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ALL EYES ON MENA...

Economy and the Arab Spring

Zakia Aqra*

The Arab Spring swept countries which share many common denominators, one of which is the socioeconomic disparity. Inexorably, political turmoil causes economic havoc. The stability and prosperity of the economies that were affected by the Arab Spring are a major concern to all and sundry; namely to their people, to all the other countries in MENA that managed to sharply "escape" the Arab Spring and, not to mention, the international community.

* Researcher of the Centre for Mediterranean, Middle East and Islamic Studies of the University of Peloponnese.

The MENA as a whole is one of the least integrated regions in the global financial system, regardless of how good the economy of the region served its regimes and their Western patrons. The global recession in 2008 had a negative impact on MENA, but not as severely[1] as on other developing regions due to its limited integration in the global economy. Specifically, the World Bank states "during the financial crisis of 2008-2009, the MENA region was actually one of the best-performing regions in the world, still maintaining growth around 3%." On the one hand, the oil rich countries of the region were affected more by the global recession with a sharp decline in oil revenues, which is a major percentage of their total GDP,[2] and as a result these economies are more vulnerable to external shocks.

Predictions of the IMF and the World Bank emphasized that unbalances in the economies of MENA as a whole would cause "political and economic instability". But that was inevitable for all the economies that were affected by the global crisis of 2008. What they couldn't predict was that the instability in the MENA would go as far as the Arab Spring. At the time, the predictions regarding the countries of the region with little or no oil focused on secondary effects and delayed impact of the downfall. Reports concluded that even though it has limited linkage to the global financial institutions, it would still see a decrease in the general economy due to the global crisis in terms of trade, tourism and so forth.[3]

Prior to the Arab Spring, these economies were considered generally liberal economies, but at the same time they were, to a certain extent, centralized. Western analysts were constantly focusing on certain improvements within the economic system e.g. shrinking of the public sector. Nevertheless, privatization in this case was based on patron-client networks between government and private beneficiaries. In addition, the lessening of centralized economies had caused more unemployment than before.[4] The old regimes attempted to adjust minor economic issues. Nevertheless, the problem of the economies in the region is rooted in the structure and the functioning of politics, which have a direct effect on the economy. Mainly, these economies suffer of corruption, monopolies and poor distribution of wealth. In Egypt, for instance, "state-owned firms have been sold to foreign investors and a cabal of local partners"[5] . It is no secret the monopolies were all linked to the regime and the army. Analysts point out that the military controls 15% to 40% of Egypt's economy.[6] Others call it "ambivalent economy"[7] as no one is able to precisely calculate the military's real incomes. The burden of adjusting these issues is handed to the new governments.

A stable constant after every uprising is economic exhaustion. The Arab Spring caused the already "unhealthy economies" to collapse rapidly. Specifically, economies such as Tunisia, Egypt, Syria and Morocco are not oil-rich economies; thus, these economies faced major problems during the Arab Spring. Namely, in Tunisia the political turmoil is translated into a decrease of its GDP growth in 2011 go from 3% to 0%, according to the IMF. Similarly, Egypt's GDP growth decreased from 5% to 1%. Unemployment rate in Egypt went from 9.4% in 2009 to 12.4% in 2012, while foreign investments have dropped along with the currency. In Egypt, for instance, foreign investments went from $6.4 billion in 2010 to $500 million in 2011.[8] Some basic reasons of the economic downturn of these countries are strikes, large cost of destroyed infrastructures, and instability which disrupted the flow of foreign investments. For these economies one large income sector is the one of tourism, which undoubtedly has suffered a dramatic decrease. Moreover, confiscations of private businesses connected to the old regimes also contributed to the downfall of the economies.[9]

The "innovative" phenomenon after the Arab Spring is the domination of the Islamic parties in the parliaments in the region which, certainly, aroused a great deal of agony in the West, as well as other countries in the MENA, due to the drastic changes that the

Islamic parties may bring. It took the concerned by surprise when the Islamic parties started the discourse of a “free-market”. The Justice and Freedom Party (JFP) of Egypt and the Annahda party of Tunisia impressed observers at home and abroad by appearing in various international institutions, such as the World Economic Forum in Davos, with a discourse fixated on the economy and the free-market as a courageous attempt to attract investors.[10] This shows more regarding their intensions on the economy than their economic program, which is vague and generalized. Their economic programs focus on treating chronic unemployment, tax issues, and attract investors.[11] Except for the Salafi Nour Party in Egypt, the FJP and Annahda parties in Egypt and Tunisia respectively are not planning to impose Islamic measures that would repel tourism, which is still an essential part of the economy. All three parties are purposing Zakat institutions that would help the needy. Hitherto the Islamic parties - namely FJP and Annahda -have made significant and positive gestures in order to depict a rather moderate image.

