the total unemployed. This is 29.6% in Morocco, 37.8% in Algeria and 42.5% in Tunisia.<sup>2</sup>

### ***The stagnation of real wages and indicators of poverty***

In addition to this, the ILO states that real wages in the Middle East and North Africa (MENA) region have only risen slightly, if, that is, they rose at all. Moreover, workers' productivity, which is the basis for determining real wages, increased by a smaller percentage in the MENA region than anywhere else in the world, except for Central Europe and Central Asia, which underwent complete economic restructuring.

The official minimum wages in a sample of five countries, four Arab (Algeria, Jordan, Morocco, Syria) and Turkey, was extremely low, ranging between US\$164 per month in Syria and US\$425 in Turkey. The minimum wage for non-agricultural work in Morocco was US\$235 and did not go beyond US\$152 for agricultural work (ILO 2010). Another statistical source estimates that the annual average for per capita income in rural areas of Arab countries was no more than US\$320 in 2008, whereas the rate of GDP per capita for the same year (including the oil-exporting countries in the Arabian Peninsula) was US\$5858 (*Unified Arab Economic Report 2009*).

Moreover, the available statistics on poverty in the MENA region confirm that the reduction in the number of people living in a state of poverty has been over-exaggerated, since the share of GDP, compared with the daily per capita consumption calculated in US dollars, shows the extent of poverty on a national level in several Arab countries. This ranges from US\$2.34 in Mauritania to US\$11.05 in Jordan. Yet, daily per capita consumption goes up to US\$5 in most cases (except in Lebanon where it is US\$23.36 due to the high percentage of emigrant remittances in the GDP).

A recent report showing the progress in realizing the Millennium Development Goals in Arab countries (UN-ESCWA 2010) states that despite the fact that only 5% of the population in the Arab world falls into the category of extreme poverty, by

which we mean those whose income is less than US\$1.25 per day, the figure would be 21% if we take the definition of poverty to include those whose income is less than US \$2 a day. In addition, 22% of the population in this region does not receive basic health-care, education or have a decent standard of living. The same report calls attention to the fact that child malnutrition is still high and that on this level the Millennium Development Goals are still far from being reached. Although essential progress in primary and secondary education has been achieved, the empowerment of women remains out of reach. In spite of the huge reduction in infant mortality, recent figures show an alarming mortality rate for mothers and premature children.

The poverty rates are very frightening because the MENA region is not only rich in oil resources and phosphates but also possesses large areas of fertile land and water resources (Iraq, Egypt, Lebanon, Morocco, Sudan, Syria and Tunisia).

### ***Rates of annual growth depend largely on external variables***

The rates of growth in Arab economies are largely connected to external variables. These comprise oil prices, rainfall (which affects agricultural production), tourism revenue, migrant remittances and foreign aid.

This is what makes the rate of GDP growth fluctuate strongly in oil-exporting and non oil-exporting countries. Changes in oil prices (also marginally those of phosphates and chemicals) have become the main gauge for the total rates of growth in the region. This is attributable to the fact that oil-exporting countries rely significantly on other Arab countries to supply the workforce and the demand for migrant workers increases with the rise in oil prices and decreases when prices fall. In this way, the boom in Arab oil-exporting countries caused by the unexpected rise in oil prices leads to foreign direct investment by rich Arabs from these countries. As a result, rates of growth in non oil-exporting Arab countries have come to depend on Arab foreign direct investments and on migrant remittances which also come from Arab emigrants in Europe, the United States and Canada.

Moreover, the lack of suitable water infrastructure and water management in countries with agricultural potential such as Morocco, Syria and Tunisia (also Egypt, Iraq and Sudan) has made agricultural income contingent on the annual amount of rainfall. Finally, mass tourism from Europe and rich Arab oil-exporting countries is also an important source of income that depends largely on domestic political stability and on the fluctuation of the GDP in the tourists' home countries. In reality, the main spur for growth in Arab countries is not centred locally (industrial modernization, economic diversity, services of high added value which can be exported). Rather, it depends largely on external variables that have no relation to the local economic dynamism.

