

Arab Revolution – its Causative Factors and Evolving Dynamics

Pakistan Institute of Development Economics
Seminar

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Key Messages

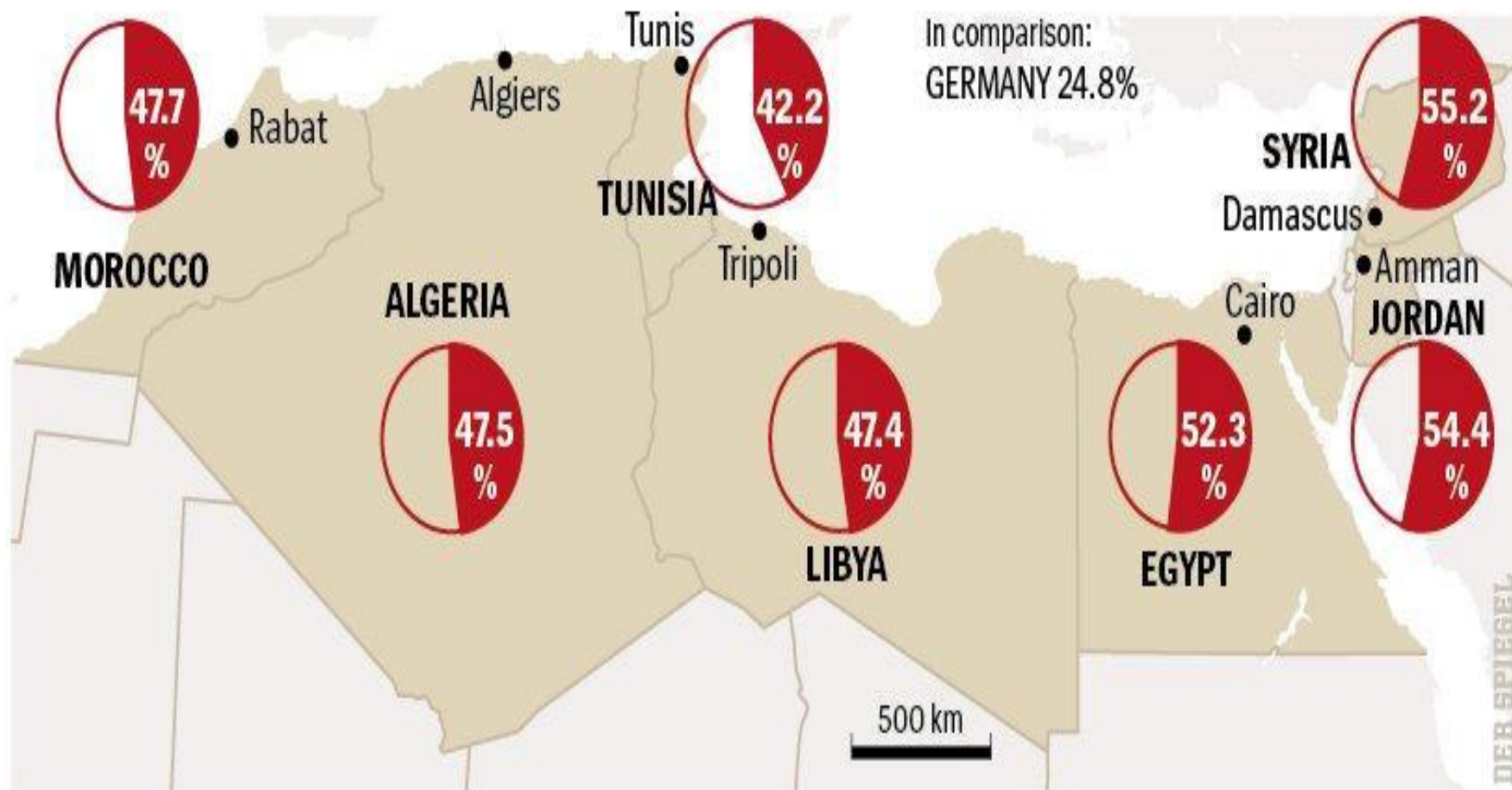
- **Arab World: Diversity in characteristics and size but commonality in causative factors of revolution**
- **Conditions were ripe for revolution due to multiple factors but timing and magnitude of reaction unpredictable**
- **Arab Revolution is a historic event, coverage large and despite violence in pockets it was by and large peaceful and reflect people's power**
- **Underlying driver for seeking change was fatigue with oppressive regime that suppressed voice, rights and dignity of people and poor state of governance that allowed abuse of State and use of the system for benefit of ruling elite and vested interests, nurtured high rent seeking and corruption.....**
- **Arab Spring a misnomer as transition process protracted and still underway --short term challenges emanating from Arab events significant but hold promise for future as there is awakening, albeit of different magnitudes**
- **Political and economic transformation will take time**

Arab World: Diversity in Characteristic and Size

- 20 countries, combined GDP of \$2 trillion, 355 million people -- demographic explosion
- Youth bulge huge (Slide 5)
- Predominance of Middle Income Countries (see Slide 6)
- Resource base – GCC strong hydrocarbon base, high per capita incomes, and build up of sovereign wealth (see Slide 7)
- Non-GCC mixed bag: developing oil exporters hanging on to state driven production and distribution systems, long stretches of desertification threaten human lives, and low income countries caught in deep distressed with resource dwindling – like Yemen
- Countries with large populations and “low population density” areas

