



**CHATHAM HOUSE**

Chatham House, 10 St James's Square, London SW1Y 4LE

T: +44 (0)20 7957 5700 E: [contact@chathamhouse.org](mailto:contact@chathamhouse.org)

F: +44 (0)20 7957 5710 [www.chathamhouse.org](http://www.chathamhouse.org)

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## **Middle East and North Africa Programme**

# **The Economics of the Arab Spring**

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**Summary of a Chatham House conference  
held in partnership with FTI Consulting**

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## INTRODUCTION

In September 2011 Chatham House and FTI Consulting organized the first conference in Britain to assess the economic causes and consequences of the political uprisings in the Middle East and North Africa (MENA). The conference brought together over 200 economists, investors, CEOs, political activists, political scientists, policy-makers, NGO workers, bankers, journalists and researchers for an interdisciplinary discussion, recognizing that the economic trends in the region cannot be separated from their political and social context. Please see appendix for conference agenda.

Across the region, uprisings and protests have been driven by a mixture of political, economic, social and demographic factors, and protestors have expressed demands for changes to economic policies and structures, as well as political systems. Both politically and economically, the Arab world has entered a newly dynamic and disruptive period. A great deal of international attention has been paid to the political ramifications of the overthrow of the governments in Egypt, Tunisia and Libya, and of the combination of protests, repression and – sadly less often – reforms seen in the rest of the region. So far, fewer analysts have focused on the economic aspects, such as the potential for growth to become more inclusive and sustainable, the risks and opportunities for entrepreneurs, and the role that wealth and income distribution plays in concepts of 'justice' and 'dignity'. The conference aimed to start to address this gap.

## Key recommendations

- Western governments need to re-evaluate their past practices and rethink their approach to the region, resisting the temptation to shape the emerging Arab world in their own image and respecting the rights of the countries in the region to disagree or forge a different path. Both regional and global powers will find there are new limits on their leverage.
- All parties need to improve accountability and financial transparency. In most countries, economic problems have stemmed not so much from a lack of resources as from a misallocation of resources. Corruption, a central grievance in the protests in many countries, needs to be addressed as a key issue in improving the legitimacy of governments in the region.

- There should be a regional transformation in the way the economy is organized as part of society, with more effective and transparent decision-making, more inclusive growth and equality in economic structures.
- Economic problems could still endanger political progress. There may be further revolts to come in North Africa if progress on creating jobs and improving living standards is not sufficient. Countries that want to support the democratic transitions in the Arab world should help address these economic risks.
- There is tremendous scepticism over the role of international financial institutions, and suspicion over the intentions of foreign governments, especially in Egypt and Tunisia. International actors need to tread carefully. In the medium term, trade will be more important than aid.
- The GCC should spearhead the establishment of an Arab Bank for Reconstruction and Development, to coordinate Arab economic support, ensure there is a coherent plan, and avoid waste and duplication.
- Arab states should pursue greater regional integration to capitalize on the potential for intra-regional trade, especially in North Africa.
- In Egypt, uncertainties about future policies, particularly the legal environment for business, remain a key concern and are evidently hindering investment. New political players need to develop clearer blueprints for economic policies. There is also a need for more communication between the new political players and the business sector.
- Overall, there is some optimism that this transition may represent a real paradigm shift in the political, social and economic structures of the region. It was said that Arab peoples are being transformed from subjects to citizens.

Held on the record, the keynote addresses provided analysis of the emerging context, while the sessions were held under the Chatham House Rule to allow for a free and frank in-depth discussion of the opportunities and challenges presented by new regional realities.

This paper provides a summary of each session, followed by key policy recommendations emerging from the discussions.

## KEYNOTE ADDRESS

Dr Rima Khalaf Hunaidi, Under-Secretary-General and Executive Secretary, United Nations Economic and Social Commission for Western Asia, argued that ‘as Arabs reinvent themselves, their partners will have to re-evaluate their past practices and rethink their approach to the region’. Partners and allies need to resist the temptation to shape the emerging Arab world in their own image, and must respect the rights of the others to disagree or forge a different path. She outlined new realities facing the region:

- The transformations that have taken place in Arab countries are non-linear and irreversible and the theory of ‘Arab exceptionalism’ – the view that Arabs are somehow congenitally or culturally unsuited for democracy – has been irrevocably shattered.
- Democracy will ultimately prevail. It is not inconceivable that fully functioning democratic institutions could be established in Egypt and Tunisia within the next five years, but the road will be rocky. New mini-uprisings may occur in transition countries and some regimes may fight back viciously against change.
- The West will not be able to call all the shots, and both regional and global powers will find there are new limits on their leverage. For example, the new dynamism in the Arab world could help to end the stalemate in the moribund Israeli-Palestinian peace process and push the actors towards a sustainable peace.