### ***Emigration and the brain drain as a main indicator of restrictive growth***

The growth in the phenomenon of emigration results from the rising unemployment rate in Arab countries. According to a study by the ILO, the flow of migrants from the MENA region, particularly the countries in the South Mediterranean, is one of the main characteristics of abnormal growth and the resultant distortion of the labour market. The cumulative total number of emigrants from five countries (Algeria, Egypt, Lebanon, Morocco and Tunisia) was 8.1 million individuals in 2007. These emigrants were distributed as follows: 55.44% in Europe (mainly in Belgium,

France, Germany and Spain), 23.76% in Arab oil-exporting countries which employ unskilled workers, managers and administrative staff, and 7.33% in the traditional countries for immigration (Australia, Canada, New Zealand and the United States). The remainder emigrated to other countries in Sub-Saharan Africa, or countries in Central and South America (Corm 2010).

It is worth noticing that between 1998 and 2007, the number of migrants from the five Arab countries doubled, despite the restrictive measures adopted by a number of European governments. The figure of 90,800 migrants in 1998 rose to 195,600 in 2007. The total number of new migrants during those years reached 1.55 million, including approximately 100,000 students from the five Arab countries mentioned above, as well as Iraq. Notably, a large number of them (recently estimated at 54%) do not return to their home countries. The fact is that this leap in migration is increasingly acquiring the form of a loss of the educated and qualified workforce. That has led to more of a decline in productivity and to emigration becoming one of the features of distorted growth with which we are concerned.<sup>3</sup>

Of course, Arab countries are not the only ones facing this particular phenomenon. It also exists in the countries of Sub-Saharan Africa, Central and South America, and Asia. Several studies have spoken in positive terms about the benefits of emigration and the positive role of migrant remittances for their countries of origin in reducing problems of poverty and unemployment. However, it has now become clear that the countries that encouraged, even organized, the mass emigration of their citizens, in order to benefit from their remittances, are the very countries whose economies have not grown faster than others. In fact, in 11 of the countries that are particularly concerned with exporting their workforce (Algeria, Bangladesh, Egypt, India, Lebanon, Morocco, Nigeria, the Philippines, Sri Lanka, Sudan and Tunisia), the total migrant remittances increased by 800% between 1990 and 2007 and reached US\$800 billion. However, during this period the average increase in GDP per capita did not exceed 170%. In seven of these countries, this income was less than US\$2000 per year in 2008, and in four of them it was less than US\$1000.<sup>4</sup> These figures show clearly that there is no positive influence of emigration on the countries that export their labour force.

During the same period, the group of countries that exported their natural and human resources received more than US\$190 billion in development aid. That is to say that between 1990 and 2008 these countries benefited from approximately US \$1000 billion in external resources without any of them entering into a virtuous cycle of growth based on a dynamic policy to acquire technology. That is contrasted with the Asian countries which, instead of encouraging emigration, relied on an effective mobilization policy for local human resources. They benefited, thereby, from the spread of globalization by developing their ability to export goods and services and then to meet local demand.

In the case of Nigeria, the GDP per capita was US\$1370 in 2008. In Algeria, the GDP per capita rose to US\$4845 in the same year, after stagnating at a level lower than US\$2000 over a period of 10 years and before recently moving upwards due to the rise in oil prices. These two cases sadly express the failure of an economic model built on exporting raw materials and labour. Neither of these countries was able to raise the standard of living in any crucial way, despite the flow of financial resources from the energy sector. That is in contrast to other countries that did not have such a rentier-based income. Indonesia is a similar example of this. Even though it is a main exporter of oil and wood, and despite its enormous natural resources,

the per capita share of GDP between 1990 and 2003 was so low that it ranged between US\$640 and US\$1000. As in the case of Algeria, Indonesia's GDP per capita only rose substantially after the amazing leap in oil prices since 2005 which raised the per capita income to the level of US\$2246 in 2008. By comparison, in 2008 there were three economies that did not possess any natural resources but did not encourage the emigration of their human resources. They gained an annual average per capita GDP that greatly surpassed that of those countries mentioned above: South Korea where GDP per capita was US\$19,115, in Singapore it was US\$37,597 and in Taiwan it was US\$16,988.

Arab countries east and south of the Mediterranean received the equivalent of US \$396 billion between 1970 and 2009 in migrant remittances. In fact, the flow of migrant remittances has increased continuously during the last 10 years, going up from US\$10 billion annually in 2000 to US\$27 billion at the beginning of 2009. It has come to represent a steadily increasing part of the GDP in the countries concerned, as it reached approximately 20% in Lebanon, 6% in Egypt and 9% in Morocco, according to World Bank statistics.

