ISPI Analysis
ISTITUTO PER GLI STUDI DI POLITICA INTERNAZIONALE

Zina Nimeh

# Economic growth and inequality in the Middle East: an explanation of the Arab Spring?

*No. 105 – APRIL 2012*

## Abstract

**The Middle East and North Africa Region has probably recovered more strongly than other regions of the world from the financial crisis, thanks to the dynamics of oil prices. However, the outbreak of the Arab Spring, motivated also by economic grievances, suggests that the impact of the world economic crisis in the region is probably deeper than imagined. Despite growth and increasing investments, unemployment in the region is persistent, due on the one side to the growing population on the other side to rising inequality and ineffective management of the economy (rentier state). This might have contributed to the Arab uprising.**

*Zina Nimeh is a Research Fellow at the Maastricht University Graduate School of Governance in the Netherlands*



The Arab world covers a wide array of countries, each with its own history and strong individual characteristics. To make generalizations might appear simple and parsimonious thinking and would not be fair for the specification of each country. However a number of similarities do exist across these countries: Ottoman history, European colonization, patriarchy of rule, language, religion, to some extent culture, and more recently the wave of revolutions and public outcries that have been unfolding since December 2010. It is often said that few would have predicted the colossal overturn that came to be known as the Arab Spring, but perhaps a more accurate way of describing this is that few would have predicted the "how" and "when", as many who were closely observing the affairs of the Middle East knew that behind the tightly-gripped regimes supported by the West, economies whose redistribution was disproportionately flawed, heavy regulation, corruption, an overwhelmingly young population, ever increasing unemployment and feigning proclamations of reform and openness, the signs were all too apparent that sooner or later the status quo must revolutionize.

## Recent Economics of the Arab World

The financial crisis that started in the 2007-08 hit the whole global economy, and while different economies have been recovering at varying degrees, it was said that the Middle East and North African Economy was among those recovering strongly. According to the IMF's World Economic Outlook 2010 publication, the strength of the recent economic recovery in the MENA[1] region was largely underpinned by the rebound in oil prices from their trough in 2009. This has boosted income for oil exporters in

[1] The term refers collectively to Djibouti, Bahrain, Iran, Iraq, Israel, Gaza Strip and West Bank, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, the United Arab Emirates, Yemen, Algeria, Egypt, Libya, Malta, Morocco and Tunisia.

the region[2], keeping in mind that as per some of the most recent energy statistics published, the Middle East and North Africa account for more than 56% of the proven world oil reserves as well as 40% of the world's proven reserves of natural gas[3].

In addition, a sizable and rapid fiscal policy response, especially in oil-exporting economies, played a substantial role in supporting the nonoil sector in these economies. 4% growth was projected for the following period in the region as a whole, and policymakers were advised to focus on reviving the financial intermediation process, and the strengthening of balance sheets both for the banking and the nonfinancial corporate sectors[4]. This was more asserted in the specific IMF regional economic outlook report; for Oil Exporting Arab Countries, banking system development required continued attention and as for the Non-Oil exporters the key to addressing economic challenges was to raise competitiveness. These governments needed to strengthen business environments and enhance the functioning of labour markets by improving educational outcomes and ensuring that wages better reflect market conditions[5]. This was before December 2010. An updated report was published in April of this year, stating that even though it is clear today that the popular uprisings were born out of a desire for greater political, social and economic freedom, their timing came as a surprise to every-one, including the IMF[6]. Perhaps it is not very accurate to say that everyone was surprised, however the updated report does make a very sound conclusion, that while the roots of these uprisings were political, economic causes were inextricably entwined with them. Until late 2010, the region was on track for recovery from the global crisis. Growth accelerated to 3.9% in 2010 from 2.1% in 2009, mainly driven by the region's oil exporters. Nevertheless, the growth equilibrium of the past years did not generate enough jobs for the growing labour force.

## Unemployment and the Young Population

This problem is specifically highlighted when we examine another report for the same region, namely The International Labour Organization's Global Employment Trends publication of 2011. Despite what is happening on the growth front, unemployment still persists. While the Middle East was indeed not hit as hard as other regions by the economic and financial crisis, unemployment has remained a massive insurmountable challenge. Current estimates for 2010 show an unemployment level of 10.3%, which is the highest regional rate in the world. The youth unemployment rate is almost four times the adult rate. The report explains that as productivity growth continues to be sluggish, there is no potential for wages and salary increases or for progress in expanding social protection systems. And while the economic outlook for the region is favourable, growth rates are not likely to be sufficient to reduce the large employment deficits in any of the MENA economies in the near future[7]. How is it possible that this above world average GDP growth is coupled with the highest regional unemployment in the world?