Dr Hunaidi also outlined the key challenges:

- Building new, democratic institutions, which will also involve grappling with the role of the military and the role of religion.
- Avoiding a setback or a relapse into violence, which will involve setting up effective transitional justice mechanisms as well as reforming security services and strengthening the judiciary.
- Getting economic policies right, at a time of huge divergence of opinion about economic policy. Given the widespread criticism of the flawed reform policies of previous governments, there is a risk of rejecting liberal policies wholesale and reverting to statist models that also proved unsuccessful in the past.
- Managing expectations: many will expect their lives to change for the better as a result of the political transitions, but in the short term,

disruption and uncertainty may lead to economic circumstances getting worse before they get better.

## **SESSION 1: RETHINKING THE REGION**

The first session focused on challenging assumptions about risk and stability, the ways in which Arab democracy might be good for business and the likely evolution of policies in transition countries.

The traditional assumptions made by many policy-makers and investment and risk analysts often equated dictatorship with stability. Such assumptions are now being questioned. This has implications well beyond the Arab world, for instance for perceptions of China. But has the rethinking gone deep enough? It was noted that in current risk assessments, the greatest diversity of opinion is over the United Arab Emirates (UAE) and Qatar. The question of whether Saudi Arabia is genuinely stable also continues to divide opinion.

The issue in Arab countries is regime mismanagement rather than a lack of funds or lack of resources. There has been a mismatch between Western praise for economic reforms in Egypt and Tunisia over the past decade and the perceptions of people on the ground. The benefits of labour market policies, reforms and incentives for export promotion create huge distortions, and crony capitalism, rent-seeking and corrupt privatizations have all damaged the image of markets and businesses.

It was argued that the uprisings have been revolts against entrenched inequalities, expressing demands for fairer distribution. They embodied a rejection of the idea of trade-offs between socioeconomic rights and political rights, and 'reform hurts' theories propagated by international institutions. It was also argued that piecemeal reforms and attempts to buy people off with higher public spending are too little, too late.

There may be further revolts to come in North Africa, and economic problems could still endanger political progress. There are certainly opportunities for economic development; the transition countries in North Africa have a number of competitive industries, abundant labour and access to energy. North African countries have also become less state-dominated since the late 1990s, and it was argued that the growth of an independent middle class had helped to create ground for the uprisings in Egypt and Tunisia. But there are still huge differences between the 'haves' and the 'have nots'; these have already generated political dissatisfaction and could continue to bedevil the new governments.

In Egypt, there is already some popular frustration as people hoped for immediate, tangible changes in their lives after President Hosni Mubarak left power, yet economic conditions are hard. Food prices have risen sharply, with a particular impact, as always, on the poor – although the rise has also been

sharp enough for the well-off to notice it. Islamist movements are currently the only political players who are being seen to help the less well-off, for instance by setting up small kiosks in rural areas to give people bags of vegetables. Liberal political movements are, so far, generally less successful at reaching out at this grassroots level. Yet Western analysts tend to focus on a few well-known young, liberal 'media darlings' who are not necessarily representative, it was said.

## Recommendations

- Policy-makers in the transition countries will not be able to tackle all their challenges simultaneously. They will need to define clear priorities.
- Newly emerging political players need to communicate with international investors and institutions that are now trying to redefine their strategies. Investors are eager for better institutional governance and tougher anti-corruption controls in countries such as Yemen and Libya.
- Populations understandably want to be protected from food and fuel price increases but short-term spending increases may make it harder to transform economic structures in the longer term. Over this longer-term period, the big project for the region is to embark on a transformation of the way the economy is organized as part of society, with more effective and transparent decision-making, more inclusive growth and equality in economic structures.
- In the next 18 months, particularly in Egypt, Tunisia, Jordan and Morocco, international assistance may be able to provide support in the process of transition, which risks being held back or derailed because of financing pressures. However, international policy-makers need to be prepared for scepticism and will have to work harder on listening to stakeholders in the region, and on communicating their aims to a wider range of stakeholders than in the past. Policy-makers will need to expect some surprises.

## **SESSION 2: INTERNATIONAL ASSISTANCE**

The second session looked at the opportunities and controversies presented by international support packages and addressed a number of questions. What packages are on offer from the G8, EU, International Monetary Fund, World Bank and European Bank for Reconstruction and Development (EBRD). How are these structured and targeted, which sectors will benefit and what are the constraints? Why did Egypt's new government turn down IMF and World Bank loans? How much of a problem is inequality and will concerns about social justice seriously be addressed?