Additionally, the available data on the use of migrant remittances reveal that when they are not used to increase consumption, they are directed towards acquiring or building housing, or towards small commercial enterprises. This increases the concentration of local investment in the real estate sector and in the local trade sector.<sup>5</sup>

With regards to the 'brain drain', this is mostly created by the students who study abroad but who do not return to their native countries after the end of their studies. This is in addition to the number of liberal professionals who are unemployed or dissatisfied with their working conditions (such as doctors, engineers and biologists) and who are among those who decide to leave their home country. A recruitment firm that works with the countries of the Gulf Cooperation Council (GCC) and specializes in qualified labour estimated that 54% of Arab students abroad had not returned to their native countries, and that 70,000 university graduates emigrate from Arab countries every year.<sup>6</sup> Similarly, this is also evinced by the fact that 120,602 Arab students registered at foreign universities in 1999, a higher figure than the number of Chinese students (106,036) or Indians (52,932) who were studying abroad in that year.<sup>7</sup> Likewise, it is estimated that the number of Arab scientists, doctors and engineers who are leaving the Arab world and not returning to their native countries is 100,000 per year, which costs these countries US\$1 billion annually.<sup>8</sup> Another study points out that the departure of 450,000 'brains' from the Arab world has cost the countries from which they emigrated more than US\$200 billion.<sup>9</sup>

### ***The high concentration of investment in a few sectors obstructs the diversification of the economy***

Notwithstanding the high increase in foreign investment in the Arab region, it has not led to the resurgence of the region's economies. Rather, these investments have remained fewer than their counterparts in other developing economies. Furthermore, it has encouraged the concentration of investments in a small number of sectors, some of low added value and very low risks (oil, gas, petrochemical sectors, luxury properties and tourism). This is clearly evident from the available data on some of the economies of the MENA region. For example, the UN-ECSWA report for 2008 states that the sectors which attracted the largest share of foreign investment were the energy sectors and its allied industries, the services sector (especially financial services) and the real estate sector (UN-ESCWA 2009; see also UNCTAD 2008).



In that year (2008), the energy sector and the allied industries in Saudi Arabia attracted 41.2% of the total direct foreign investment compared with 20.8% for the real estate sector, 25.5% for the services sector and just 6.9% for other activities. Therefore, other industries drew only 5.6% of the total investments. In the United Arab Emirates (UAE), the structure of foreign direct investment was more centralized. In 2006, 60% of investments went to just two sectors: the construction sector (29%) and financial insurance brokerage (34.4%). In the same year, no more than 10% was directed at the industrial sector. In Lebanon, 50% of the total foreign investment went to the real estate sector, while tourism and financial services attracted 33%. In Egypt, the oil sector drew 57% of the total foreign direct investment in 2008. In the same year, Jordan attracted 36% for the hotel sector and 56% for the free industrial zones.

In Morocco, the sector that attracted the greatest share of foreign direct investment in 2001 was the postal and telecommunications sector (81%) because of the privatization of this sector and the launch of the mobile phone system, whereas the real estate sector attracted 31% in 2002. The same happened in Tunisia as the privatization of the telephone sector led to the attraction of 45.2% of the cumulative total of foreign direct investment between 2002 and 2006.

### ***The very low level of spending on research and development (R&D) and the absence of a national system to support innovation***

The majority of Arab nations suffer from a low level of R&D, as well as separate systems for acquiring science and technology and for appropriating and establishing them in their societies. Therefore, we should not be surprised that Arab economies suffer from the lowest rates of productivity, due to the nature of their growth. This is especially apparent when comparing the number of patents for inventions registered by individuals or companies in the countries of the MENA region with those in other countries. Between 1963 and 2009, the total number of patents registered for the countries of MENA was 568, whereas South Korea registered 66,729 inventions and Taiwan filed 77,285. If we take into consideration the fact that all these states were at the same stage of development as the Arab world only 50 years ago, then these figures show what little innovation there is in the MENA region.

The low level of spending on R&D is likewise reflected in the shortage of interest in indigenizing science and technology and approaching innovative achievement. This level represents no more than 0.5% of the GDP in most countries in the Arab region, in contrast with a level between 1.9% and 2.5% in more dynamic and innovative countries. That is also shown in the small number of scientific journals and publications in the Middle Eastern region. This situation explains the reasons for the low level of technological content of the region's exports, which ranges according to the type of goods from 0.3% to 9% of the total exports from the region. As a result, the share of technological exports differs sharply from that of other countries, which was 32% in South Korea, 47.1% in Malaysia, 49.1% in Singapore and 26.2% in Thailand.<sup>10</sup>

As we have explained previously, another indication of the extent to which the region needs innovation is represented by the 'brain drain'. There has been some awareness and concern about this problem for years. However, in recent years, emigration has been encouraged through public policies that were presented as a means to combat unemployment among university graduates, and also through the policy followed by several Arab governments. These have contributed to the decline in attention or inattention to this problem. A study of this issue concluded that the states in the south and east



of the Mediterranean, with the exception of Turkey, have no strategy for mobilizing human capital to develop certain technological sectors, especially those which constitute the driving power behind economic globalization.