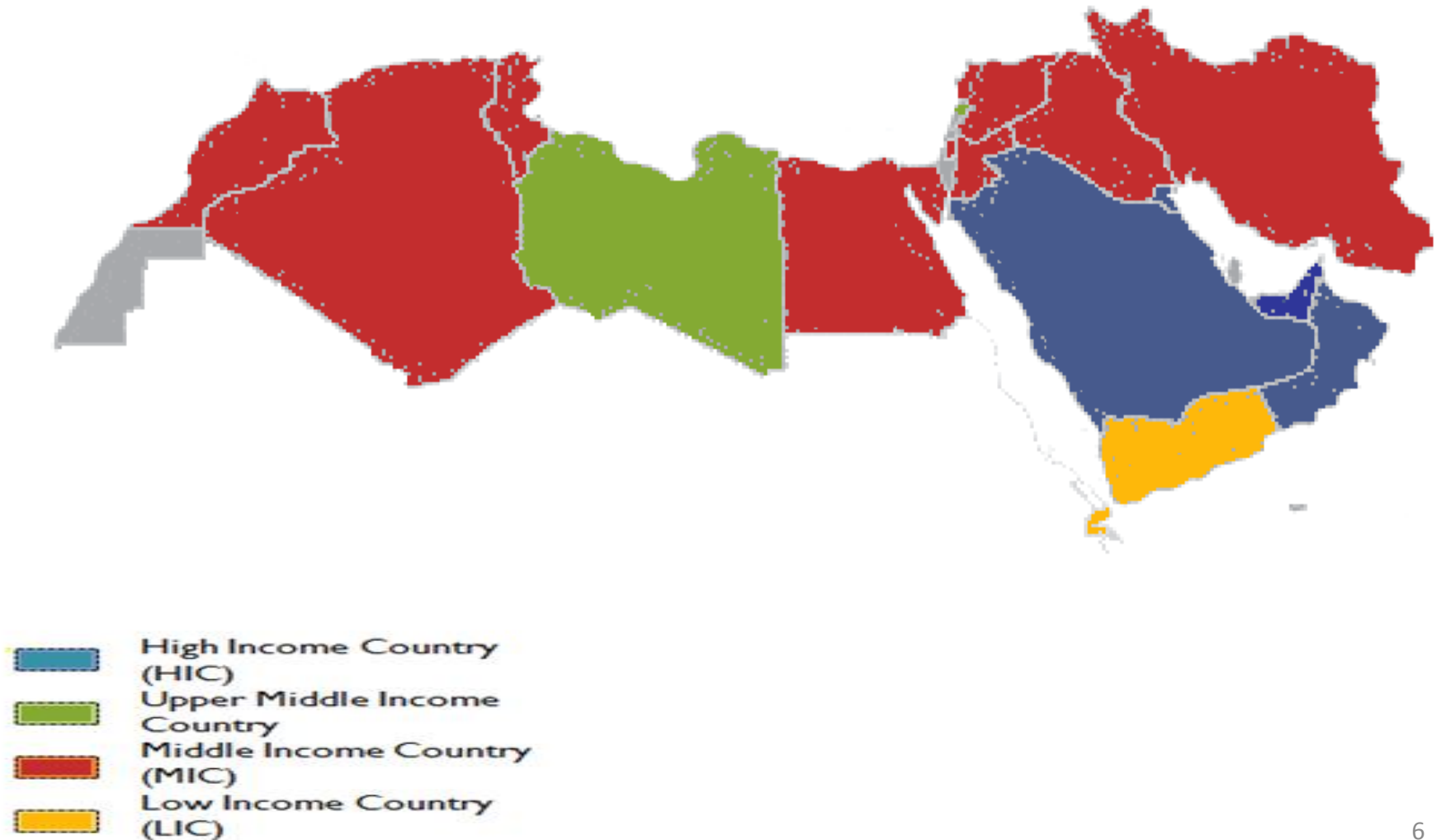
A Region of Youths

Proportion of the population under 25 (2010)

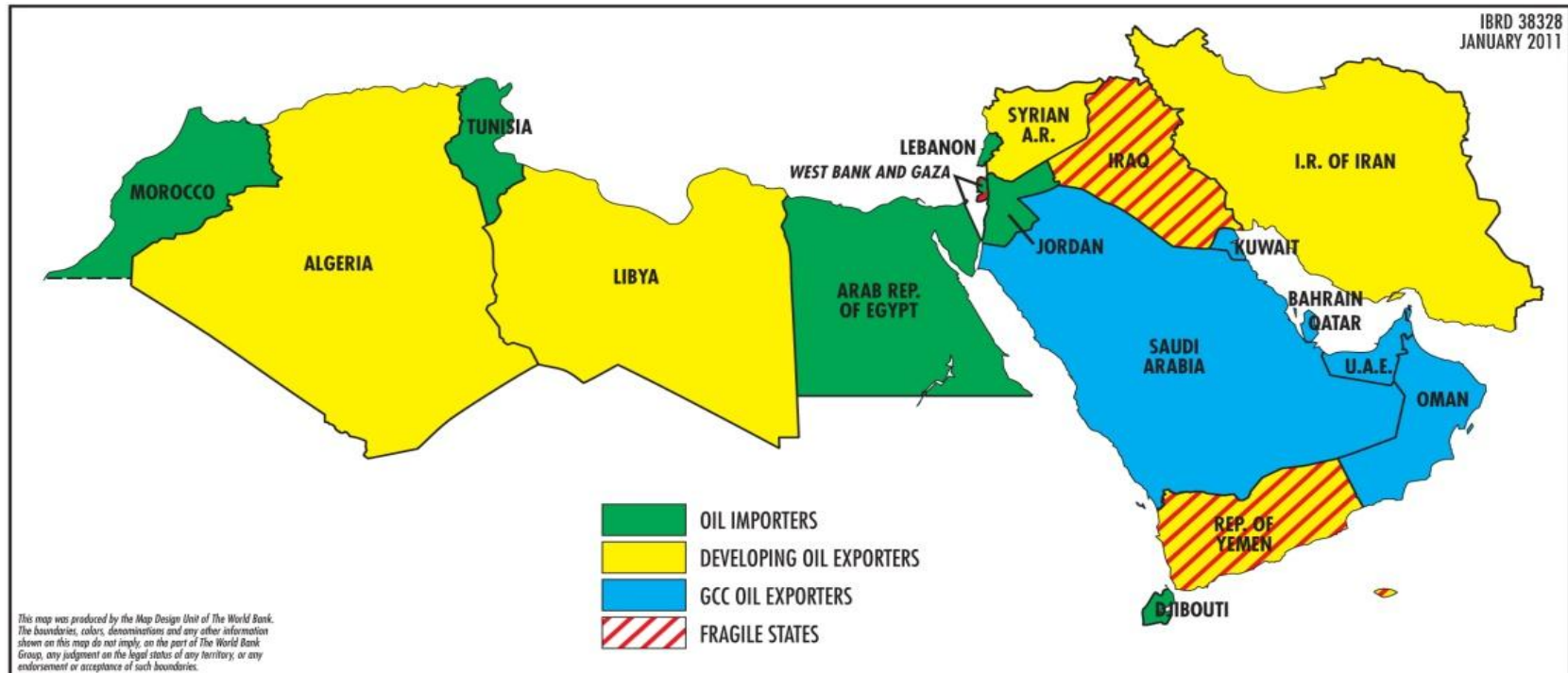


Source: United Nations, World Population Prospects

85% of MNA's population live in MICs, 8% in HICs, and 7% in LICs



MENA : Oil Exporters and Oil Importers



MENA accounts for about 70% of the world's proven oil reserves and 50% of proven gas reserves, Region plays a significant role in hydrocarbon production and trading in the world energy market. Earnings from oil and gas account for about 70% of total exports, and 75% of budget revenues.

