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Introduction

This book has a simple message: It is high time for Arab governments and their international partners to focus on the economy and on building inclusive institutions. An almost exclusive focus on divisive political and identity questions since the Arab Spring started in 2010 has contributed to the current malaise. Peace, stability, and democracy in the Arab world will be achieved only if all Arab citizens, especially youth, are fully included in their countries' economy and society and if they feel that their voices are heard in the various institutions of governance. A submessage of this book is that economic growth on its own is not enough. It must be accompanied by social justice.

“The people want to bring down the regime” was the slogan adopted by the young men and women who led the Arab Spring uprisings. The world held its breath as millions of Tunisians and Egyptians poured into Bourguiba Avenue in downtown Tunis and into Tahrir Square in Cairo, demanding an end to autocratic rule and the installation of democratic governance. And the regimes were brought down. Those were exciting days. The democracy fever spread to Bahrain, Yemen, Jordan, and Morocco; massive crowds of demonstrators took to the streets demanding bread, freedom, social justice, and human dignity. Western powers provided military support to an uprising in Libya that deposed a dictator who had come to power through a coup in 1969. And Syrians rose to rid themselves of an autocratic dynasty that had ruled them since 1971. Optimism was the order of the day. Arabs were finally waking up and joining the growing ranks of middle-income countries—like those of Eastern Europe, Latin America, and Asia—who have transited from autocracy to democracy.

But can a country with no democratic tradition and with weak institutions become a well-functioning democracy and improve the lives of its citizens over night? The answer is obviously no. Democratic transitions take years, even decades, to succeed, and there are many twists and turns along the way. Moreover, they can be costly and require heavy human and economic sacrifices. Ask any Arab today if he or she feels that the region is better off than before the Arab Spring. What do you think the answer will be?

Nevertheless, the Arab Spring has brought about a significant, and probably irreversible, change in Arab societies and body politic. I recently asked a Cairo taxi driver what he thought of President el-Sissi. He was full of praise for the newly elected president. However, he was quick to add, “you know we have overthrown two presidents before him (referring to Mohamed Morsi and Hosni Mubarak); so if this one does not deliver we can overthrow him, too.” Holding leaders accountable is important for economic, political, and social development. The Arab world appears to be moving toward more open and inclusive governance. But how long will it take for this new spirit to provide results in terms of peace, stability, control of corruption, and economic well-being?

While excessive pessimism should be avoided, it is clear that the Arab transition has taken on a violent, and even scary, character. Thousands have been killed, millions of homes have been destroyed, and more than 15 million Arabs have become either refugees or internally displaced people. Relative to its size, the Arab region has the largest number of failed and fragile states. One fact tells it all. There are thousands of Yemeni refugees in Somalia (an African failed state) today. How long will the chaos in the Arab world last? What can be done to end violent extremism? Can Christians, Jews, Sunnis, Shias, and the myriad of other religions and sects that exist in the Middle East ever live peacefully together? Will anyone be able to stop the organization of the Islamic state, or Daesh, as it is known in Arabic? Will Iraq continue to exist as a nation state? Is the violence in Syria going to end in our lifetime? Will Lebanon ever go back to some semblance of normalcy, with a functioning parliament that meets regularly and is able to pass legislation—and even to elect a president? Are the Arab absolute monarchies sustainable? Will Egypt and Tunisia remain relatively stable? Should Yemen and Libya be written off as unsalvageable failed states? Can the Arab-Israeli conflict be resolved? The answers to those

questions are important for the world. Turmoil in the Arab region has global spill-over effects. Thousands of would-be illegal migrants perish every year as they try to cross the Mediterranean to get into Europe. Data on illegal immigration are difficult to obtain, but it seems reasonable to assume that not everybody dies or gets caught and that many thousands succeed in illegally entering Europe. Arabs are the first victims of violent extremism, but they are not the only victims. People in Europe, the United States, and even Japan have suffered from terrorism at the hands of Middle Eastern extremist groups.

This book is not about terrorism or violent extremism. Moreover, it is not about politics nor about democratic transitions. It is about economics. However, I do believe that achieving inclusive economic growth would contribute to peace, stability, and an end to violence in the Arab world. People who feel that their societies provide equal opportunities to all and that their voices are heard in policy discussions, who have good jobs, benefit from quality public services, and have hope for a better future for themselves and their children usually think twice before risking their and their families' standard of living by joining violent or extremist organizations.

Economic growth and social justice are not silver bullets that will, on their own, lead to peace, stability, and democracy in the Arab world. But economic programs that contribute to greater inclusion and higher standards of living should be part of any policy package that aims at peace and stability. The current focus on security measures and political arrangements is not sufficient and should be complemented by economic and social reforms. Successful political transitions in the Arab world will need to be underpinned by transitions to more inclusive economic and social orders.

Inclusive, or shared, growth is defined as growth that leads to higher income and better living standards for all the population and not just the richest group. Empirically, the degree of inclusiveness is often measured by seeing whether the income of the bottom 40 percent of the population has increased and, if so, by how much. Inclusive growth also implies an expansion of the middle class and an improvement in its living standards. Hence an alternative way of measuring inclusiveness is to measure changes in the size of the middle class.