This shortcoming in science and technology is not due to a shortfall in universities. The Arab region has many educational and university institutions, some of which are of a high standard. Rather, it is because they are not linked with a national system for innovation, which has the powerful support of the state in partnership with the private sector and the educational sector. Numerous studies and reports undertaken recently about the scientific and technological underdevelopment in the countries of the MENA have provided much evidence for the fact that the existing institutions for technological sciences are those with the least productive capacity (UNDP 2010; see also UNESCO 2005; and International Finance Corporation and Islamic Development Bank 2011). They are all small islands isolated from one another, instead of forming a developed network that is integrated with all sectors of the economy and thereby able to offer the potential for innovation.

Moreover, in view of the lack of any unified national scientific and technological objectives and no public policies to support them, it seems that the dispersal of institutions for science and development is always repeated. The usefulness of these institutions is, therefore, not directly apparent and the funding dedicated to them is low as a result. In addition, there are almost no linkages between the educational institutions, business owners' associations, unions for the liberal professionals and trade unions. Similarly, there is no mechanism for consultation between the state, business owners, professional associations, and unions for industrial workers and agricultural workers. That may be attributed to the absence of any national objective for the acquisition of industrial technology and its dissemination to all classes of society, as well as the lack of a comprehensive industrial strategy or policy for R&D to achieve these goals.

*The knowledge gap, the fragmentation of the few Arab scientific institutions and the weakness of science and technology institutions*

By way of example, the 2005 annual UNESCO report on the state of science around the world draws attention to the knowledge gap in the Arab world, as shown by the following indicators: the low level of translation and publication of scientific articles and books; the almost complete absence of citation of science articles from the Arab world in other scientific publications; the lack of technological innovation as reflected in the very limited number of patents for inventions registered in the Arab world; and the little spending on R&D, which makes the region the least interested in R&D in the world, especially when that is compared with military expenditure. This is in addition to the low spending on information and communications technology (ICT) and higher education. Mention must also be made of the lack of autonomy of universities, and the static educational programmes that are unsuited to the international globalized economy, based on knowledge. Furthermore, the different levels of education have no connection to professional expertise and the development of human resources in the public and private sectors. The very large number of illiterates in some countries, the poor distribution of university students between different branches of knowledge, especially those relating to science and technology, and the poor standard of foreign language teaching must also be pointed out.

The UNESCO report for 2010 focuses on describing this imbalance in the systems of science and technology. It reveals that although some Arab countries had established

institutions for science and technology as soon as they obtained independence, they did not have a national policy or strategy in this field. Despite the existence of sectoral policies for agriculture, water and the environment, the budgets allocated for their implementation are rarely sufficient. In addition, according to this report, several Arab states have set up industrial cities with excellent infrastructures. However, only seven of them had a science academy. As the report states: ‘the indifference shown by decision-makers to S&T [science and technology] is a major contributor to the current vegetative state of S&T’ (UNESCO 2010, 257).

The 2010 UNESCO report also mentions once again the low number of patents registered in the Arab region, the small number of published scientific works and articles, the high proportion of illiteracy, the low level of exports with technological content and the development of systems for university education which are controlled much more by supply than demand. The report analyses the details of the shortcomings in these systems and the conflicting goals which they are supposed to be striving to attain. It concludes that despite the fact that the majority of Arab countries have created fragmented elements for science and technology and innovations systems for at least four decades, ‘little has changed in terms of the impact of science and science institutions on achieving socioeconomic development, or generating new knowledge’ (UNESCO 2010, 272). The report also concludes that an enormous effort is needed to catch up with what has been achieved in science and technology by other nations like Brazil, China, India, Ireland, Mexico and South Korea, which were previously at the same level of development in this field as the Arab countries. As for the private sector, the report shows that it has little interest in science and technology and is more inclined towards the trade in goods and services than actual productive activities.

