



Towards Socially Just Development in the MENA Region

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Edited by Salam Said

Contributors

Gilbert Achcar
Naser Abdelkarim
Samer Abboud
Salam Said
Abdelhak Kamal
Reem Abdelhaliem
Hamza Hamouchene

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Graphic Design: Mehdi Jelliti

Table of contents

Preface	6
Thomas Claes	
Introduction	10
Salam Said	
1. Social Justice and Neoliberalism	18
Gilbert Achcar	
2. Fiscal Policy and Social Justice	31
Naser Abdelkarim	
3. Investment Policy	48
Samer Abboud	
4. Foreign Trade Policy and Social Justice	66
Salam Said	
5. Employment Policy and Social Justice in the Arab World	87
Abdelhak Kamal	
6. Social Protection: The Neglected Path Towards Social Justice in the Middle East and North Africa	105
Reem Abdelhaliem	
7. What Kind of Development for the MENA Region? Environmental Justice, Extractivism and ‘Sustainable Development’	121
Hamza Hamouchene	
References	139
About the Authors	151
List of Acronyms	154

List of Figures and Tables

Figure 1.1: Average Global Percentage Annual Rates of Economic Growth, 1960-present	22
Figure 1.2: Annual Growth in Gross Capital Formation by Region	26
Table 1.1: Gross National Income (GNI) Per Capita of Selected MENA Countries in 2015	27
Table 3.1: Gross Capital Formation in the Arab World (excepting the Gulf States) as Percentage of GDP, 2010-2014	52
Figure 3.1: Total Foreign Direct Investment in the Arab World, 1981-2015	56
Figure 3.2: Cumulative Foreign Direct Investment Flows by Sector in the Arab World, 2003-2015	57
Table 4.1: Major Bilateral and Regional Free Trade Agreements Involving Arab Countries	70
Figure 4.1: Arab Trade by Destination as Percentage of Total Trade, 1996-2015	75
Figure 4.2: Trade Balances with EU of Egypt, Jordan, Lebanon, Morocco and Tunisia (2000-2015)	77
Table 5.1: Average Annual Percentage Growth in Real GDP per Capita in the Arab States, 2000 and 2015	89
Figure 5.1: Unemployment Trends in Arab Countries by Gender and Age Group, 1991-2013	92
Figure 5.2: Share of Employment by Economic Sector	93
Table 5.2: Proportion of NEETs Among People Aged 15-29	95
Figure 6.1: Informal Employment as Proportion of Total Employment in MENA Countries in 2012	111
Figure 6.2: Rates of Social Security Coverage in Selected MENA Countries	112
Figure 6.3: Nominal Annual Rates of Growth in Public Expenditure on Education and Health, Compared with Inflation	115
Figure 6.4: Out of Pocket Expenses as Percentage of Private Expenditure on Health, 2014	116

Preface

Thomas Claes

The promise, or rather 'The Utopia of Neoliberalism', is severely damaged in the Middle East. For some time, as in other parts of the world, a combination of steadfast authoritarianism and liberal economic development allowed for economic growth and the reduction of poverty. However, growth rates in the Middle East proved to be illusory. The economic growth that followed liberal reforms and structural adjustment programmes in the region only benefited a small economic and political elite, well entangled with the authoritarian governments of the region. Meantime the state effectively ceased to be a caretaker for the poor, a role it had assumed in many Arab countries since independence. The beneficiaries of so-called 'Washington consensus' policies were few in number. Liberalisation, tax reduction, trade liberalisation, privatisation, deregulation and integration into the global economy left the masses of the Arab world excluded and marginalised from the new 'market' and its benefits. At the same time, redistribution of wealth and opportunities from the bottom to the top, coupled with corruption and clientelism, drained the middle classes and thus blocked any serious market-led development.

The series of uprisings that started in Tunisia in late 2010 and have since dominated political discourse in and about the region were an almost natural consequence of these social injustices. However, these political earthquakes did not shake up the economic order. Neoliberalism proved to be resilient while states in the Arab world continued to marginalise legitimate demands for political change and social equality from younger generations, workers, peasants and activists. Instead, in the wake of the uprisings, any serious discussion of social justice has been sidelined by the priorities of security, anti-terrorism and (increasingly) migration. Questions of economic and social justice have been overlooked, not only by the socio-economic elites and governments of the region itself, but also by external actors, governments and institutions, whose interests are mostly shortsighted and focused on immediate crisis resolution rather than long-term economic strategy.