Source: International Institute of Finance, May 2011

Arab Revolution – Unprecedented Roll of Events

- **Prior to Arab revolt**
 - Stable states,
 - Autarchies with age old leadership,
 - Modernity emerging but some operating police states
 - Conflicts and fragility within a complex geopolitical environment (Lebanon, Iraq, Iran, West Bank & Gaza, Yemen)
- **26 year old university graduate, Mohammed Bouazi, sets himself on fire and the event triggered a chain of event**
- **Fall of long standing rulers**
 - Ben Ali – 14, Jan 2011, after 24 years rule
 - Husni Mubarak, 11 Feb 2011, after 30 years rule
 - Six months later Qadaffi, after 42 years rule
 - Early this year, Saleh stepped down after over 33 years rule
- **Bahrain among GCC witnessed worst turmoil**
- **Events in Syria still unfolding, tensions on Iran have magnified**
- **Monarchies like Jordan, Morocco and Saudi Arabia, slow to draw full lessons from what is happening in their belt, but have been reflecting on how to integrate society**

Political turmoil was brewing for a long time because of multiple factors but timing and magnitude of reaction unpredictable

- **Factors being outlined below are ranked in order of their significance, but these problems are intertwined**
 - **Adverse geopolitical environment that harbors conflicts and instability**
 - **State-led distorted Social Contract**
 - **State of governance**
 - **Despite decline in poverty and access to social services, number of poor and vulnerable high and quality of education poor**
 - **Massive unemployment**
 - **Women rights and access etc.**
- **Internet and media played their role**

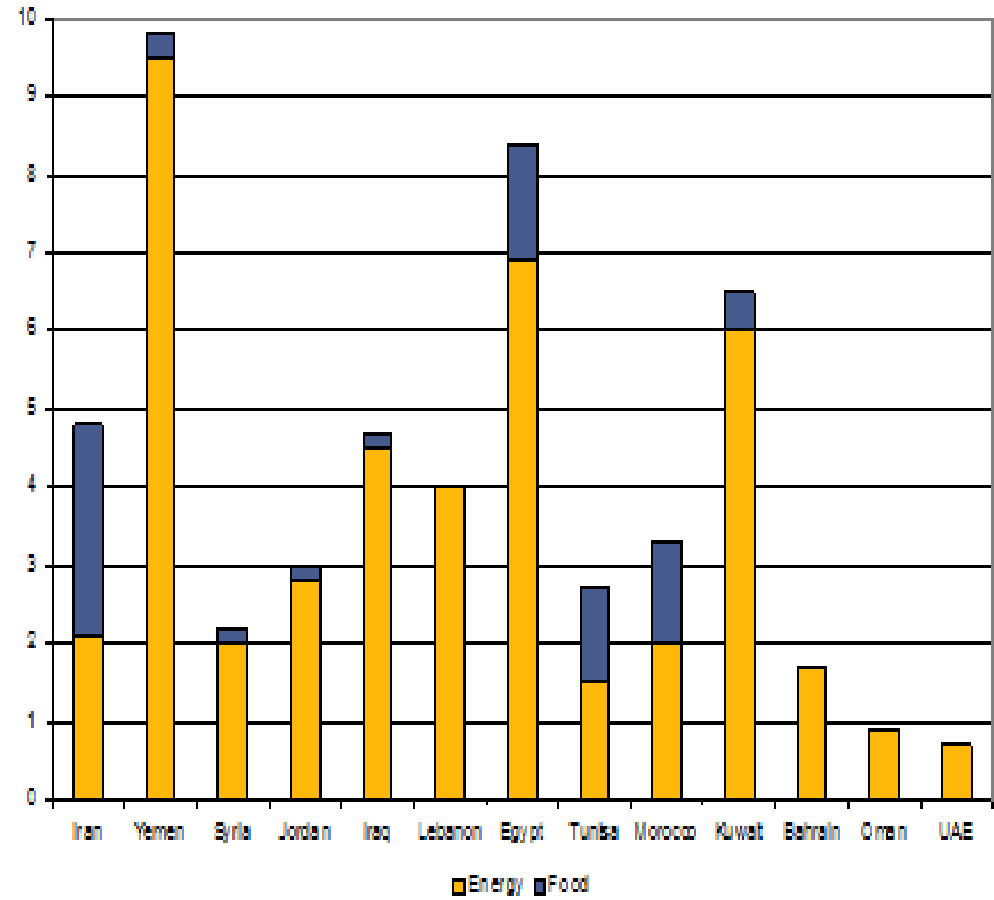
Adverse Geopolitical Developments

- **US strong presence and interest in the region**
- **Arab as a region not only noncohesive economically but riddled with fragmented politics -- within the region, Turkey that for sometime was looking more towards European accession stands out for its maturity in managing regional alliance**
- **Iraq syndrome will haunt the region for a long time**
- **Pockets of extremism harbored by national or regional regimes**
- **Palestinian strife and Jewish occupation and settlement ambitions and goods and mobility restrictions and associated human sufferings**
- **Military and oil contracts distorted the economic framework**

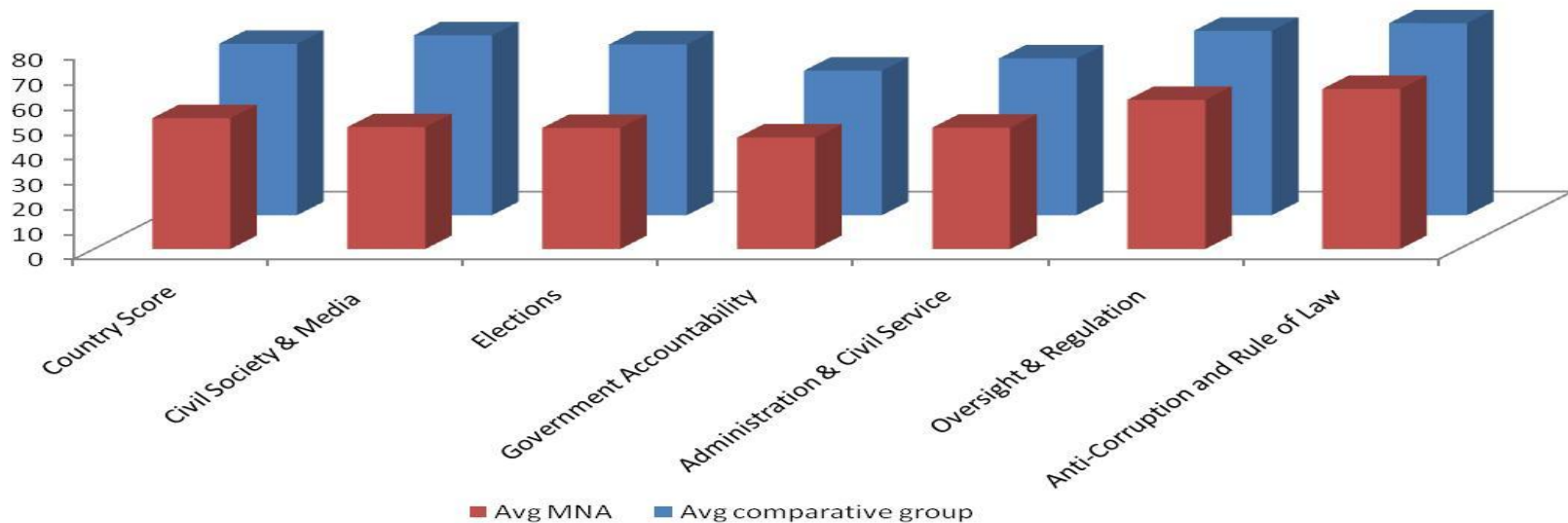
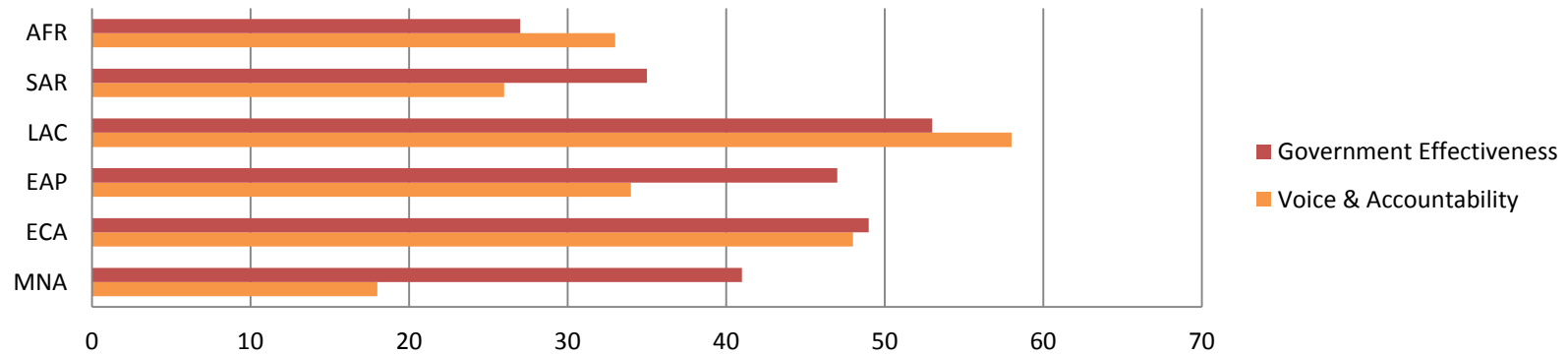
Social Contract