Perhaps, they are seeking to emulate Turkey: a liberal economy with an Islamic shed. There is a lot of confusion on the ongoing discourse regarding the possibilities that a Turkish model could suit the new Middle East regarding the coexistence between political Islam and democracy or the economic model. On the one hand, there are a lot of similarities that can be traced in the new governments in the Middle East. For instance, Tunisia’s Annahda party used similar slogans as the Turkish popular Justice and Development party[12] (AKP).[13] On the other hand, there might not be a lot to imitate in the economic sector of Turkey since the previous governments, before AKP, already had a neoliberal economic approach. The Turkish model may serve more in the governance sector than the economic sector. Nevertheless, the Egyptian delegate Mohammad Sudan, Chairman of the External Relations of the Justice and Freedom Party, said that “they wanted to see the experiences of Turkey about elimination of corruption in local governments and providing the social and economic development in the slums.”[14]

The Islamic parties will have two basic issues to address at this point: the internal and the external legitimization; especially in the case of Egypt which holds a high strategic importance in the region. The Muslim Brotherhood has been facing too many conflicts internally; firstly, within the movement and secondly, vis-à-vis the Egyptian majority that voted for them. Their election was based on their stance against corruption and in favor of justice. The last two were the main reasons that the Egyptian people and generally the Middle East were deprived from prosperity and welfare. If they do not fulfill these demands, they will not be able to sustain their power for long. The external legitimatization has two fronts: the West and the oil-rich Arab countries. They cannot afford to lose these possible allies that could help them overcome their economic malaise either by investing and/or loans. For now they must remain inserted in the global economic system, attain confidence from the rest of the world and use the leverages of the global financial system to construct a sustainable economy.

Although the “Gulf countries provided one billion dollars to Egypt after the revolution that toppled Hosni Mubarak for infrastructure and economic losses”[15], the Egyptian economy and the other western MENA countries are still in crisis. Recently Egypt's interim prime minister publically criticized the Gulf countries for not following through on the promises to help Egypt.[16] Only to think that the FJP is considering accepting the offer of $3 billion from the IMF depicts the necessity of assistance these countries have. Noteworthy was the position of the Supreme Council of the Armed Forces which turned down the IMF offer the previous summer for the sake of national sovereignty. On the other hand, Western assistance such as the Deauville summit has not lived up to the expectations and as the chief of the Tunisian central bank Mustafa Kamel Nabil said “the global economy is not being supportive".[17] The US aid is on stake due to various issues, either regarding the peace treaty with Israel or the NGO diplomatic incident.[18] The IMF never had a good reputation and the Islamic parties are aware of that. Nevertheless, will the Arab countries leave them no other choice? On the other hand, others such as Egypt's labor minister Hassan al-Boraei is speaking of a Marshal Plan.[19] A Marshall plan backed by both Arabs and the West is far from reality for various reasons; not only because the world is just now recovering from a financial crisis, or because of the ongoing instability and low credibility in these economies, but also due to the heterogenic political, economical and ideological structures of the MENA. Others speak of regional cooperation that would actually be more pragmatic under the present circumstances.

On the other side of MENA region, the Gulf countries have undergone a rather different experience throughout the last year. The oil-exporting Arab countries seem to be scoring on the expense of the valiant uprisings at least in the short-term. Estimations have shown that "deposits and short-term investments, which moved to the Gulf from elsewhere in the Middle East totaled up to $40 billion."[20] It's important to underline that these regimes were more effective in managing to "control" their uprising. The rentier states are more capable of wealth distribution as they can keep political dissidence subdued. This could also have been the case for Libya, if it was not for NATO's intervention.[21] In the long-term, "the investors may find the potential for educated labor, lower wages, and economic incentives especially attractive and favor the western MENA, once the general political turmoil comes to an end."[22]

Political turmoil in oil-exporting countries translates into economic exhaustion not only domestically, but also to the global economy. No need to state the dependency of the West and the emerging markets on oil. North Africa produces 5% of the world's oil, but the Middle East produces 30%.[23] Oil prices in 2011 are almost 40% higher than in 2010.[24] Technically, two main factors determine the prices of oil: the wavering of demand and supply[25] and fear[26]. The prices partially depend on the stability of these countries. If the Gulf undergoes a real Arab Spring, it would inevitably have a sectarian character. For instance, in case of Bahrain, 'a Shi'a domination of the oil' would change the whole dynamics in the Middle East; taking in consideration the eastern Saudi provinces -which have massive amount of oil[27]-, the situation in Iraq with a Shia'a regime, and the emerging Iran.

It is estimated that the oil prices will be high due to the high demands of oil of the emerging markets and the tumultuous political change in the MENA countries.[28] The status quo of the region is changing rapidly; as the new Middle East is in formation, the economic developments are crucial and determinative. The governments that occurred or will occur as a result of the Arab Spring are on the dead man's curve and the implementation and success of their agendas are a matter of time. The cost of revolution is always high. The revolution per se is half the way to victory, the other half depends on the upcoming period.

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