Population growth (which has now slowed down considerably) could provide a partial explanation, as young people are the fastest growing population slice of the Arab region, which is one of the most youthful areas of the world. According to the Arab Human Development Report (AHDR) of 2009, around 60% of the population is under 25 years old, with a median age of 22 years compared to the global average of 28. Unemployment trends, coupled with population growth rates, indicate that Arab countries will need about 51 million new jobs by 2020. Most of those jobs will be essential to absorb

---

[2] International Monetary Fund (IMF), *World Economic Outlook. Recovery, Risk and Rebalancing*, 2010.
[3] See for example: British Petroleum, *BP Statistical Review of World Energy*, June 2010, http://www.bp.com/statisticalreview.
[4] International Monetary Fund (IMF), *World Economic Outlook: Recovery, Risk and Rebalancing,* p.84-86.
[5] International Monetary Fund (IMF), *Regional Economic Outlook - Middle East and Central Asia,* October 2010.
[6] International Monetary Fund (IMF), *Regional Economic Outlook - Middle East and Central Asia*, April, 2011.
[7] Internationa Labour Organization (ILO), *Global Employment Trends: The Challenge of Jobs Recovery*, 2011.

young entrants to the labour force who will otherwise face an empty future[8]. Arguments can be put forward that this unemployment is the outcome of the breakdown of mechanisms of absorbing labour released from agriculture. Released labour was initially absorbed in the public sector or drawn into the informal sector. However, the downsizing of public sector employment became a common practice in many Middle Eastern countries, in compliance with the structural adjustment, privatization and liberalization programs[9]. These programs began after the 1980s as the majority of countries in the MENA region were facing severe exchange shortages in the post oil boom era, and employment expansion and the structure and function of labour markets in these economies were tied to the nature of the adjustment programmes pursued[10].

In the long term it was expected that these employment problems would improve once the rate of investment and growth started to pick up, but unemployment remained stagnant. An argument could be made here that as these Arab countries were marching on with the requirements of the Structural Adjustment Programs, on many accounts their economies were highly patriarchal and governed by autocratic rulers and in most cases their families (even more so in the republics than the monarchies), and while the outcomes of growth were apparent on the aggregate level the same did not apply on the disaggregated level, and inequality was increasing in the population as a whole. Reliable socio-economic data are difficult to come by in most of the Arab world, however common sense can sometimes replace rounds and rounds of data collection.

It was becoming ever-apparent that while the economic situation on the disaggregate level was not improving (or was even declining in some instances), the fruits of growth were apparent in some much thinner slices of the upper society. The AHDR of 2009 touched on this and indicated that there is evidence to suggest that wealth inequality has worsened significantly more than deterioration in income in the past several years. Corruption has been the main justification used to explain this unjust distribution of the growth outcome, among other negative outcomes, however it is essential to explore what conditions contributed to the festering of corruption up to the point of public outcries and revolution. The Rentier State Theory offers a theoretical framework based on state revenue, to illuminate some of the factors that might have led to this status quo in the Arab world.

## Revisiting the Rentier State Theory

The Rentier State Theory is seen as a complex of associated ideas concerning the patterns of development and the nature of states in economies dominated by external rent, particularly the sale of oil and gas[11]. A Rentier State is "a country that receives on regular basis substantial amounts of external rent, which are in turn defined as rentals paid by foreign individuals, concerns or government to individuals, concerns or governments"[12]. While the theoretical underpinnings could be applied to any state that fits this definition, the term Rentier State has been to a large extent associated with the Arab States[13]. Rentier States can be applied to both oil-rich and oil-poor Arab countries; for the former the main state revenues are those generated by natural oil and gas, while for the latter the revenue is created unnaturally through aid and locational rent (see table 1). In addition, for Rentier States