Finally, as stated in the 2005 UNESCO report and the conclusions of the analysis undertaken by Antoine Zahlan, International Science Policy consultant, the 2010 UNESCO report again shows the problem of the fragmentation of systems for science and technology in Arab countries and that their development is dependent on the effort of individuals and not organizations. The report urges the reader to keep in mind that the rentier economy is the primary factor in the scientific and technological standstill in the region.

Similarly, it is worth referring to the periodic report on the state of knowledge in the Arab world published recently by the Mohammed bin Rashid Al Maktoum Foundation and the United Nations Development Programme (2010). The first report for 2009 undertook an in-depth analysis of the main political and institutional obstacles preventing knowledge accumulation in Arab countries. The report shows the known indicators and themes connected to the scientific and technological passivity in the region. It proposes ways and means to compensate for the knowledge deficit in the Arab world in order to effect a change in the terrible state of science and technology in the region. Likewise, the report includes a statistical appendix carefully documenting the related indicators.

Finally, the Institute of International Finance recently published a joint report with the Islamic Development Bank on youth unemployment and the adaptation of educational systems in the MENA region, according to the needs of growth. The report estimates the cost of youth unemployment in the region to be around US\$50 billion per year (International Finance Corporation and Islamic Development Bank 2011).

***The deficit in external trade: another main symptom of poor growth***

The analysis of the foreign trade of Arab countries indicates another significant result of the flawed development model and the poor growth which resulted from it. That is due to the fact that the deficit in the balance of trade had reached approximately US\$67 billion in 2009 for seven Arab states (Algeria, Egypt, Jordan, Lebanon, Morocco, Syria and Tunisia), although the exports of oil for this group of seven nations was US\$57 billion in the same year. In other words, if one does not take into account the energy exports, then the deficit for this group of countries is US\$127 billion, equivalent to US\$675 per capita annually.

A precise analysis of the data for the foreign trade of this group of countries shows that their industrial sectors are completely dependent on other countries. That is because their deficit in the field of trade in industrial goods and equipment exceeds US\$82 billion in that year, whereas the rate of covering industrial imports was no more than 35%.

This figure is lower still if it excludes the products made from natural resources and the related industries, such as non-organic chemical products and fertilizers, the export of which is estimated at US\$5 billion. Additionally, a large part of the exports of manufactured goods for these countries results from subcontracting activities, namely US \$23.9 billion. These goods are basically clothing and related goods, shoes, textiles, tools and electronic appliances and beauty products.

The most serious dependency is on the very low share of covering the import of medical goods and pharmaceuticals since the export coverage rate for these goods and resources does not exceed the 19.3% of their import, just as with machines and transport equipment which are covered by a rate of only 17.8% of such goods. The coverage for professional and scientific equipment was 18.6% and for photographic equipment, optical goods and watches it was 13.1%. It is also possible to show the huge dependence on plastic materials in their primary form since their coverage does not exceed 14.8%, in addition to the relatively huge dependence on the road vehicles sector (6.7% coverage), specialized machines and appliances (5.4%), equipment and tools for the metals industry (3.4%), other industrial equipment and spare parts (6.5%) and electricity-generating machines and equipment (10.4%).

It is also worth noting that the deficit in the balance of trade for the countries analysed is very high in respect to food products (US\$12.16 billion) and as well as animal and vegetable oils, fats and waxes (US\$1.64 billion). That is despite the wealth in agricultural resources in Syria, Lebanon, Morocco, Egypt and Tunisia.

It is interesting for us to compare this negative performance with the performance of the four economies in Southeast Asia which followed innovative and dynamic industrial policies. These countries are South Korea, Malaysia, Singapore and Taiwan. These four countries with a combined population of 104.8 million people, a number roughly equal to only the population of the four countries in the Mashriq region, namely Egypt, Jordan, Lebanon and Syria, managed to achieve a surplus of US\$127 billion in the balance of trade. The size of the surplus which they achieved in industrial products was US\$257 billion against a deficit of US\$80 billion borne by the group of four Arab countries mentioned before. The trade in machines and transport vehicles by the Asian countries mentioned achieved a surplus of US\$178 billion in contrast to a deficit of approximately US\$46 billion among seven Arab countries. At the same time, the four Asian countries recorded a deficit of US\$99 billion in the trade of fuel in contrast with a surplus of 33 billion among the seven Arab countries. The

outcome was a total surplus in the balance of trade of US\$127 billion for the four Asian countries against a deficit worth US\$67 billion in the seven Arab states, despite the surplus in their energy exports.