- **Oppressive regimes where civil rights and liberties suppressed and access to information limited**
- **Repressive economic policies -- subsidies exceptionally high and high dependence on public sector for employment**
- **Bureaucracy used for promoting and protecting family businesses and interests and corruption in the inner circle predominant**
- **Rent seeking predominant**

Subsidies for energy and food
Expensive, poorly targeted, and
distorting
(% of GDP, 2007 data)

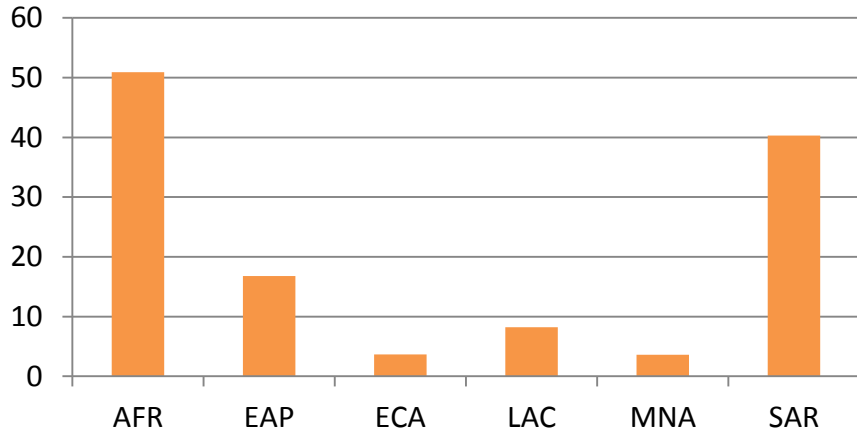


Governance Indicators

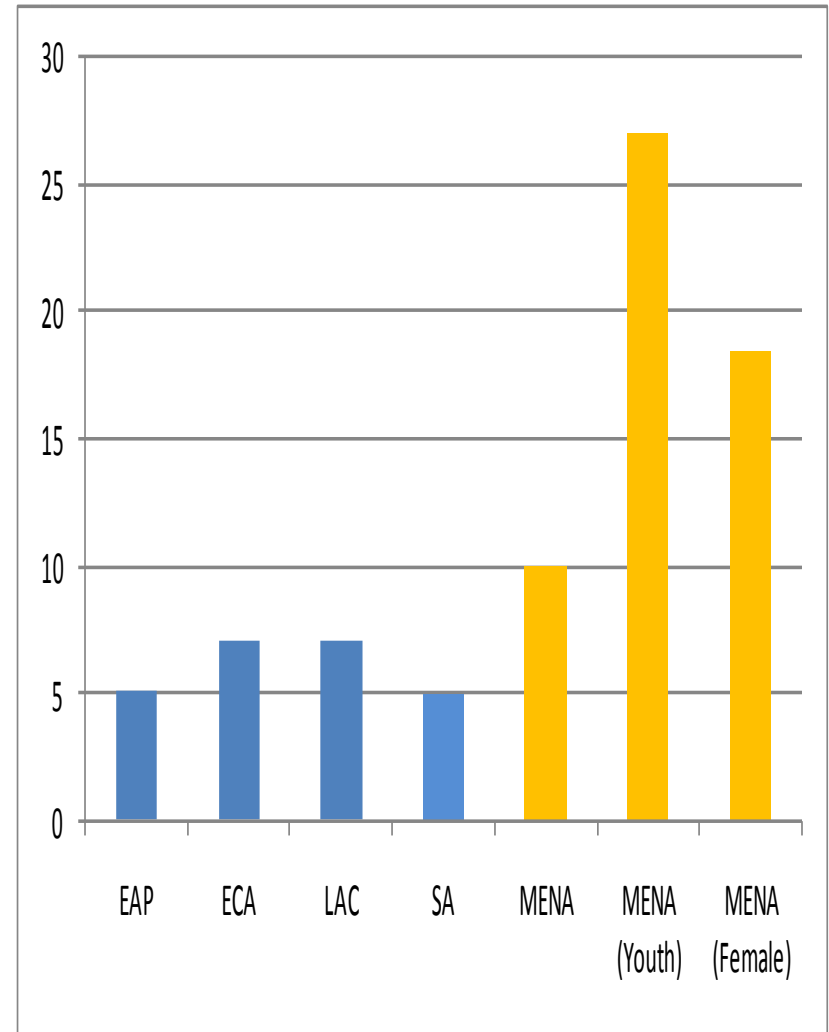


Absolute poverty low, but high vulnerabilities

% of pop. < \$1.25/day

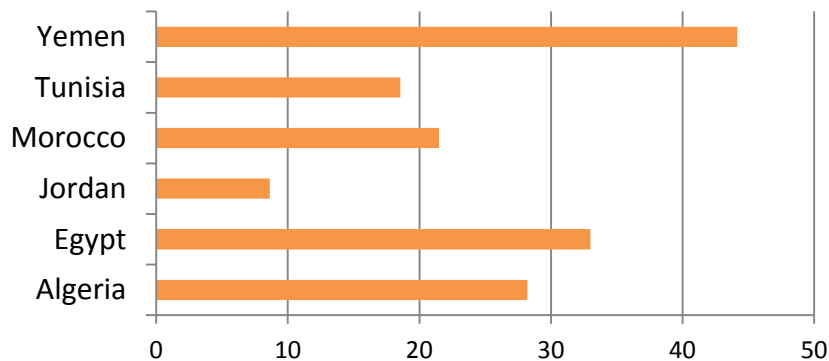


Unemployment is high, esp. for a fast-growing youth (2004-2007)