The Arab Spring countries grew at respectable rates of around 4–5 percent a year during the decade preceding the uprisings. Yet all polls

showed increasing dissatisfaction with economic conditions during this relatively high growth period. This dissatisfaction could be explained by the fact that growth was not inclusive, and therefore most people's lives were not touched by it. Moreover, people felt that inequality increased, as a small minority, usually well connected to the political elite, received most of the benefits from growth. The sense of unfairness may explain why youth insisted so strongly on the importance of social justice during the Arab Spring uprisings.

Youth, smallholder farmers, and women suffer most from economic and social exclusion in the Arab world. Young people face huge problems finding decent jobs or housing to enable them to get married. They feel that they are excluded from the various decisionmaking processes and are not allowed to provide any input into the decisions that affect their well-being. Poverty in the Arab world is mostly a rural phenomenon, and smallholder farmers are the bulk of the rural poor. Most of the lagging regions in the Arab world, for example, Upper Egypt and Western Tunisia, are populated by smallholder farmers who live under very difficult conditions. Women are an important excluded group. Female labor force participation rates in the Arab region are the lowest in the entire world. Arab women have limited access to productive assets and to credit. Women farmers are a particularly vulnerable group.

In this book I suggest that to achieve inclusive growth, and particularly to deal with the grievances of the three most excluded groups, Arab countries need to focus on four priorities: institutional reforms to improve implementation of policies and programs; reforms of the business environment, with a special emphasis on developing small and medium-size enterprises (SMEs); rural development and support to lagging regions; and improving the quality of education.

Weak institutions and inadequate governance arrangements in Arab countries lead to the adoption of plans and policies that, while they may be technically sound, do not necessarily reflect the needs of different stakeholders. Those institutional and governance weaknesses imply that the plans, programs, and projects are often not implemented. Lack of implementation leads to lower investment and growth. There is a need to render economic institutions in the Arab world more inclusive and responsive to citizens' needs. Arab countries could benefit from the example of successful East Asian economies that put in place consultative processes (including different government departments, the private

sector, and civil society) to agree on national development plans and monitor their execution. Effective implementation needs accountability. Each executing agency in charge of a particular sector or policy issue should be held accountable for implementation. There also needs to be a supervisory mechanism that secures the accountability of the institutions and ensures that progress is being made. Institutions usually respond to pressure both from the top (president or prime minister) and from the bottom (citizens).

A focus on expanding small businesses and the SME sector would help grow the middle class and provide greater opportunities for young men and women as business people as well as employees. Real SMEs are rare in the Arab world. Arab economies are dominated by large firms, often operating in sectors that are protected from foreign as well as domestic competition, and by micro enterprises that mostly operate in the informal sector. Those micro enterprises use low technology and therefore provide low wages, and they are predominantly family affairs. They provide livelihoods for millions of Arabs, but they do not offer decent jobs. Developing the Arab SME sector would require reforms to the business environment and competition policies to level the playing field and allow SMEs to grow and compete with large firms, as well as special programs to help SMEs with access to technology, markets, and credit.

Achieving inclusive growth requires paying particular attention to lagging regions that depend mainly on agriculture for livelihood. It is no coincidence that the Arab Spring started in Sidi Bouzid, a poor region in rural Tunisia. Most agricultural producers in the Arab world are smallholder family farmers with plots of less than five hectares. Hence a program for inclusive growth needs to pay special attention to smallholder family farmers. There are six areas where governments could intervene to support smallholder family farmers and help increase their yields: linking smallholders to domestic and international markets to increase their share in value added; adapting financial and investment services to the needs of smallholder family farmers; improving access to land and securing titles; increasing investment in research and extension and adapting them to the needs of smallholders; helping farmers adapt to climate change; and launching special programs for women farmers and youth.

There appears to be a disparity between the skills that Arab youth acquire at schools and universities and those required by employers.

That is why it is also important to consider reforms of education systems. Access to education has improved dramatically in the Arab world over the past two or three decades, but quality has not improved and may even have deteriorated. Students in any of the Arab countries score below the average level on international science and mathematics tests. Low quality of education has an economic cost, as Arab youth are not as productive and competitive as their counterparts around the world. It also has a political cost, as young people who spent many years in the education system are disgruntled because they cannot find jobs that fit with their expectations. Opinion polls indicate that Arab youth are less happy and feel less in control of their lives than youth in other parts of the world. To improve the quality of education, Arab countries need to adjust curricula and teaching methods to reflect the skills and competencies demanded by today's globalized labor market. There is also a need for institutional reforms that hold schools and teachers accountable for student learning.

Peace and stability in the Arab world are global public goods. Therefore, it is in the interest of the international community to help Arab governments achieve inclusive growth that would contribute to peace and stability. The international community needs to remain engaged in the region. However, it may also be necessary to reexamine the nature of this engagement and reorient aid flows toward areas and sectors that directly enhance economic inclusiveness. Examples of such areas would be institution building, support to small-scale enterprises, agriculture and rural development, and education.