The Economic Challenges of the Arab Spring

The political situation in North Africa was characterized by a lack of prospects before the “Arab revolutions” broke out, and corrupt authoritarian regimes held all the power. The ruling elite justified the absence of political and economic reforms and the strengthening of security forces as necessary to maintain stability and fight terrorism and radical Islamist movements, i.e., the security of the state was equated to the security of the ruling class.

Western analysts and experts usually considered the political implications and strategic significance of the Arab Spring but not its economic causes and effects.

Before the financial crisis of 2008-2009, high rates of economic growth (from 4% to 5% per year) were typical for the countries of the Middle East and North Africa; in 2010, they dropped to 2.5-3%. Tunisia’s GDP grew 5% from 2001 to 2010, and it was expected to be about 5.4% in 2011. According to some experts, that figure reflected the growth in the incomes of only part of the middle class and did not reflect increases in social tensions and regional differences. A respectable segment of the population benefited from the activities of the Ben Ali regime because almost 2/3 of the population belongs to the middle class. In return, the political elite had its support. Experts estimate Tunisia’s revolution cost approximately 5% of GDP, yet economic growth in that relatively prosperous country amounted to less than 1% in 2011.

Egypt’s macroeconomic indicators prior to the Arab Spring were positive. Its GDP in the second half of 2010 rose by 5.8% in comparison with the same period in 2009 mainly due to construction, tourism and the service sector associated with it. Egypt’s economy is dependent on food prices, and higher food prices were the original cause of the riots in Egypt and Tunisia. Food subsidies accounted for approximately 25% of all government spending in Egypt. They were designed to protect the 40% of the country’s populace that lives below the poverty line. In reality, however, that is an inefficient way of achieving social balance. According to some data, the bulk of that spending went to the more affluent groups (20% of the population) that had ties to the regime.

Youth unemployment was a catalyst of the Arab Spring because that region has one of the lowest levels of employment in the world (under 50% of the working-age population, whereas the employment level in Asia is 70%). It was 23% across the region as a whole, 25% in Egypt, and 30% in Tunisia. In addition, the banking sector in most Arab countries invested primarily in companies linked to the political regimes and limited access to capital by small and medium-sized businesses, thereby restraining the development of private enterprise and economic growth overall. In other words, it hindered rather than promoted economic growth and private sector development.

Unfortunately, it is difficult to fully assess the economic consequences of the Arab Spring because data on some countries is lacking. According to some estimates, including one by Hamdi Al Tabaa, president of the Arab Business Federation, the Arab countries that experienced unrest and regime change lost almost $100 billion. That is the General Arab Insurance Federation’s estimate for losses by countries like Egypt, Tunisia, Libya and Yemen between December 17, 2010 and October 2012. According to other estimates, the protests in North African countries cost them 2% of GDP. The ANIMA Investment Network calculates that total losses by South Mediterranean countries due to falling revenues from foreign trade and European investments, and decreased income from tourism and money transfers by migrant workers, amounted to nearly $100 billion in 2009.

There are many factors that could expand the economic potential of the Arab countries and help them overcome their economic problems. But three stand out. The first is reform of the labor market and that education system. The
second is the promotion of private business and implementation of management reforms to improve the transparency of private companies. The third is access to funding, which should stimulate the private sector and increase private investment. In addition, social and economic reforms should be aimed primarily at improving the quality of life and achieving stable and sustainable growth.

The education system in Arab countries with overblown bureaucracies was primarily designed to train civil servants, not personnel for the private sector. According to IMF estimates, public-sector salaries in those countries comprised 9.8% of GDP, whereas the level across the globe is 5.4%. However, the public sector is no longer the chief employer in those countries, and the demand for new personnel is very limited. That means that 39% of the companies in North Africa and the Middle East lack adequately trained employees. More than half of private companies encounter extortion by corrupt government agencies in obtaining licenses and authorization to operate. Only 10% of firms use local banks for their funding, and 36% have problems obtaining loans.

International organizations and a number of countries have offered financial assistance to resolve economic problems. Egypt was to receive 450 million euros from the EU between 2011 and 2013 under EuroMed. The European Union and the European Investment Bank also plan to allocate 1 billion euros to stabilize the situation and implement reforms in the countries of North Africa. According to European Council President Herman Van Rompuy, EU countries in 2013 should assist Egypt with 5 billion euros in the form of special loans and grants to support democratic processes and stabilize the economy. The EIB has developed a plan for North Africa that includes the use of a new public-private partnership model for future development in those countries. The International Monetary Fund, which had previously promised Egypt $3.2 billion, has increased that sum to $4.8 billion. The World Bank plans to allocate $1 billion, and Qatar $2 billion. In 2011, the Group of Eight proposed allocating 20 billion euros for the region to strengthen governments and stimulate business.

Despite some progress in developing relations with Russia in the 2000s, the Arab countries are not its top priority as a partner. Their share of Russia’s foreign trade is 2-3%. Whereas Russian-Arab trade grew by 38% in 2011, the rate of growth declined somewhat in 2012. Except for those countries experiencing civil war and political instability, Arab Spring has not radically changed Russia’s relations with them. However, Russia’s losses from unmet contracts in Libya alone, with which it concluded a package of agreements in 2010, amounted to more than $4 billion (about $2 billion for deliveries as part of military-technical cooperation, and more than $2 billion on a 2008 contract with Russian Railways). Trade and economic cooperation with Syria (which some reports say brought Russia’s economy about $20 billion) is being obstructed by the conflict between the government and the opposition. The political and economic crisis in Yemen has stalled implementation of major contracts. Russia is still developing a strategic partnership in the oil and gas sector and on military-technical cooperation with Algeria. Russia led the United States and several European countries in total foreign direct investments in Egypt ($1.6 billion). So long as the situation in Arab countries remains unstable, however, it will be difficult to fully restore the level of Russia’s economic cooperation and its position in a number of countries because most contracts were concluded with the previous regimes.

The economic consequences of the Arab Spring remain difficult to evaluate in their entirety. Despite the volume of foreign aid, progress in the Arab world will primarily depend on political stability and the formation of adequate and effective governments, socioeconomic reforms as an important guarantor of a state’s governability, solution of unemployment problems and expansion of the private sector.

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