Some \$38bn of financing has been pledged to Arab transition countries through international financial institutions. Yet Egypt's decision in June to turn down IMF lending highlighted the extreme scepticism that exists over Western policies – past and present – towards the country. There is great sensitivity about possible political agendas underlying foreign assistance, whether from the West or from the Gulf. There was some heated debate over whether international financial institutions should eschew engagement with undemocratic governments or whether they need to engage with developing countries even if those countries lack democracy.

In Egypt in particular, historical experience has led to a traditional wariness of foreign debt. The excessive debts that the ruler, Khedive Ismail, ran up with British and French creditors in the 19th century were eventually used as justification for Britain and France to take control of Egypt's economy, and Egypt also sold its shares in the Suez Canal to Britain at this time. Since 1979 Egypt has relied on foreign aid and loans as a cushion for economic development but most of these had been misused by the regime and failed to contribute to real development financing. The international community has been part of the problem, it was argued. International financial institutions praised liberalization and privatization processes that were often poorly implemented. In the civil society sphere, foreign NGO support has often been channelled to elites rather than independent or representative institutions.

Currently there is also widespread wariness of funding from Saudi Arabia and Qatar, partly because of a perception that funds from these countries are strengthening Egypt's Salafi Islamist minority. Some of the aid pledges were little more than political propaganda, it was claimed, and not much of the money that has been pledged has actually materialized so far. Others argued that Egypt may in the future need to go back to the IMF in much less favourable circumstances.



It was reported that there had been a clear consensus on two issues at the previous week's Deauville Partnership meetings in Marseille, where representatives from Egypt, Tunisia, Jordan and Morocco all presented country plans. First, the private sector will need to lead job creation, and secondly civil society needs to have greater ownership of and involvement in economic reforms to make them more broadly based. Nonetheless this consensus could change as new figures are elected to future governments, at least in Egypt and Tunisia.

The new Egyptian government is aware of the need both to redesign the subsidy system and to work harder to convince the public that such a policy is necessary. In the current budget EGP13.5bn has been allocated for Butagaz subsidies – more than the entire higher education budget. A planned redesign of the system would reduce this bill by 25–30%. More broadly, it was argued that reforms are politically easier to implement when people believe you are acting in their best interest, and that democratic governments may in future have greater legitimacy to carry out economic reforms.

Meanwhile, the region also faces risks from the global economy. About 20% of MENA exports go to the European Union, but EU countries are facing their own growth problems. A comparison was drawn with the political transitions in Eastern Europe in the 1990s, when integration with Western Europe acted as an important incentive. By contrast, Europe is now distracted from the idea of further, wider economic integration and is unlikely to play a comparable role in supporting political transitions in the Mediterranean countries. However, in the medium term, access to European markets will be vital, and can do much more good than providing aid.

## Recommendations

- Mechanisms for providing international support need to be aligned with the philosophies that individual countries want to support and to have broad political and social acceptance. For instance, any discussion about subsidy reform has to be generated internally rather than externally. This may be a slower process, but should be more sustainable.
- The international community (meaning governments and international financial and development institutions) has been part of the problem, and needs to rethink its approach, rather than aiming for a speedy return to 'business as usual'. It needs to recognize that the context has changed. There also needs to be greater focus on transparency

and accountability, as perceptions of corruption have helped to delegitimize governments and, especially in Egypt, have damaged perceptions of business. The EBRD, which is entering the region for the first time, may have a strength in that it has an explicit mandate only to provide support for countries that are undergoing transitions to greater democracy and better human rights.

- The GCC should spearhead the establishment of an Arab Bank for Reconstruction and Development, to coordinate Arab economic support, ensure there is a coherent plan, and avoid waste and duplication. Specific funds could be set up for areas such as building schools and supporting small and medium-sized enterprises (SMEs).
- At the same time, Arab states should pursue greater regional integration to capitalize on the potential for intra-regional trade, especially in North Africa, where intra-regional trade is notoriously under-developed.

### **SESSION 3: REVOLUTION VS EVOLUTION**

It was emphasized by many participants that the Arab world is an extraordinarily diverse region, and that the political and economic trajectory of each country will be different. While there are political transitions under way in Egypt, Tunisia and Libya, and more uncertain but undoubtedly far-reaching changes occurring in Syria and Yemen, the Arab uprisings have also brought promises of political reform in Morocco and Jordan.

The wealthy Gulf monarchies face very different political and economic trends, but uprisings in Bahrain and Oman, as well as increased protests in Saudi Arabia (where protesting is illegal) and Kuwait, highlight the fact that these areas are not immune from the wider trends.

Discussions in the third session focused on primarily on Egypt and the Gulf Cooperation Council (GCC) states.

#### **Focus on Egypt**

Egypt's economy has suffered in the short term from the current political uncertainty, with investment largely on hold, but the potential for new investment and growth is strong in the medium to long term. The country's economic fundamentals are attractive. The economy is diversified; there is a strong private sector that has grown since the 1990s; and there is a large domestic market, with the biggest population of any country in the Middle East.