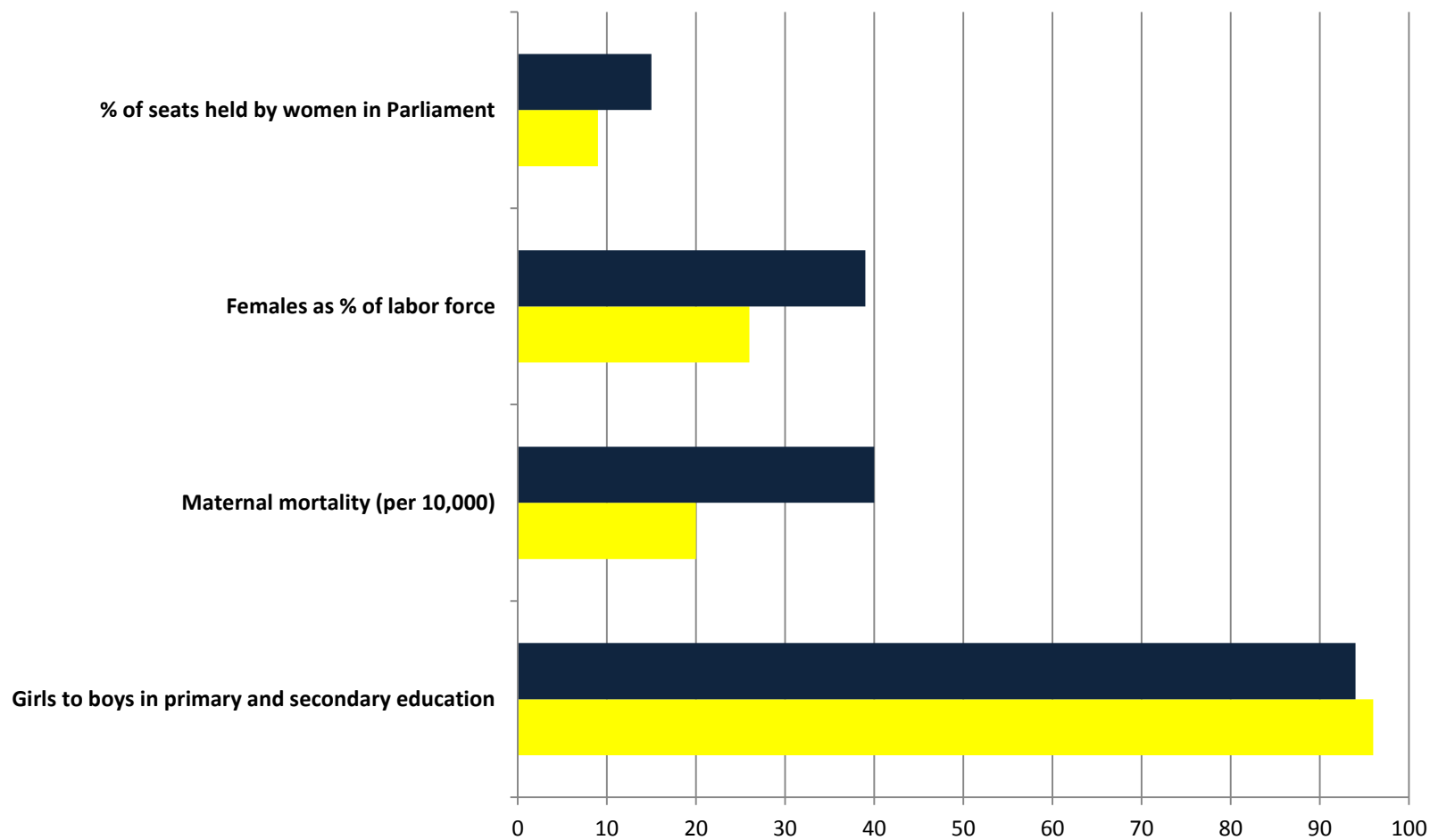


Regional variation and poverty sensitivity