---

[8] United Nations Development Programme (UNDP), 2009 *Arab Human Development Report*, http://www.arab-hdr.org/contents/index.aspx?rid=5 (accessed 1 July 2011).
[9] N. FERGANY, *Aspects of Labor Migration and Unemployment in the Arab Region*, http://www.almishkat.org (accessed 1 August 2011).
[10] M. KARSHENAS, *Structural Adjustment and Employment in the Middle East and North Africa,* in «Economic Research Forum Working Papers», 1994, p. 420.
[11] D.A. YATES, *The Theories of the Rentier State*, in *The Rentier State in Africa: Oil Rent Dependency and Neo-Colonialism in the Republic of Gabon*, Trenton, NJ, p. 11.
[12] H. MAHDAVY, *The Patterns and Problems of Economic Development in Rentier States. The Case of Iran*, in *Studies in the Economic History of the Middle East*, Oxford, 1970, p. 428.
[13] H. BEBLAWI, *The Rentier State in the Arab World*, in *The Arab State*, California, 1990.

there is little dependence on taxation levied on individuals' income as a central source of revenue, as external rents become more essential for the government. Therefore, production is not so much related to the domestic economy and therefore to representative governance, from the standpoint that "no taxation without representation" takes a place on the back burner. Rent can consequently sustain the economy without a strong domestic productive sector, resulting in only a few being engaged in the generation of this rent, and in the case of the Arab world the recipient is the patriarchal government.

***Table 1 - Rentier Revenues and Countries***[14]

| Rentier Revenues | Countries |
|---|---|
| Natural Resources Sales (Oil & Gas) | Saudi Arabia, Bahrain, the United Arab Emirates, Oman, Kuwait, Qatar, Libya, Iraq, Algeria |
| Locational Rents: Payments for pipeline crossings, transit fees, and passage through the Suez Canal (in the case of Egypt) | Jordan, Syria and Egypt |
| Workers' remittances (although these rents go "at least initially" to private actors, not the state.) | Egypt, Yemen, Syria, Lebanon, Tunisia, Algeria and Morocco |
| Foreign Aid and Grants | Egypt and Jordan |

As a result, wealth creation would revolve around a small fraction within the patriarch's circle, with the rest of society only engaged in the distribution and utilization of this wealth[15]. Failure of a Rentier State can occur in several instances; in the case that revenue is mainly derived from natural oil resources, a state fails if it is unable obtain the maximum potential value for its resources, which has little to do with the domestic economy per se. The fact that benefits are unequally distributed has little to do with political life, and for an individual who feels that the benefits are not adequate, the option to move within the existing setup is always superior to seeking an alliance with others in a similar position[16].

This could be applied to the case of Libya; the revels have widely stated that they blamed Qaddafi for wasting the country's oil wealth on arms and failed warfare in Africa. It is in this respect that corruption becomes important; inequality of distribution is not the issue per se, but if the seeking of personal advantage and mismanagement lead to failure to make the best use of the revenue from the resources and result in harm for all citizens[17], then citizens start to see the state (represented by the ruler) as being detrimental to their wellbeing. For states depending on artificial rent the situation becomes more complex, in that the state must give credibility to the notion that it is legitimate, and arguably the question of inequality of redistribution takes on importance for these states. In both the cases of Tunisia and Egypt, legitimacy of the state was being increasingly questioned by the public

[14] G. LUCIANI, *The Arab State*, in «World Politics», 2001, p. 53; M.L. ROSS, *Does Oil Hinder Democracy*? in «*World Politics* », 2001, 53, 3, pp. 325-61.
[15] *Ibidem*.
[16] G. LUCIANI, *Allocation vs. Production States*, in *The Arab State*, California 1990.
[17] *Ibidem.*

as a result of increased corruption, poverty and inequality. One example of manifestations of such questioning is the public outcry in Egypt after the ruling party swept the 2010 parliamentary party into an unprecedented overwhelming majority, which was allegedly the result of widespread voter intimidation and organized fraud. In Tunisia and Egypt people took to the streets protesting about injustice and demanding reform and better living conditions, however the castigating reaction by the ruling band - which unleashed police and brutally attempted to crush the protestors – produced the exact opposite to the desired action.