Economic conditions are better today, even with all the short-term shocks caused by dramatic political changes, than they were in the 1990s, when inflation was at 20% and foreign debt was over 100% of GDP. It was noted that tourism tends to be resilient; within a year of the 1996 Luxor massacre, the sector had recovered and even strengthened. It was suggested that it take at least 18 months for the economy to develop as a minimum of nine months would be needed before a stable, permanent government could materialize.

There is a deficit of new economic policies, a lack of communication between investors and new political players, and a shortage of hard facts about the actual state of the economy. Uncertainties about future policies, particularly the legal environment for business, remain a key concern and are evidently hindering investment. It is natural that there will be some uncertainty at a time of transition; however, there is a deeper worry that the new political players are failing to articulate economic policies for people to choose from. At a time

of acute nervousness, the parties are all very wary of deviating from the mainstream and it will be at least a year before the contours of future economic policy become apparent.

It was also noted that Egypt is now in a position to choose a suitable development strategy based on lessons learned from other regions. For instance, East Asia's export-led, manufacturing-based economies were cited as models of a 'developmental state' that could be relevant for Egypt.

There may be a backlash from Western investors who fear the rise of political Islam and it was noted that investors are keen to know what would happen if the Islamists won. Yet ironically, the Muslim Brotherhood has done more than most to articulate an economic policy, which was variously described as 'social democratic' and 'middle of the road.' On the whole, the Muslim Brotherhood believes in free markets with a strong tinge of social responsibility, although some of its members occasionally make populist statements that hark back to the era of Gamal Abdel Nasser. One participant said that the Muslim Brotherhood's policies sometimes sounded like the Big Society, noting their emphasis on voluntarism and charitable work. Another commented that running charitable organizations was not a qualification for running a country and raised concerns about their stance on women working.

The Muslim Brotherhood-associated Freedom and Justice party has emphasized urban development; urbanizing the Sinai; developing economic integration with the Sudan with the ultimate aim of developing a regional breadbasket; investing in education and research; ensuring access to healthcare for all; and purging Egypt of corruption – all policies that are general enough to gain support without delving into the intricacies of implementation.

For its part, the transitional government has committed to reforming energy subsidies, arguing that its greater legitimacy means it does not have to buy the silence of the population with handouts. It has also increased payments to farmers for wheat, providing them with extra income that is directly linked to productivity. Yet the transitional government will not be in power for long and therefore has a limited ability to develop long-term reforms.

It was argued that the Supreme Council of the Armed Forces (SCAF) is becoming increasingly unpopular. That said, for many Egyptians, the SCAF is seen as providing security, which is one of the public's foremost concerns. However, activists are voicing important concerns about the need to hold the military accountable. The Muslim Brotherhood is trying to hold the middle ground by calling for a civil government as soon as possible, without

confronting the military. This has created some tensions with other political activists, but the Brotherhood itself would see its cautious approach as paying dividends. It is likely to gain a large percentage of seats in the newly elected parliament, although it would have to share power. Another participant argued that the Muslim Brotherhood had grown popular under dictatorship but would face more competition as a democracy emerged.

It is clear that any new government will face pressure to address economic equity and poverty. While the macroeconomic reforms of the previous government succeeded in boosting overall GDP growth, they failed to close the gap between rich and poor, between Upper and Lower Egypt, and even between the generations. There is a desire for redistribution, but a lack of clarity about how it should be achieved. Whatever the shape of the next government, it will face serious economic challenges, which one participant characterized as 'a poisoned chalice for the next five years'.

## Recommendations

- Egypt needs to move quickly towards ending the transition process, as the protracted transition is already generating political tensions and deterring investment. Policy-makers need to develop a long-term vision, looking at multinational investment processes and Egypt's competitive advantages. They need to consider how to rebrand the country, taking advantage of the revolution.
- Education and healthcare services should be particular priorities. Both need major reforms. Technical assistance is needed to rebuild the health service, which has failed in its current form.
- Egypt had some success in fast-tracking infrastructure spending in response to the global financial crisis, and further investment in labour-intensive infrastructure projects should be encouraged.
- East Asia's 'developmental states' may provide useful models for Egypt, putting development at the centre of the state's mandate, focusing on developing manufacturing, promoting exports and attracting foreign direct investment. Within the country, a regional development approach may help to address issues that are specific to Egypt's different regions, and to identify business opportunities in particular areas.
- The current deficit in training for bureaucrats to understand business needs to be addressed. Greater public-private dialogue between

officials, businesses, labour representatives and civil society would help, and the new government will need to pay more attention to social development indicators.