All these indicators and comparisons between the figures for foreign trade show the very low level of industrialization in Arab countries. This explains why trade between these countries is also very low. In fact, the share of inter-Arab trade from the total Arab foreign trade is still very small, ranging between 8% and 9% for exports and between 10% and 13% for imports (including oil and gas). In some countries, the share of exports is much greater. In 2008, it was 47% in Lebanon, 41.7% in Jordan and 40.1% in Syria, whereas Tunisia only sells 9.7% of its total exports to other Arab countries; the exports of Algeria, Libya, Mauritania and Morocco to other Arab countries was no more than 3.7%.

As for the structure of inter-Arab trade, the share of the trade in energy products is almost 60% of the total exports against 13% for food exports, 9–10% for chemical products, 12–13% for manufactured goods and 4–5% for machines and transport equipment.<sup>11</sup> Therefore, the level of inter-Arab trade is very low, especially if we take into account the establishment of the Arab free trade zone. This reveals that the stagnation of the economic frameworks, described above, is the main obstacle facing productivity growth and economic diversification in these countries.

### **Summary: rentier economies and democratic systems are incompatible**

This short diagnosis may be summed up by the prevailing feature of Arab economies, namely their rentier base which prevents dynamism, economic diversification, real industrialization and activities for services of high added-value. It is not easy to escape from the trap of distorted growth that depends essentially on state and individual rentier-based profits which revolve around the export of raw materials, tourism activities, real estate investments, importation and local trade activities. These activities have contributed to the stagnation of the socio-economic structure characterized by the lack of dynamism and diversification, as well as the disparity in income between different regions within the same country. This difference in income is obvious in the growing gulf between the inhabitants of rural areas, where a large section of the population still lives, and the materially comfortable families in big urban centres.

History has shown that rentier-based economies have invariably produced authoritarian political regimes in which the ruling elite consider the natural and human resources tantamount to an inherited patrimonial property that they can dispose of freely. The rise of democracy in Europe has entailed a long journey on the road to dismantling the patrimonial state and transforming its economic and political culture to lay the foundations for individual freedoms and accountability of the ruling elite to their citizens.

The popular uprisings that have recently taken place in the Arab world and involved all sections of society and age groups constitute an important historical moment which is paving the way for the transition from distorted growth to positive growth and from dictatorship to democratic systems.

We will now attempt to consider how one economic model may be changed to another new one, built on dynamism, diversification and the full mobilization of important human resources. The future of the Arab revolutions in building democratic systems hinges on their ability to make the transition from a limited rentier-based

model of growth to a sound model that relies on innovation, dynamism, social justice and sustainable development. As we shall see, this is not an easy task.

### **The transformation from distorted growth to sound growth**

Here we will discuss the essence of the changes required on the level of macroeconomic policy and sectoral policies to remove the rentier-based system. There is no doubt that the greatest challenge faced by the Arab uprisings is the capacity to change the deficient rentier-based model of growth. That is due to the fact that it constitutes the basis for widespread corruption, the patrimonial state and authoritarian political systems. It is this negative model of growth that has introduced and implemented a number of socio-political behaviours opposed to productivity, fair competition and economic diversification, as well as innovative and dynamic entrepreneurship.

The hegemony of neoliberal thinking has not only prevented an in-depth analysis of the rentier model until now but it can also be said that the way in which the Washington Consensus has been implemented in most Arab economies through the international aid programme is probably responsible, as least partially, for the increase in corruption, the social marginalization of large sections of the urban and rural population, and also the enormous waste of natural and human resources. The continuing acceptance of financial aid that is conditional on achieving more flexibility in the labour market, reducing state regulation and control, and the lack of protection of natural and human resources are indeed a recipe for exacerbating the difficulties which may lead to marginalized sections of the population turning to political, religious and sectarian extremism.

This is why it is necessary to develop new ways of thinking about economic reforms which may help to accomplish a real shift to democracy and the rule of law as an alternative to the traditional inflexible neoliberal doctrine that is alien to the practical reality and its needs. The analysis of the distorted growth which we have undertaken in this study, and the proposals we have put forward for real change in the Arab model of growth may both contribute to helping Arab citizens obtain a better life. This will mobilize their minds, talents and abilities towards economic diversification, through a productive distribution of the various rentier income sources and promotion of the creative and productive business sectors, within a framework of national goals to acquire science and technology and provide the conditions of a better life for every citizen.