Therefore, it does not come as a surprise that following the latest economic crises in the region, accelerated and exacerbated by political turmoil, the same remedy is prescribed that led to the aforementioned economic and social injustices in the first place: international financial institutions - the “armed extensions” of the economic world order¹ - and foreign governments quickly gather to negotiate new loans and credit lines to ease the pressure of foreign trade deficits and sky-rocketing costs of the inflated public sector and the demands of ever more powerful security apparatuses. With continuously high unemployment, soaring inequalities, wars and armed conflicts, and a resurgence of authoritarianism, the prospects for positive change look dim.

For the Friedrich-Ebert-Stiftung (FES), the political foundation of the German Social Democratic Party, economic and social justice, along with long-term social and economic stability for each individual, are essential. Without these no development, be it economic, political, social or human, is possible. Social progress is stalled without a certain degree of social justice. However, social justice is never just granted, it must be demanded and it must be defended. That is why strong and independent trade unions and an informed and vigilant civil society must fight for accountable institutions to govern economic policies and control the forces of the market. The central idea of FES's regional project ‘For Socially Just Development’ is to support heterodox economic science and encourage exchanges among academia, civil society and political decision makers in the Arab world. This project, financed by a special initiative of the BMZ, the German Ministry for Economic Cooperation and Development, provided a unique opportunity to develop a necessary and timely project on economic policies in the region. With a timeframe of four years, from 2016 to 2019, a longer-term and bottom-up approach involving a large number of experts from within and beyond the region could be placed at the centre of the project. Similarly, by supporting numerous studies, trainings, summer schools, workshops and academic seminars on specific subjects related to social justice, such as trade, employment, reconstruction, rural development, food sovereignty and the social and solidarity economy, we aim to improve knowledge and open new discussions in the region. Over time, a substantial

1) Pierre Bourdieu: The essence of Neoliberalism, <https://mondediplo.com/1998/12/o8bourdieu>

network has been formed. The expertise of this network will contribute immensely to future steps in this project and of the FES, and also serve as a multiplier for new ideas and projects.

This publication is a centerpiece in this approach, and aspires to initiate a debate on economic policies in the Arab world and how social and economic injustice can be replaced by an economic system that benefits the people instead of fostering their exploitation. To achieve social justice, the hegemony of neoliberal discourse over the economic order needs to be challenged. Knowledge of political economy, the workings of global finance and markets, the global interests at stake and their articulation through international financial institutions needs to be produced, formulated and shared throughout the region. To produce this publication over the course of the last two years, starting in late 2015, a group of distinguished scholars from the region, known as the 'Core Group', came together with the aim of collectively writing a publication that on the one hand discusses the policies that lead to social injustice, and on the other proposes alternative policies that could lead to social justice in the Arab world. While this book is an important milestone in the work of the project, it is not the end of it. Following this publication, the long and challenging work of advocacy will increasingly take centre stage. In addition, in coming years FES will continue to hold workshops, trainings and discussions throughout the region to train and engage with a large array of groups and people on the basis of this book.

Without the immense motivation of its authors this book could never have been completed. In the name of the project, I would like to thank first and foremost Salam Said, who has been involved in this publication from its inception through to the final stages. Her ideas and dedication continuously drove the project forward. Lively exchanges between Gilbert Achcar and Naser Abdelkarim constituted an epicentre for debate in the project. I want to thank them both immensely for their great work and dedication, not only to their chapters, but also to the whole book and the entire project. Samer Abboud and Reem Abdelhaliem contributed, in addition to their own important chapters, great ideas on the whole project. I also wish to thank Hamza Hamouchene and Abdelhak Kamal,

who joined the project in its second year but were able to blend in with the work perfectly and added immensely valuable contributions. Finally, we owe great gratitude to Driss Ksikes, who was involved in the project's planning, contributed a discussion paper on employment policies and never ceased to support the project.