### **The GCC states**

In the GCC states this year, governments have focused on populist economic policies intended to reduce economic grievances and curb dissent, such as job creation and salary rises in the public sector. These measures have gone against the economic policy trends of the past decade, during which most GCC governments allowed a greater role for the private sector. It was noted that 130,000 new security jobs had been created in the Gulf states this year. It was argued that the welfare policies had led to a situation where Emiratis were very aware of their rights, but not obligations. There was no real project for the post-oil economy; many saw their duties as cheering for the national football team, taking part in the national day, and fighting Iran if it ever invaded, but had no sense of a role in developing the economy. It was also argued that entrepreneurship was seen as a kind of charity or corporate social responsibility project for social development, rather than a driver of growth and employment.

The fiscal response to the Arab Spring also adds to the long-term burden on GCC states' budgets and means they will require higher oil prices in the future to balance their books. The short-term expansion of the role of the state goes against a decade of policies aimed at rolling it back.

In terms of the economy, the GCC states have many advantages and their challenges are far less pressing than those of Egypt and Tunisia. Nonetheless, every GCC state faces issues around unemployment and under-employment – economic issues that have social and political ramifications too.

The key causes of unemployment are twofold: skills mismatches, as across much of the region, and – unlike in most Arab countries – a high dependence on low-cost expatriate labour. There is a high reservation wage for nationals and a substantial cost gap between employing nationals and expatriates in every Gulf country (though this varies from country to country).

### **Recommendations**

- Unemployment and under-employment need to be addressed as a priority for political, economic and social reasons. Education reforms

are key to reducing unemployment, and spending in this area has been rising. However, reforms need to focus more on the school level rather than being preoccupied with elite universities, if they are to have a serious impact on unemployment. Meanwhile, more work also needs to be done on developing research and development (R&D) and knowledge economies in the Gulf. The Gulf has resources to do both.

- For GCC governments, a key economic challenge is to reduce their role in the market, becoming regulators rather than owners. However, there remain questions about the political will to do so.

## **BREAKOUT SESSION: JOB CREATION**

The MENA region's population is forecast to rise from 350m today to 600m by 2050, according to International Labour Organization projections. Famously, the majority of the population today is under the age of 30. This youthful population could be a useful complement to Europe's ageing population. However, growth has not been strong enough to generate the necessary jobs for the young, so MENA has the highest rate of unemployment in the world, even compared with sub-Saharan Africa. Although the region's economies are very diverse in terms of their levels of income and their economic structures, unemployment is a problem right across the Arab world.

One reason is that there is a mismatch between the education system and the demands of employers. Another is that the public sector has been the employer of first and last resort – with some countries' constitutions declaring that the state guarantees the right to work – and it was said that this has compromised incentives to work.

It was also noted that many private-sector jobs are unskilled, temporary and insecure – for instance, in the tourism sector, which is a major employer in North Africa. It was stated that in Tunisia only 10% of jobs in tourism and in textiles are for people with tertiary education. Addressing the mismatch between public- and private-sector work may also require improving conditions in the private sector and focusing on a 'decent work' agenda. However, in much of North Africa, Yemen, Iraq and some other parts of the region, a large proportion of the population works in the informal sector, where there is even less legal protection and welfare provision than in the formal sector. It was said that informal work has proliferated this year; the spark for the Arab uprisings was the suicide, in December 2010, of a Tunisian vegetable seller, Mohammed Bouazizi, said to have been humiliated after police slapped him and confiscated his vegetable cart. Today, no official wants to create another Bouazizi. However, there are rising tensions between informal workers, who have little protection, and formal workers, who pay more taxes. Meanwhile, in Morocco, high unemployment and desperation for work mean that even in the formal sector, unscrupulous employers sometimes hire people on condition that they are not registered for social security. The region also has the world's lowest female labour-force participation rate and the highest rate of female unemployment.

The Gulf states face different problems, given their high income and dependence on migrant workers, and a sense of economic entitlement among nationals presents difficulties for employers. In Qatar, public-sector pensions and salaries have recently doubled; private companies cannot compete. On



participant remarked that paying the penalties for not employing nationals was actually cheaper than paying the nationals. Graduate unemployment is a particular issue. Saudi Arabia sends thousands of students to study abroad on government scholarships, but many of these graduates are now coming back to unemployment, and some are likely to be outspoken and critical. Many young Saudis feel that their generation, born into wealth, has the right to be outspoken and to have the same freedoms as in the West.

Improving the general environment for investment will be essential to creating jobs, but it was also noted that the most competitive and profitable industries are not always the most labour-intensive (especially oil and gas and energy-based industries such as petrochemicals and plastics). It is estimated that the region needs economic growth of some 6–7% per year to absorb new labour market entrants, depending on which sectors drive growth.