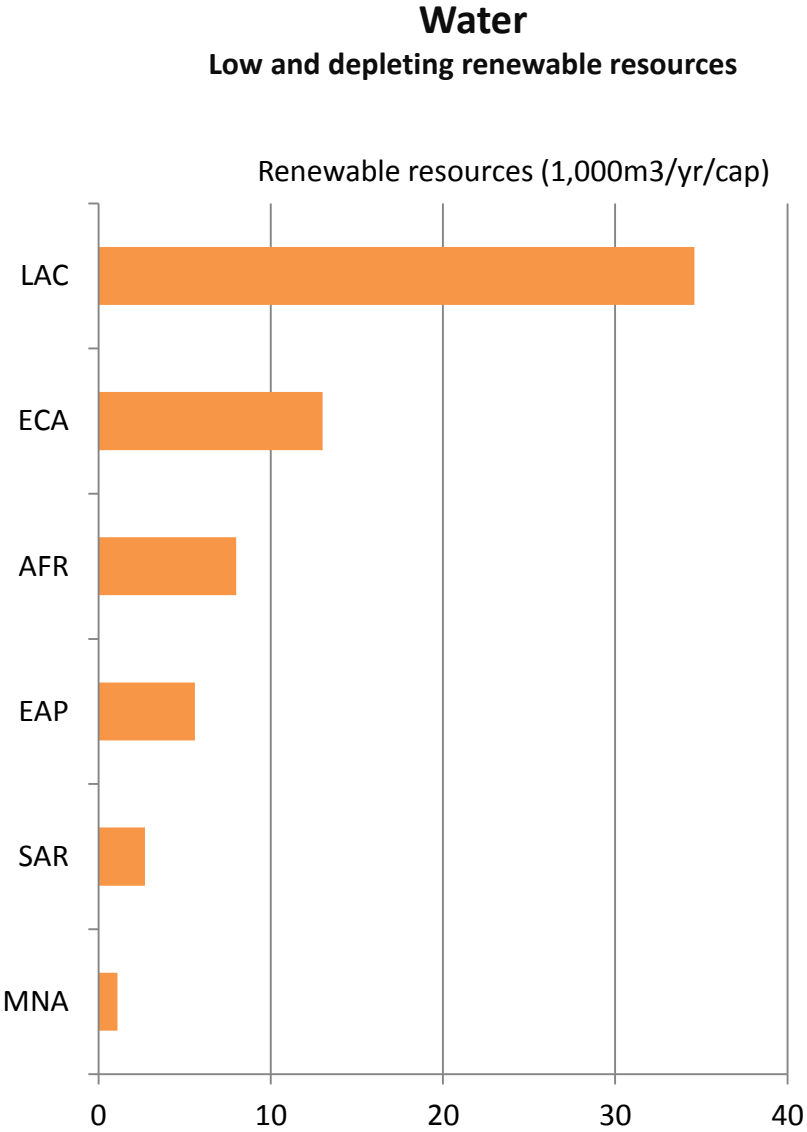
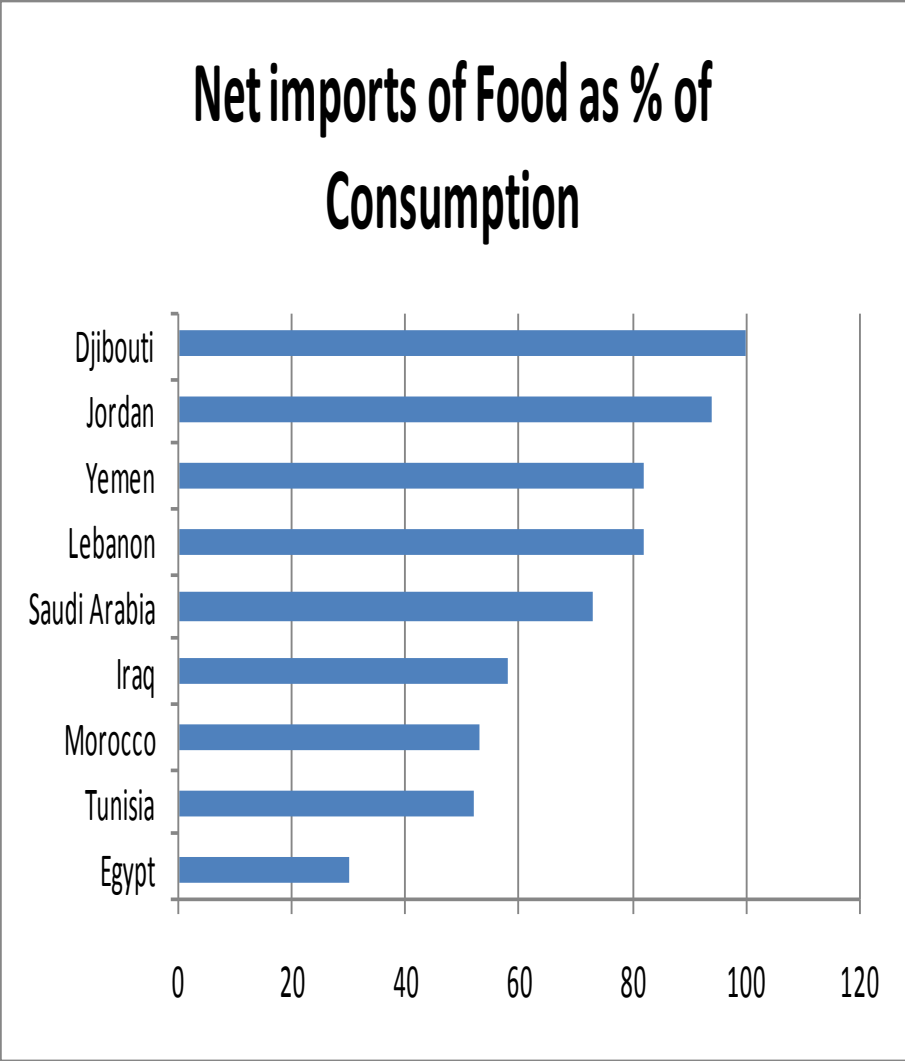
% of pop. between \$1.25 & \$2.50 / day