Such work would not be possible without the vital support of those in the background, which is why I would like to extend my thanks to Ilhem Brini and Slaheddine Manoubi from the project team in Tunisia.

Thomas Claes
Project Director 'For a Socially Just Development'
Tunis, August 2017

Introduction

Salam Said

One of the most controversial issues concerning national and global economic policy today is neoliberalism. Neoliberal policies are increasingly called into question due to their association with frequent economic and financial crises, and with worldwide growth in social injustice, poverty, unemployment, environmental disasters and wealth inequalities both among and within countries.

While differences of opinion as to the explanation for these economic and social imbalances still exist among academics, there is a growing consensus that the free market system does not work as either desired or claimed and is not able either to provide stability or sustain growth. Promoters of neoliberalism tend to attribute these inadequacies to shortcomings in the implementation of free market rules, government interventions, insufficient resources and corruption. Nonetheless, critical voices argue that neoliberal globalisation, the policies of global economic institutions (the International Monetary Fund (IMF), World Bank (WB) and World Trade Organisation (WTO)) and free trade agreements are themselves in fact the cause of the disadvantageous outcomes.

Some go even further and question neoliberal ideology itself. Joseph Stiglitz, for instance, refuted the assumption that free markets necessarily lead to economic efficiency², and provided evidence that free markets do not lead either to social justice or economic efficiency. David Harvey proved that changes in the global economy since the 1970s resulting from growing neoliberal influence have benefited a small minority at the expense of the majority and recreated class distinctions through “accumulation by dispossession”³. Dani Rodrik showed that markets alone cannot create sustainable economies and prosperity, but require effective intervention from governments. The international economic system thus needs better governance, while institutional regulations for labour markets, finance, trade and social welfare have to be organised

2) Stiglitz (2013a)

3) Harvey (2005)

at national level⁴. From a developmental perspective, Ha-Joon Chang argued that free market policies are anti-development by nature, while government interventions via economic policy are crucial for successful development, especially in developing countries. He drew attention to how most developed nations implemented interventionist economic policies when it benefited their own economies, but persistently seek to hinder developing countries from doing so themselves⁵.

Such profound criticisms of the policies of the IMF and WB based on their contributions to inequality and social injustice are echoed by numerous academics and activists worldwide⁶. These policies have not only failed to achieve the promised economic recovery, growth or stability, they have also damaged domestic economies and undermined social security and democracy in targeted countries⁷. In particular, IMF recipes based on the so-called 'Washington Consensus' (combining austerity policy, privatisation, trade liberalisation, downsizing government and cuts in social spending) have fundamentally hampered poverty alleviation and unemployment reduction, at the same time as enriching multinational corporations and the wealthiest national elites⁸.

One factor that could explain why the IMF and WB appear unable to serve the interests of small or developing and indebted countries is that they are dominated by advanced economies, in particular the USA⁹. Regrettably, the WTO and other multinational trade and investment bodies are not an exception to this pattern, which by its nature makes our world economy unfair and increasingly unequal. The only possible way out of this dilemma is to reform the whole system and restructure all world institutions to make them more democratic and transparent, and capable of ensuring equal participation by all countries in decision-making processes¹⁰.

The hazardous consequences of neoliberal economic policies for social welfare, inequality and domestic or local economies have been observed not only in developing and indebted countries that suffer developmental problems, poverty, unemployment, authoritarian regimes or political conflicts; but increasingly also in the advanced economies that

4) Rodrik (2011)

5) Chang (2003)

6) See, for example, Amin (1997); Stiglitz (2002, 2013b); Chang (2003); Rodrik (2011)

7) See, for example, Amin (1997); Chang (2003); Stiglitz (2002)

8) Chang (2003); Stiglitz (2002)

9) Amin (1997); Stiglitz (2002)

10) Stiglitz (2002); Rodrik (2011)

themselves created - and still promote - these policies. The problem of America's so-called 'one percent'¹¹, which refers to growing inequality in the most advanced economy in the world, is one indicator of what neoliberal policies have led to since Ronald Reagan's time. American people might live in a 'democracy', but this democracy seems to reflect the interests of the 99 percent very little, and those at the bottom not at all¹².