## Recommendations

- Statistics provided by organizations such as the World Bank can give a false impression of the ease of doing business for companies that are not connected to the regimes. Rankings such as the World Bank's 'Doing Business' indicators could do more to convey the reality for the majority of businesses, which are small and not well connected. It was also suggested that the 'Doing Business' rankings should reassess the decision to include the ease of firing workers as one of the key positive indicators of business environment strength.
- Private investment will be needed to create jobs as governments do not have the resources to employ such large numbers of new labour-market entrants. However, economic support for large companies will tend to reinforce the dominance of existing players.
- International financial institutions therefore need to find ways to go directly to SMEs, which between them are major employers. Information and monitoring can be problematic but local microfinance organizations in much of North Africa can provide help. Improving access to finance should be a key issue for policy-makers. SME access to finance is as low as in sub-Saharan Africa, and this needs to be fixed. Where schemes do exist, there needs to be more outreach to inform people outside capital cities that such schemes are available.

- For SMEs to grow, a more level playing field should be established to allow the Arab world's entrepreneurial culture to be translated into more jobs.
- Arab countries could look at an equivalent of the Small Business Act in the United States, which gives a share of public procurement to small companies.

## **BREAKOUT SESSION: CORRUPTION**

Popular anger over corruption has been one of the central factors driving unrest across the Arab world. There is a window of opportunity to capitalize on that public mood, but it will require building strong institutions and serious cooperation from international businesses (some of which now face tougher anti-corruption legislation at home) and financial centres. In the Arab world, a great deal of anti-corruption legislation was developed over the past decade, and it was said that many countries have the form but not the substance of anti-corruption measures. Corruption comes in both 'legal' and 'illegal' forms; for instance, in Egypt, there is a lack of legal definition of conflicts of interest, and some contracts are now being challenged for being unfair although they are not illegal. In North Africa, European Neighbourhood policies required governments to set up competition bodies, but this did not mean that monopolies held by the well-connected were investigated.

To what degree should people and companies be held responsible for past corruption? From the street, it is clear that people want to see justice being dealt out very visibly, and possibly even violently. It was noted that about half of the top 100 businessmen in Egypt were fleeing for fear of conviction. There is an extreme lack of trust in business in Egypt because of the history of corruption, which may also be unfairly tainting the perceptions of legitimate businesses.

Another difficulty for emerging economies is tracing assets that are well hidden through complex international structures and shell companies. It was argued that Western countries should be more helpful here – and more vigilant over large investments coming from state officials.

### **Recommendations**

- Corruption, a central grievance in the protests in many countries, needs to be addressed as a key issue in improving the legitimacy of governments in the region.
- There is a window of opportunity to build more accountable structures and stronger anti-corruption institutions.
- New structures of 'horizontal surveillance' need to be created, with more oversight for civil society.
- Western countries need to address their own role, especially as Western financial centres have been investment destinations for officials misusing their countries' assets.

## **BREAKOUT SESSION: THE POLITICS OF THE ENERGY SECTOR**

A growing disconnect was noted between the 'wet market', or current actual supply and demand, which is fairly comfortably balanced, and the 'paper market', which is nervous and volatile. The Arab Spring has had a negligible effect on the wet market, the effect being mainly through losses to Libyan oil production (which was 1.4m barrels per day before the uprising but fell sharply during the conflict). Around 80% of the Arab world's oil and gas comes from just four countries: Saudi Arabia, Kuwait, the UAE and Qatar. These have been among the least affected by the Arab Spring. However, the paper market has been affected by fears of what might happen next, the likely outcome of the Arab awakening and whether unrest could spread to the key oil producers. Indeed, the increasing bill for Saudi fiscal handouts suggests it will be in Saudi Arabia's interest to seek higher oil prices in future.

It was argued that democracies tend to speed up the depletion of oil reserves. The question of who would decide on depletion policies was raised. National energy companies are likely to be reformed in countries that are undergoing political changes, as old structures may be seen as tainted. Rising prices create incentives for faster depletion, whereas before the Arab Spring, oil in the ground was seen as being worth more than money in the bank.

The regional gas trade is very disjointed and several countries, including in the Gulf, face serious gas supply crunches that suggest subsidies will need to be re-examined, even if this is politically difficult.

### **Recommendations**

- Companies need to be aware of the risk of a possible nationalistic and protectionist backlash.
- Countries need to open sensible national debates about the desired rate of depletion of their oil reserves, bearing in mind that oil in the ground is an asset for the future.
- Gas trade needs to be facilitated within the region to meet shortfalls in some countries.
- Energy subsidies still need to be addressed to ensure that subsidy spending is targeted at the poor and – particularly in the Gulf context – that countries are not wasting their resources on excessive, unproductive domestic use.

