



4

Promises and Challenges of the Arab Spring

The Arab development model has been based on an interventionist and redistributive social contract. The governments followed an interventionist economic policy approach with an expanded public sector under the banner of import-substituting industrialization. This was accompanied by timid attempts at some form of rural transformation by limiting the power of traditional feudal lords and limited land reform measures. The state expanded public provision of healthcare and education and provided an avenue for most educated Arabs to join the ranks of the middle class through large-scale recruitment of university graduates into the civil service. The state was also actively involved in the economy through a myriad of enterprises in the public sector that were involved in all manner of commercial activities.

The policy of state-led development and the substantial increase in public provisioning of basic social services formed an integral part of the Arab social contract. It led, particularly over the period from 1960 to 1980, to a substantial increase in levels of human development and the emergence of a sizeable middle class, a substantial decline in the ranks of the poor, and dramatically increased quality of available human capital. The rising middle class, while achieving social mobility through education, had to contend with exclusion from political processes, which only had the formal trappings of popular engagement.

Since 1980, the region has given up on the Arab nationalist economic model in response to the inability of the old system to respond to rising socioeconomic challenges. Reforms were introduced in the wake of declining oil revenues, following the peak in oil prices at over \$35 a barrel in 1980 and their subsequent fall to levels of around \$15 a barrel for the period of 1986-1999. The reform measures included large-scale privatization of public assets and the dismantling of most barriers to international trade. As the reforms were, at best, carried out in a political context of limited accountability of public officials, the process led to further enrichment of politically well-connected individuals who managed to appropriate public assets cheaply and to replace formal state monopolies with effective private ones. While the economy became formally free, it did not have the basic element of a free market, namely the ability of new firms to enter it.

Concurrent with implementation of reforms, growth picked up in the Arab region. Many countries experienced long periods of growth of 5% and higher. However, it is not easy to ascribe the increase in growth to the adoption of market reforms alone, as the period was also marked by a major change in an exogenous factor, with oil prices registering an upward trend since 2000. For the most part, the reforms failed to have a significant positive impact on the human condition, despite the region being equipped with all its needs, including financial and material wealth and a young and increasingly well-educated labour force.

Despite a long period of sustained increases in GDP, the increase in income has not been sufficient to cement social cohesion and enlarge the freedoms and sense of dignity enjoyed by Arabs. This was not unanticipated, as the development model did not follow the path of people-centred development that UNDP has been championing since the launch of the first Human Development Report in 1990. In fact, the economic vision of development as increased production of goods and services can easily go hand in hand with less social cohesion and usurpation of traditional rights and freedoms, and can undermine human dignity by treating human beings as commodities. Human development, while clearly dependent on material welfare and increased supply of the basic necessities of life, is about people having greater freedom from the elements and from oppressive dependence on other human beings. Human development is about creating a society in which human dignity is respected and human agency is promoted. It is inherently in contradiction with destruction of environmental assets and the denial of basic human dignity.



With some qualitative variations, the economic structure that underpins the majority of Arab political systems is largely based on extractive industries that generate few jobs directly, and a bloated and non-productive tertiary sector through which rents collected by the state are partially distributed to the public at large. The economies of the region are characterized by declining productive sectors, with agriculture remaining largely at the mercy of the elements and poor policies, incapable of meeting the food needs of an ever-growing population. In addition, since the 1970s, trade liberalization in a regime of overvalued currencies has stymied the industrialization efforts started by many Arab countries in the 1960s. The region remains heavily dependent on imports for the basic survival of its population and has not managed to use its wealth of natural and human resources to negotiate for a more even playing field and a greater role in the evolving international order.¹¹⁹

Based on evidence reviewed in this report, only one Arab country, Tunisia, has achieved sustained growth since 1960 and has been able to satisfy the requirements of a structural economic transformation (a move from a predominantly agriculture-based economy to one based on manufacturing and services) between 1970 and 2007. Even this performance faced increasing problems since 2002 because of the ever-increasing avarice of the political elite linked to the former President Zine El Abidine Ben Ali, who hindered Tunisia's transformation into a knowledge-based economy. The Jasmine Revolution of 14 January 2011 that overthrew the old order was a direct result of this greed, in which the fruits of economic growth were increasingly only reaped by a small political elite.

In Egypt, one of the roots of discontent that led to the 25 January revolution was the obvious greed of a small, politically connected business elite that seized the benefits of the growth process. This is evident in the observed rise in poverty as a result of soaring food prices at a time when GDP per capita was rising at the rate of 2%. When the majority of the population saw itself getting poorer while the country overall was getting richer, it was moved to indignation and to a well-founded sense of social injustice and discontent.¹²⁰

Despite the moderate levels of income inequality reported in household surveys, social exclusion has clearly risen over the past two decades in most Arab countries, and equality in wealth is certain to have deteriorated significantly. Today, land and asset concentration is a visible phenomenon and clearly intensifies the sense of exclusion, despite reductions in the rate of absolute poverty. Meanwhile, a large—and increasing—number of the urban poor clusters in areas without sanitation, recreational facilities, reliable electricity, or other services.

This report argues that tough developmental choices needed in the Arab region can only be made by a responsive and accountable government that represents the needs and aspirations of many, not the few. Accountability of government makes policies more transparent and effective. However, no policy pleases everyone all the time. Hence, minimizing social conflict around tough choices is important for the effective implementation of policies. Inclusive participation of social and political institutions that mobilize and articulate collective interests,—be they political parties, labour unions, professional associations, or civil society advocacy groups—,ultimately enhances the ability of states to defuse social conflict.