Ultimately, it is not possible to develop a truly democratic life in the countries whose economic basis rests on rentier flows which are improperly distributed and not invested in the economy in a way that takes account of the needs of society. This impedes the strengthening of social justice, full employment on a productive basis, and the diversification of production capacity for goods and services of high added-value.

For the sake of moving from the distorted model of growth to a sound model, Arab governments must make changes to their public policies around the following six essential axes:

### ***Combating corruption and promoting accountability and social responsibility of the private sector***

The Arab uprisings revealed the extent of corruption bound to the nature of political regimes through the distribution of rentier income to a closed circle of businessmen

chosen by the head of state and senior officials. It is not possible to fight corruption satisfactorily by exclusively charging state officials with responsibility for it. Every transaction tarnished by corruption has to be between two partners, the businessman on the one hand and the government official on the other. Therefore, focus should be on both parties and any legislation passed should help in detecting and prosecuting any wrongful conduct by businessmen who are close to certain government circles and who take advantage of special privileges or confidential information. Not only is this a violation of the principle of fair competition, but it also causes economic loss and prolongs a low pace of productivity.

The private sector must also be made to feel its sense of economic and social responsibility. The management of a business is not restricted to owning a 'profit machine' and increasing profits as much as possible. Private sector companies are also a part of society and are indebted to act for its benefit in respect to the quality of their production and services, just as they should train human resources and offer appropriate job opportunities. They must not diminish their country's human and natural resources by mispricing their value and thus contributing to the deterioration of the environment and the migration of human skills. Rather, they ought to offer decent jobs and wages to their employees and workers, as well as to respect the good practices of environmental conservation and thus pay the appropriate price for using natural resources.

The judiciary in Arab countries must be trained and able to issue judgements on the violation of the rules of fair competition, the exploitation of natural resources and the environment and the misuse of influence through personal relationships with government officials.

Better conduct by the private sector and the undertaking to bear its social responsibility is necessary to greatly improve the economy's productivity and substantially reduce corrupt practices between senior officials and rich businessmen.

### ***Diversifying investments and limiting the brain drain***

This is another urgent matter which must be dealt with. We have previously shown the strong concentration in local and foreign investments in a small number of production and services sectors with high profits but low added value and low employment capacity (real estate, banks, local trade distribution, in addition to traditional energy and petrochemical sectors). The diversification of investments into many other productive activities will lead to the decrease in unemployment and the reduction of emigration of those with high scientific and professional expertise and qualifications. There are numerous fields where the private sector can be active with the support of the state, in the same way as in the East Asian growth model. We will mention some of them as an example:

- Producing alternative and renewable energy (solar, wind, hydropower).
- Producing special equipment for use in developing sources of alternative energy (solar panels), or for waste treatment or water purification.
- Attracting subcontracting (insourcing) to carry R&D from other technologically developed countries in the ICT sectors, and medical and health research including the pharmaceutical industry.
- Developing rural areas and macrobiotic food products.

- Developing the mechanical industries, appliances and equipment to reduce the complete dependence on imports from abroad.
- Countering desertification through reforestation.

### ***Merging the informal sector with the modern sector***

There is a pressing need in Arab economies for action to integrate small informal and family businesses with companies working in the modern sector through domestic sub-contracting to undertake small parts of the production process, as has been carried out successfully in several other countries. This requires companies in the local modern sector to specify which parts of production could be outsourced to small businesses, as well as what training and equipment they will provide to small businesses to carry the subcontracts.

If we consider the size of the informal sector and the role it assumes in employment, then this task is urgent. It requires an effective policy designed by the main business associations (the Association of Industrialists, the Chamber of Commerce and Agriculture), in addition to professional order such as the engineers' union.

### ***Partnership between the public and private sectors to define national objectives to master clusters of technologies***

At a time of economic globalization, countries need progress in mastering science and technology in the main fields of modern industries and services so that they can undertake economic diversification and secure full employment of their qualified human resources. This requires that national objectives in the fields of science and technology are defined through consensus between the state, the educational sector and the private sector. Likewise, a national system for innovation must be put in place, funded simultaneously by the public and private sectors.

In view of the underdevelopment in the field of science and technology in all Arab societies, and the absence of any interrelationship between education, technical skills and innovation, or the fragmentation of systems for innovation and R&D institutions, this field requires major attention and funding. Achieving productivity in the economy and increasing the exports of goods and services of high added value necessitates that Arab economies hasten to adopt adequate policies.