Progress on social indicators, but female participation low



Regional Risks: Food and Water Nexus and Insecurity

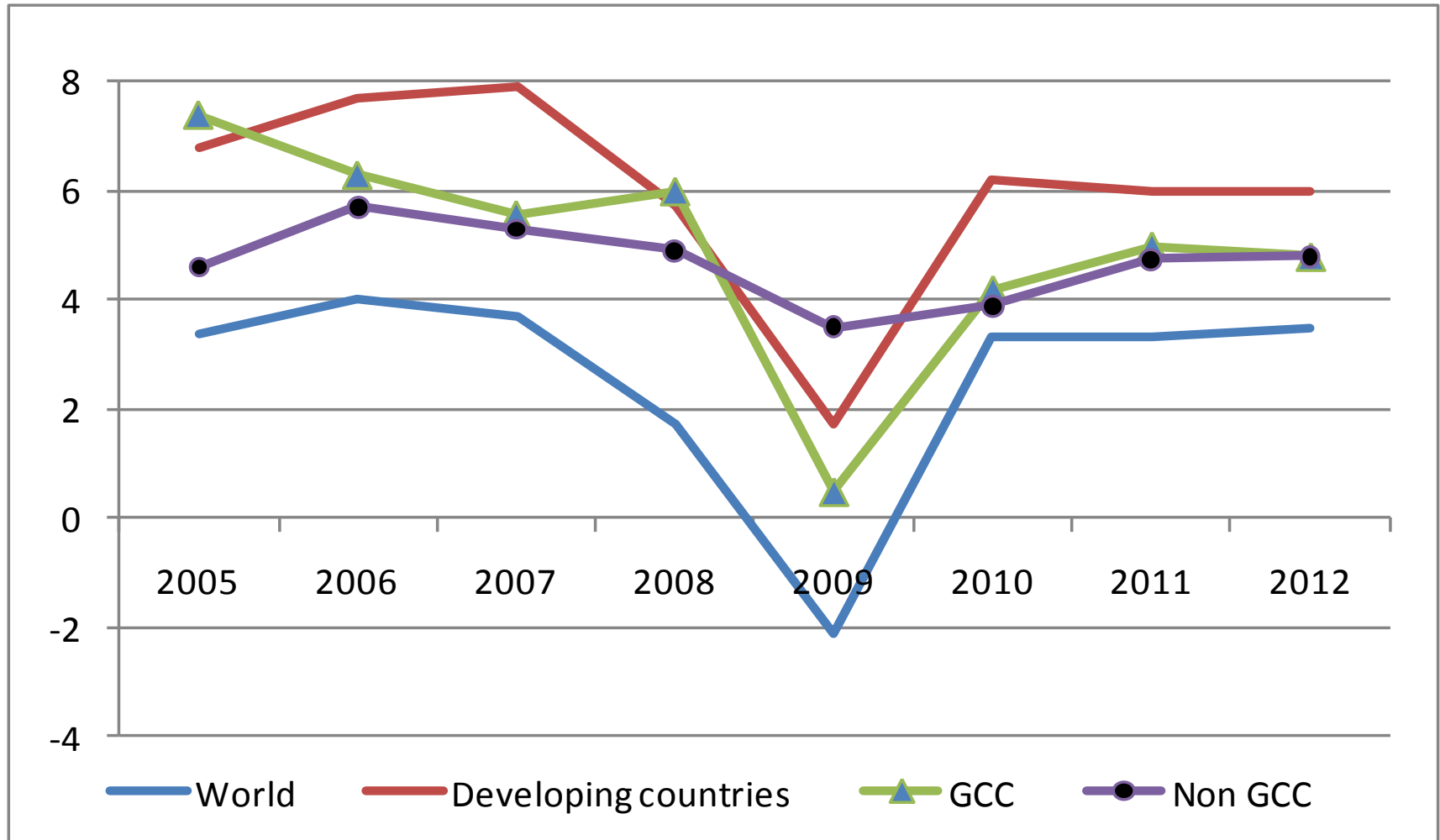


Short term impact of political turmoil

- **Oil prices uptrend given the uncertainties**
- **Decline in exports and tourism**
- **Decline in foreign exchange reserves**
- **CDS (credit default swaps) spikes,**
- **Stock market declines**
- **Credit rating cuts'**

- **To curb discontent on streets, the Government's offered subsidies and wage increases or launched special programs. These instruments were affordable for oil producers/exporters who benefited from another round of oil price increase, but complicated fiscal pressures for the nonoil economies.**

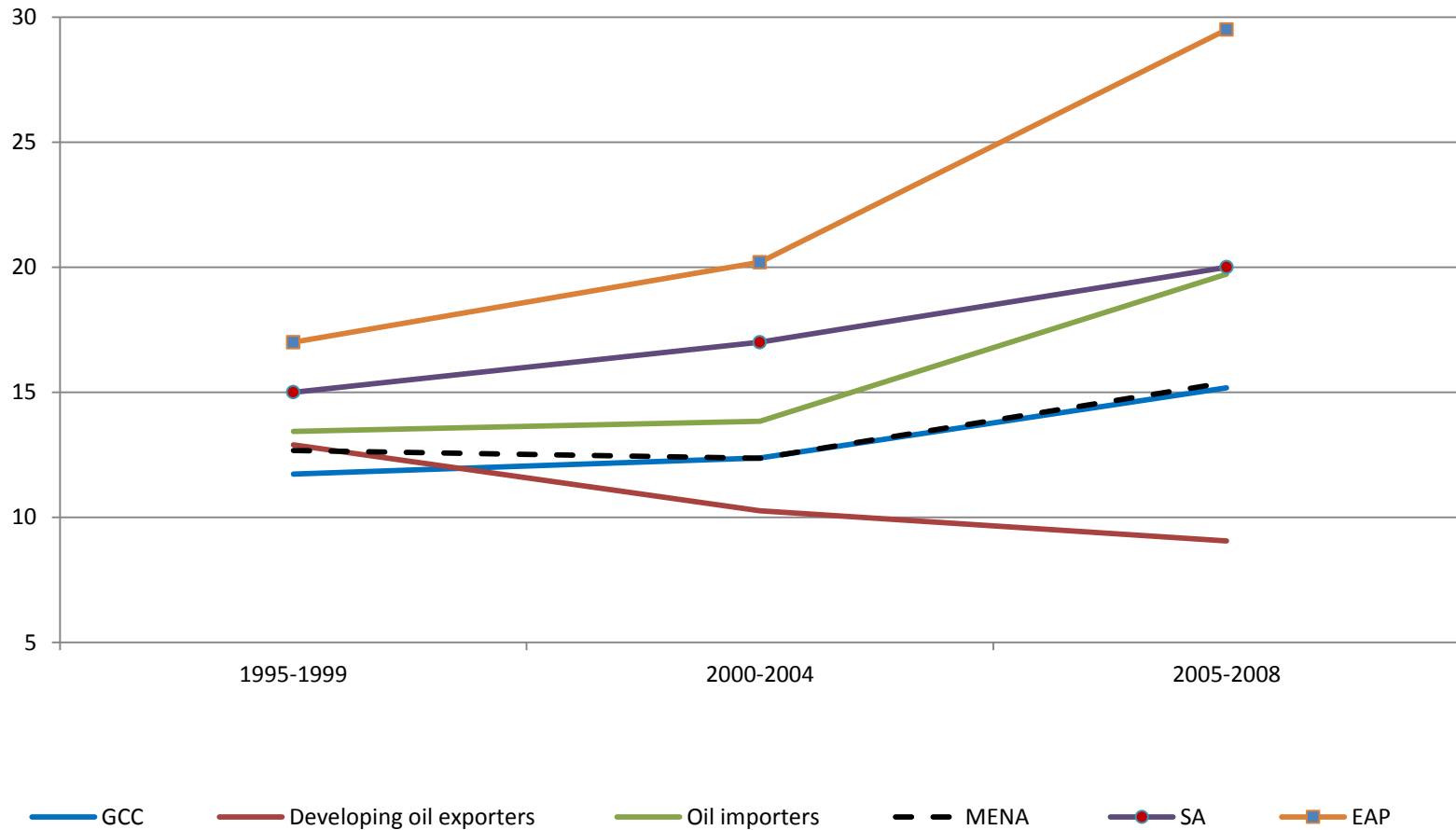
Comparative Analysis of MNA and Global and Developing Countries Growth Trends – % of GDP



Development challenges and opportunities

- In dealing with short term challenges, countries have to take the opportunity to address the deep-rooted problems that MENA faces
- High unemployment and lack of social cohesion proved that benefits of growth have not been shared equitably.
- Growth has been below potential in MENA (and not labor absorbing) because of the
- Lack of economic diversification, low private investment (averaging at 15% of GDP relative to over double this level in East Asia) in the wake of barriers to entry and an incentive framework that promotes privileges' rather than competition
- The quality of implementation of reforms low
- Institutions operate on the basis of old outdated regulatory framework and practices often serving the ruling elite
- Factor accumulation was the key drive of growth and productivity low
- Labor markets dysfunctional and finance and social exclusion high

Private Investment has been stagnating (% of GDP)



Source: WDI, National sources, and IMF

Conclusion: Arab Spring: where are we after one year ?