## CLOSING KEYNOTE

In a closing keynote address, Andrew Mitchell, the UK's Secretary of State for International Development, said the international community should celebrate a historic moment in which the Arab world was rewriting its future. Importantly, Arabs were showing that the region does not have to choose between repression and extremism. There would be no single path to political emancipation, and it would not be for Britain or any other government to tell the Arab countries which specific path they should take, just as there was no single one-size-fits-all recipe for economic growth. However, he said, in Britain, people knew that 'governance without the mandate of the people is no governance at all', and that democracy was not earned without a struggle. It was both morally right and in Britain's national interest to help the people of the Arab world to create democratic institutions that would allow them to participate in the governance of their countries. Mitchell noted that the Arab world mattered for Britain's national interest for several reasons: because of trade, with nearly £25bn of British exports going to the Arab world in 2010, while Gulf countries were among the UK's biggest inward investors; because of energy, as instability in the Arab world directly affected UK energy prices; and because of security, in particular the risk from Al-Qaeda in Yemen.

Britain was well placed to help, not only by providing conventional aid, although this was genuinely needed in the immediate aftermath of revolution, but also by applying other levers: by engaging politically, by advocating freer trade, and by providing valuable technical assistance. The UK was already doing this through the Deauville Partnership, through pushing for reform of the European Neighbourhood Policy, and by expanding its Arab Partnership Initiative to fund partnerships and projects to strengthen civil society, support small businesses and boost entrepreneurship (for instance, through a project with the African Development Bank in Tunisia).

In the case of Libya, the country had a wealth of both human and natural resources, with six and a half million people and the ninth largest proven oil reserves in the world. It was not in need of Western financial assistance in the medium to long term, although the UK had helped to provide food supplies for nearly 700,000 Libyans, and medical treatment for some 5,000 war-wounded, through its aid to the International Committee of the Red Cross. In the medium to long term, the role of the international community was to support Libya's transition process, including the plan for a new constitution and elections within 20 months, remembering that 'support in the absence of reform is ultimately in no one's interests at all'. Having succeeded in removing

Colonel Gaddafi, Mitchell said, it was now the National Transitional Council's task to ensure that power was put in the hands of the Libyan people.

## CONCLUSIONS

While the Arab region is extraordinarily diverse, there are some issues common to all the countries, particularly the challenges of demographics, unemployment and education. At the same time, the region has huge resources, including demographics that can complement the ageing populations of the West. There is great goodwill from many Arab economists towards the transitions, as many are all too aware that political problems have limited and distorted the development of natural resources in these countries. The problem has not been so much a lack of resources as a misallocation of resources.

There is some optimism that this transition may represent a real paradigm shift, with Arab peoples moving from subjects to citizens, as one participant described it. Yet there are clearly many risks, not least from economic problems which could undo some of the political progress unless steps are taken quickly to address the living standards of the masses of the people in transition countries.

Western policy-makers see an opportunity to work with the region at a seminal moment in its history. At the same time, they will encounter suspicion and scepticism, and will need to approach the region with humility and respect. Meanwhile, the new political players in the Arab world now need to come up with alternative visions as well as criticisms of the old order.

## APPENDIX – Agenda, 12 September 2011

A Chatham House Middle East & North Africa Programme Conference in  
partnership with FTI Consulting

# The Economics of the Arab Spring

Monday 12 September 2011, Chatham House

The 'Arab Spring' of 2011 requires businesses, governments and development agencies to rethink their approaches to the Middle East and North Africa, to question their understandings of stability and to reassess their ideas about risk. There is great potential for positive change if the complex causes of unrest – political, economic, demographic, and social – are addressed.

The region's economic problems cannot be properly understood independently of politics and fiscal handouts will not solve the issues. On the other hand, addressing political issues alone will not be enough to meet people's aspirations. In virtually every Arab country, protestors have focused on both political and economic demands, sometimes summarised as both bread and dignity. Revolutions could quickly turn sour if living standards, growth and employment numbers do not improve.

This conference will bring together a diverse range of experts from different disciplines, sitting bankers alongside young Arab political activists, businessmen alongside trade unionists, academics alongside entrepreneurs and experienced policymakers alongside emerging new thinkers, addressing ways to understand – and opportunities to improve – the complex economic issues of the Arab world.

### Agenda

08.30 Registration and coffees

09.00 Welcoming remarks from **Dr Robin Niblett**, Director, Chatham House

09.05 Opening Keynote: **Rima Khalaf Hunaidi**, Under-Secretary-General and Executive Secretary, United Nations Economic and Social Commission for Western Asia, and principal architect of the UN's Arab Human Development Reports

Chair: **Jane Kinninmont**, Senior Research Fellow, Chatham House

09.45 **Session 1: Rethinking the Region**

- Do we need to tear up old assumptions about risk and stability? In



what ways might Arab democracy be good for business? The likely evolution of policies in transition countries; capitalism in question?