### ***Eliminating pockets of illiteracy and focusing on developing rural areas***

It is truly disgraceful that the Arab world still suffers from the existence of large pockets of illiteracy in some of its major countries, such as Egypt, Morocco, Yemen, Sudan and Mauritania. These countries must adopt a plan to wipe out illiteracy over the course of a few years. Non-governmental organizations concerned with fighting poverty should be associated in the implementation of such plans.

It is worth noting that illiteracy is concentrated in rural areas. This is an additional reason to push for Arab countries to be more active in adopting specific policies to increase investment and improve the situation in these areas. The rural population in the Arab world has not seen any improvement in its socio-economic situation in recent decades. That has impeded the dynamism of overall growth in the Arab world.



***Reviewing the taxation system to equate rates of profit between the developing technological sectors and traditional high profit sectors***

Arab tax systems are regarded as unsuited to remove the main negative characteristics of the rentier economy. There is hardly any tax on capital gains, particularly on financial and real estate income or capital gains. Taxes on the rentier profits from investment in shares and bonds are low, if they exist.

It is worth mentioning that under the cover of laws to encourage investment, tax exemptions were given to types of businesses which do not require any economic or technological risk. In the rich oil-exporting countries in the Arabian Peninsula, there is no income tax, or it only exists in Saudi Arabia in the form of *zakat* (almsgiving). In Arab countries, there is no income tax based on wealth indicators such as the ownership of real estate and the number of cars, yachts or private planes, while the number of millionaires and billionaires is steadily increasing.

Therefore, the tax systems must be overhauled completely to induce private and foreign companies to invest in new high added-value activities and spend on R&D, within the context of national goals, and an integrated system for innovation within a well defined framework of cooperation between the public, private and educational sectors.

**Conclusion: the transition from the rentier economy to the productive economy is the entry to a democratic way of life**

The beginning of the process of transition from the rentier economy to the productive economy is the only entry in the Arab situation to establishing a real and vibrant democratic life. It is not an easy process since it demands confronting internal lobbies as well as external lobbies. The internal economic lobbies are represented by the various business sectors. Their businesses are flourishing through the fullest use of the rentier economy, in an oligopolistic or almost monopolistic way, and the investment in it. This is in view of the enormous profits that flow from the rentier sectors without any innovative effort worth mentioning and without spending on R&D. The external lobbies are the major international funding institutions and also the official bilateral aid which operates according to the principles of the Washington Consensus. These are principles which are still prevalent and must be adapted to include principles more suited to the serious curing of the rentier economy afflicting the Arab developmental model.

If the Arab revolutions are to reach safe ground, success will be in achieving a state of full employment of the labour force, the just distribution of the benefits of modernization and the growth of the national economy. This is the only available opening to realizing democracy in the Arab world. Failing to make the transition from a rentier economy to a productive economy will mean that the Arab world may, in future, face new revolutionary waves and more dangerous and devastating disruption, just as some Arab countries are currently experiencing.

**Notes**

1. For more information, see Corm (2011).
2. This is according to the data published by the World Bank (2008).
3. On the brain drain and its cost to the migrants' countries, see Georges Corm, 'Faits et méfaits de l'émigration des compétences', a contribution made 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, Lebanon, 27–28 September 2010.

4. See World Development Indicators (WDI). <http://databank.worldbank.org/data/home.aspx/>.
5. 'In terms of use of funds in recipient countries, it appears that remittances are primarily aimed at consumption, and can improve education, health and housing conditions. Little evidence is found of remittances being used for immediate productive investment, although some interesting examples exist' (European Investment Bank 2005, 12).
6. See "Government Initiatives Needed to Lure Arab Talent Back Home." <http://talentpublic.net/NewsDetails.aspx ?ID=2/>.
7. These figures were published in UNESCO (2005).
8. Reference is made to statistics of the Arab League, ILO and UNESCO. <http://talentpublic.net/NewsDetails.aspx ?ID=2/>.
9. See "Brain Drain Threatens Future of Arab Science." *SciDev.Net* (3 June 2004). <http://www.scidev.net/en/news/brain-drain-threatens-future-of-arab-science.html/>.
10. The data are derived from World Development Indicators (WDI). <http://databank.worldbank.org/data/home.aspx/>.
11. The statistics are derived from *Unified Arab Economic Report* (2009).

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