- **Arab Spring – a Misnomer**
 - In Egypt the political process was protracted and system continues to resist change
 - GCC bloc has thus far stood away from a real political change
 - Monarchies have only introduced modest political changes
 - Few countries remain in a flux: Iraq political government got in sectarian power struggle and Syria is still in deep political turmoil
 - Libya – the National Transitional Council working to stabilize situation and work with international community for political transition
- **Tunisia, an exception, having kick started Jasmine revolution the Revolutionary guard worked closely to settle the Interim Government constituting of new faces. They organized themselves well in an open and transparent manner and are the first to have transitioned to democracy , made a beginning to change governance policies and address regional disparities but have a long way to go on economic transformation**
- **Arab World can best be described as being in a transition and Arab transformation process will take time**

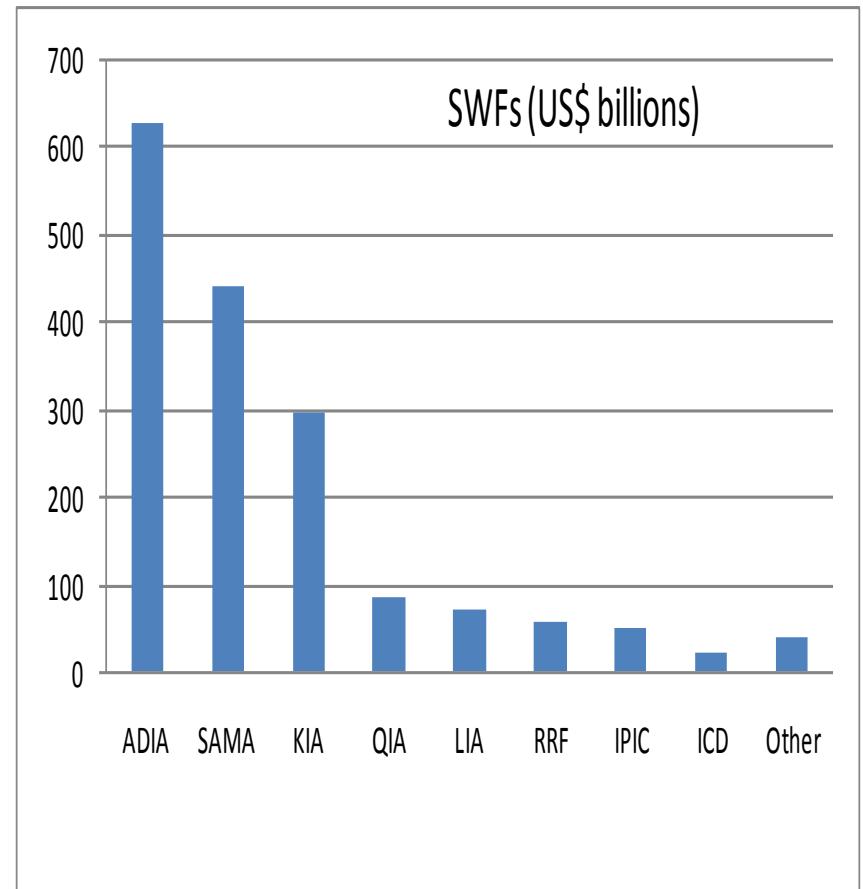
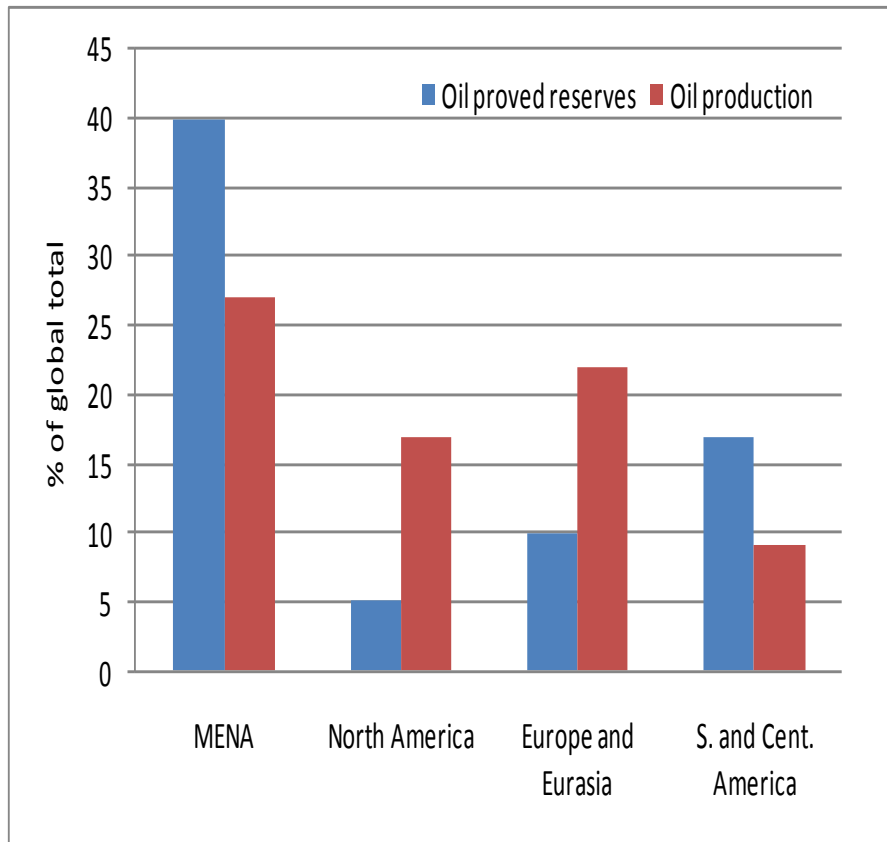
Arab World: Long term case for growth and investment remains compelling

- **Collectively region has to generate 25 million jobs over the next decade but this will at best keep employment trends at present levels and as such more substantive efforts need to be launched to effectively deploy new entrants to labor force over the years**
- **If nothing else the above is the most compelling reason for Arab World to change and adopt a “New Social Accountability Framework” that introduces a governance regime which involves citizen, community and CSOs to participate in the growth process and public sector service delivery, and holds public sector accountable for the management and delivery of services**
- **Democracy demands an effective people led social accountability framework and a healthy social accountability policies reinforce democracy**

Private sector led inclusive economic growth

- Promoting transparent, enabling and competitive economic policies
- Economic diversification key to reduce dependence on oil that has in the past not only has limited job creation potential but also hampered attempts growth prospects and sustainability
- Region does plan to encourage economic diversification. For e.g Abu Dhabi diversification plan seeks to reduce the contribution of oil to GDP from 60% or so to 36% of GDP and Saudi Arabia plans to raise the contribution of non-oil exports from 34% to 80.5%. GCC diversification drive has been impressive in the past too and Dubai has already and will further transform itself to service based economy and Qatar has invested quite broadly too and is nurturing diversification too

Arab World: Fiscal and Wealth Space



Shamshad Akhtar and **Elena Ianchovichina** - Infrastructure and Regional Integration in MENA, November 2011

- **Infrastructure requirements, despite good access to services, are quite high and on average to meet the needs region needs to invest about 7% with oil exporting requirements at 10% of GDP.**
- **Faster and effective responses to establish an enabling policy environment that fosters competition and adoption of technology and innovation**
- **Skill enhancement backed by qualitative changes in education systems.**
- **Regulatory and tax reforms critical**
- **Improvements in corporate governance and transparency and enforcement of the rule of law necessary if increased inflows of foreign direct investment (FDI) are to be attracted across a variety of industrial sector**