Chair: **Lord Mark Malloch-Brown**, Chairman, Europe, Middle East and Africa, FTI Consulting

Speakers: **Richard Fox**, Head of Middle East and Africa Sovereigns, Fitch Ratings; **Sultan Al-Qassemi**, Founder, Barjeel Art Foundation and Fellow (Non-Resident), Dubai School of Government; **Yasmine El Rashidi**, journalist and author of 'The Battle For Egypt: Dispatches From The Revolution'; **Tarek Osman**, author of 'Egypt on the Brink: From Nasser to Mubarak' (via Skype).

10.45 Coffee break

11.15 **Session 2: The opportunities – and controversies – presented by international support packages**

- What packages are on offer from the G8, EU, IMF, World Bank and EBRD? How are these structured and targeted? What sectors will benefit? And what are the constraints? Why did Egypt's new government turn down IMF and World Bank loans? How much of a problem is inequality? Will concerns about social justice seriously be addressed?

Chair: **Jane Kinninmont**, Senior Research Fellow, Chatham House

Speakers: **H.E. Dr Gouda Abdel-Khalek**, Minister of Solidarity and Social Justice, Government of Egypt; **Masood Ahmed**, Director of the Middle East and Central Asia Department of the IMF; **Dr Erik Bergl f**, Chief Economist, European Bank for Reconstruction and Development; **Nada Al-Nashif**, Regional Director, International Labour Office, Regional Office for Arab States

12.30 Buffet lunch

13.30 **Session 3: Evolution versus revolution**

- Assessing different political trajectories of different countries; Economic scenarios for Egypt, Tunisia and Libya; What are the prospects for peaceful reform in the Gulf, Morocco, Jordan and other parts of the region? Economic reforms: structural changes or just more handouts?

Chair: **Dr Claire Spencer**, Head, MENA Programme, Chatham House

Speakers: **Alia Moubayed**, Senior Economist, MENA, Barclays Capital; **David Butter**, Regional Director, MENA, The Economist Intelligence Unit;

**Mishaal Al Gergawi**, current affairs commentator and columnist, Gulf News

14.30 Coffee break

14.50 **Session 4: Breakout Sessions**

- a. The economics of Egypt's transition

Chair: **Xan Smiley**, Middle East and Africa Editor, The Economist

Speakers: **Dr Guoyong Liang**, Economic Affairs Officer (Investment and Enterprises), UNCTAD; **Dr Maha Azzam**, Associate Fellow, Chatham House Middle East and North Africa Programme; **Dr Ashraf Mishrif**, Senior Lecturer in Political Economy, King's College, London and author of 'Investing in the Middle East: The Political Economy of European Direct Investment in Egypt';

- b. Corruption and transparency

Chair: **Jon Marks**, Chairman, Cross-Border Information

Speakers: **Dr Ziad Bahaa Elddin**, Egyptian Initiative for the Prevention of Corruption and former chairman, Egyptian Financial Supervision Authority; **John W. Moscow**, Partner, Baker Hostetler; **Chandrashekhar Krishnan**, Executive Director, Transparency International UK

- c. Youth and jobs

Chair: **Jane Kinninmont**, Senior Research Fellow, Chatham House

Speakers: **Rapti A. Goonesekere**, Senior Economist and Senior Strategy Officer for MENA, The International Finance Corporation; **Dr Lahcen Achy**, Resident Scholar, Carnegie Middle East Centre, Beirut

- d. The energy sector and its politics

Chair: **Professor Gareth Stansfield**, Associate Fellow, Chatham House Middle East and North Africa Programme, Professor of Middle East Politics and Director of the Institute of Arab and Islamic Studies, University of Exeter

Speakers: **Professor Paul Stevens**, Senior Research Fellow, Chatham House Energy, Environment and Development Programme; **Chris Breeze**, Senior Adviser for Middle East & North Africa, International Government Relations, Shell

16.10 **Session 5: Plenary**

16.30 Closing Keynote and Q&A: The economic development of the Arab world and priorities for UK Government policy

Keynote speaker: **The Right Honourable Andrew Mitchell**, Secretary of State for International Development

Chair: **Dr Robin Niblett**, Director, Chatham House

17.15 Chair's summary remarks

17.30 Close of conference

Parts of this conference will be held under the Chatham House Rule:

"When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed".

"حينما يعقد اجتماع أو جزء منه في إطار قاعدة تشاتام هاوس، فإن المشاركين يكونوا احراراً في استخدام المعلومات التي يحصلون عليها، لكن لا يجب كشف هوية أو انتماء المتحدثين أو أي شخص آخر من المشاركين."