What holds true for both oil and none-oil states is that the Rentier nature of the state facilitates corruption, in that it concentrates economic and political power in the hands of a few. As can be seen, a clear outcome has been the increased unemployment, poverty and inequality which hit the youngest segments of society, who were in turn the catalyst for the Arab Spring. The argument here is that the states that generated their revenues from rent, whether real or artificial, enabled the corrupt (and justified) control of a few who were able to personally benefit from the growth outcome. This was done at the expense of the rest of the population and mainly the young, as exemplified by the high unemployment and low productivity rates. This however does not explain all the reasons that led to the eventual downfall of the regimes of Tunisia, Egypt and Libya, but was one feature of the regimes that have fallen (or are falling) in the Middle East. Many of these regimes have been characterized by inadequate systems of democratisation, a lack of public participation and voice, the absence of electoral systems and genuine political parties, and a strong police state apparatus. While economic growth had been impacting on many of the Arab countries as a whole, that growth was persistently benefiting only a small group of people rather than serving the interests of the general public. Policies of opening the market resulted in improved economic performance, but corruption loomed and with the lack of a proper parallel developmental and social agenda coupled with the high population growth, they translated into economic non-productivity for the majority of the population.

### Where to go from here?

In Rentier States corruption can be facilitated more than in non-Rentier states. This however does not mean that these states cannot develop to become more equitable countries, as their political systems can display considerable stability if the appropriate policies are adopted[18]. One such policy should aim to strengthen the domestic economic base and involve a larger segment of society. This would be applied differently to oil-rich versus oil-poor economies. For the former "true" Rentier States, there is more flexibility in the timeframe for developing such policies, and the incoming revenue can help offset unrest in the short term by instituting more distributional and benevolent policies. As for the oil-poor countries, the measures to be taken are not so simple but the need is to get the economy working again, while preventing the flight of national wealth becomes eminent. But how can this be done?

In the past decade countless reports have been produced by different national and international organizations, proposing numerous reform schemes and ideas for the socio-economic problems of the Middle East, many of which continue to be relevant and are still applicable today: a socio-economic & political transformation process that focuses on the labor market and the development of a domestic economy, which pushes for the creation of employment opportunities for young people and increasing productivity, developing the market place by matching skills needed for the labor market with young people through educational investments and reform, and providing incentives for entrepreneurship at both urban and rural levels, as well as various geographical segmentations

---

[18] G. LUCIANI, *Allocation Vs. Production States*…, cit.

depending on each country. The target in the long-term must be to replace the Rentier State, whether natural or artificial, with a sustainable domestic economy where this is feasible.

This task should not only be the responsibility of government but of civil society as well. An overwhelmingly young population is like a ticking time bomb if its members do not become productive and valuable members of their societies. This will require a massive investment in social, economic, and political institutions which support the transformation of these countries into nations with greater redistribution and equity.

The revolutions sweeping the region, and which have already overthrown 3 dictators and their families (which seemed unfathomable only last year), will only be fruitful if they are matched by economic transformations and true socio-political reform. The challenge is urgent, and support from external partners and the international community is critical, however the main responsibility lies within each country, its people, and its leadership – which is the overriding ingredient in the continuation, formulation and implementation of a socio-economic and political plan based on foundations of the Arab Spring, the success of which will determine the outcome of the phase to come.

**La ricerca ISPI analizza le dinamiche politiche, strategiche ed economiche del sistema internazionale con il duplice obiettivo di informare e di orientare le scelte di policy.**

**I risultati della ricerca vengono divulgati attraverso pubblicazioni ed eventi, focalizzati su tematiche di particolare interesse per l'Italia e le sue relazioni internazionali e articolati in:**

- ✓ **Programma Africa**
- ✓ **Programma Caucaso e Asia Centrale**
- ✓ **Programma Europa**
- ✓ **Programma Mediterraneo e Medio Oriente**
- ✓ **Programma Russia e Vicini Orientali**
- ✓ **Programma Sicurezza e Studi Strategici**

- ✓ **Progetto Argentina**
- ✓ **Progetto Asia Meridionale**
- ✓ **Progetto Cina e Asia Orientale**
- ✓ **Progetto Diritti Umani**
- ✓ **Progetto Disarmo**
- ✓ **Progetto Internazionalizzazione della Pubblica Amministrazione**

**Le pubblicazioni online dell'ISPI sono realizzate anche grazie al sostegno della Fondazione Cariplo.**

**ISPI**
**Palazzo Clerici**
**Via Clerici, 5**
**I - 20121 Milano**
**www.ispionline.it**