The demands of the Arab street, as reflected in hours of public debates on television, in civil society circles, and in rounds of national dialogue in various countries in the Arab region, are for a new societal bargain based on (i) enhanced legitimate leadership through free and fair elections in an environment of freedom of expression and organization, (ii) responsive policies of inclusion and equity that are informed by inclusive participative partnerships between state and society, (iii) effective implementation of policies through social monitoring and strict control of corruption, in a context of freedom of information, and (iv) legal/administrative correction of violations of fundamental human rights under the vigilant eye of an independent judiciary and an unbiased professional media.

The Arab region has come to a fork in the path. In a number of countries, the old paradigm of power and its associated social contract have been effectively overthrown. In others, contestation of different aspects of the



development model is taking place. Business and development as usual are no longer effective options for dealing with the myriad of socioeconomic, political, and environmental challenges faced by the region.

However, a successful developmental transition is contingent on taking into account the difficult overall context. In addition to continued instability in parts of the region, the reappearance of a global financial crisis and the real risks of the world slipping into a prolonged recession further restrict the scope for external support to the transformation process. The global trading context is more competitive than ever, which makes the challenge of creating decent jobs even more difficult. The recent low average levels of rainfall and the spike in food prices increase the vulnerability of the region by creating food insecurity and threatening the livelihood of population groups that farm the land.

The more populous Arab countries with higher concentrations of income and human poverty face declining levels of natural resource rents, and most of them have turned into net oil importers. Their ability to invest is also impaired by low rates of savings, a major share of which is transformed into unproductive, speculative investments in real estate as opposed to productive activities, whether they are in manufacturing or services. With rising levels of higher education across the region, the challenge of creating new jobs has also become more complex.

The problems of the region result from the interplay of political and socioeconomic factors, with non-representative or non-inclusive and participatory politics reinforcing and being reinforced by rentier and semi-rentier economies. The solution should build on a symbiotic relationship between truly representative political systems and economic systems that promote productive investment and set in motion a virtuous cycle of increasing productivity and wider markets that create jobs in diverse sectors and geographic areas. The negative effects of corruption on the optimal use of public resources and productive private investment need to be addressed through a system of checks and balances that ensures societal control over the use of public assets and provides the private sector with the required stability to invest for the long term. An increased voice of the voiceless would help reinforce social stability and cohesion, strengthening national identity and security. The funds currently allocated to internal security can be diverted to investments in human capabilities.

A transformed region that invests more in its people and uses its natural resources more wisely would be able to regain its central place at the crossroads of humanity as a beacon of hope and progress. It would also deal more effectively with its fragile environment and water scarcity, which have already disrupted the livelihoods of many in some of the poorer parts of the region and threaten others if no urgent action is taken to resolve them.

At the official level, most Arab countries do not lack commitment to address the problems. We note that the first ADCR, published jointly by UNDP and the League of Arab states in 2009 and officially endorsed by the Arab Economic Summit, recognized these fundamental development challenges and policy recommendations:

“The first main element of any proposed social contract is that which relates to the need to move from a non-developmental oil-led growth model to a developmental state model where productive sector performance, poverty, inequality reduction, and employment are the main benchmark for success.... This no doubt requires a major revisiting of the current institutional and governance frameworks.”¹²¹

The concluding declarations of the 2009 and 2011 Arab Development Summits also presented a reaffirmation of the commitment of the region to achieve the MDGs and the agreement to activate policies and programmes to reduce, among other things, poverty and unemployment, to improve social equality, to empower youth and women, to raise women's participation in economic, political and social life, and to invigorate the role of civil society. In the past two decades, the Arab region has also witnessed a number of declarations for good governance, democracy, and human rights.



Affirming commitments and setting standards are good starting points, but they are not enough. Legacies of Arab socialism and state capitalism have created hybrid economies that are mostly characterized by close state-business relations supported by the security apparatus. In this report, we discuss principles and features of good governance that are needed in the region as necessary corollaries to equitable reform in economic policy. The main principles are effectiveness, responsiveness and accountability. The main features centre around the selection—through elections—of those who rule, the participatory identification of policies and monitoring of their implementation, as well as timely course correction when deviations, violations, or corruption take place.

Alongside fundamental governance reforms, the global economic crisis has created an opportunity for Arab countries to rethink macroeconomics for development. Such rethinking is both necessary and desirable. It is essential to redefine macroeconomic objectives so that the emphasis is on fostering employment creation and supporting economic growth instead of the focus on price stability alone. In doing so, as argued by Nayyar (2011), it is essential to overcome the constraints embedded in orthodox economic thinking and recognize the constraints implicit in the politics of ideology and interests.

In sum, charting an Arab development path anchored in human dignity that promotes social, economic, and political inclusion, social justice, and equity is not only desirable, it is also within reach. In fact, all the necessary endowments – in terms of natural, human and financial resources – are widely available within the region. Political commitment, embodied in the resolutions adopted by the two Arab Summits on Social and Economic Development of January 2009 and January 2011, helps to set the course towards this end. The window of opportunity to chart this new course was pried open by the people of the Arab region themselves in their reclamation of human dignity and in their demands for “bread, freedom and social justice” -- a slogan which captures the inseparability and inter-dependence of economic, social, and political life—indeed of social, economic, and political inclusion. A new course is theirs to chart; it is the subject of national debate and dialogue in some countries and of reforms contemplated, introduced, or accelerated by governments in others.

At this historical junction, as new development challenges add to or converge with the old—unemployment and inequalities, for instance—there is a growing recognition of the need for increased political will to explore alternative development solutions and models to those that have been pursued or prescribed thus far. This second Arab Development Challenges Report has been produced in this context. It seeks to contribute to the intense debate about societal choices in the region by offering a menu of policy options and concrete actions that have been tried in the region and beyond.