Inequality, unemployment, shrinkage and disappearance of the middle class and decline in public services such as education, health and infrastructure have become increasingly major concerns among large portions of the population in Europe and the USA. These concerns are mirrored in the rise of populist right-wing extremist and nationalist political parties and movements such as PEGIDA and AFD (Alternative for Germany) in Germany, the Front National in France, the Party for Freedom in the Netherlands and Donald Trump's ascension to the presidency of the USA. In the words of Guardian columnist George Monbiot, "Financial meltdown, environmental disaster and even the rise of Donald Trump – neoliberalism has played its part in them all"¹³.

Arab Countries, Neoliberalism and Social Justice

As is the case elsewhere in the world, Arab countries have followed neoliberal doctrine to different degrees and for different reasons. Also like in the rest of the world, these policies have influenced development processes, local economies, employment, state budgets, social security, environment, poverty, health care and education. However, similar to many developing countries, but unlike developed countries, Arab countries lack established processes and traditions of democracy, rule of law, human rights, gender equality, social security and environmental protection. These circumstances make the negative effects of neoliberalism even more harmful.

Neoliberalism has come in for increasing scrutiny and debate in Arab countries since the Arab Spring, when large numbers of people protested, under brutal and repressive conditions, against political, economic and social injustice. Their main demands were equal economic and social

¹¹) The notional one percent of the population that controls a disproportionate share of national wealth and economic and political power.

¹²) Stiglitz (2013)

¹³) Monbiot (2016), p.1

rights, equality of opportunity and political liberty. The uprising surprised and amazed pro-neoliberal governments and the financial institutions (IMF and WB), who were reporting positively on economic performance in the countries where revolts took place. However, critical observers and scholars were already aware of these issues and could even have predicted the uprisings in many Arab countries¹⁴.

Against this background, this book addresses various questions relating to neoliberal economic policy and social justice in Arab countries, including:

- How have neoliberal economic policies contributed to inequality, social injustice and environmental destruction in Arab countries?
- What is the relationship between neoliberal economic policies and the protests of 2011?
- Has neoliberalism – as promised – helped Arab countries improve their competitiveness, attract private investment, increase economic growth, create job opportunities and realise positive balances in trade and finance?
- How can we explain growth in the informal economy alongside neoliberal economic policies?
- Does the Arab Spring have any effect on neoliberal economic policies?
- Given the criticisms of free market policies and international economic institutions cited above, why do Arab countries continue to borrow from the IMF, join the WTO and liberalise their economies?
- Who has drawn up these policies and who actually benefits from them?
- And finally: are there any alternative policies that could reduce inequality and boost social justice?

14) See, e.g., Achcar (2005, 2009)

Aims and Structure of the Book

This book is divided into seven chapters and aims to investigate the factors underlying poor socioeconomic development and growing social injustice in Arab countries, to raise awareness of causal relationships between these factors and neoliberal economic policies, and finally to stimulate debate on possible alternative policies and new development paradigms that could improve social justice and increase the living standards of the entire population of the region.

Chapter 1

Provides an overview of the history of neoliberalism worldwide and in Arab countries in particular. More importantly, it highlights the relationship between social justice and neoliberalism, and explains the conceptual difference between 'economic liberalism' and 'political liberalism', which are widely conflated or treated as inseparable.

The second, third, fourth and fifth chapters provide critical analyses of four areas of economic policy from a social justice perspective, based on specific examples from the region.

Chapter 2

Addresses fiscal policy, a vital tool for income and wealth redistribution. It reviews the main features of Arab countries' fiscal policies and identifies key triggers of social injustice in Arab countries, namely: regressive taxation systems, lack of budgets for gender issues, cuts to subsidies and decreasing public expenditure on development, education and healthcare.

Chapter 3

On investment policy explains how private investments have failed to fill gaps, resulting from privatisation, in public investment in crucial sectors such as infrastructure, industry, education and health, despite enjoying generous tax breaks and subsidies. It also shows how neoliberal investment policies have been advantageous only to business elites and international capital.

Chapter 4

On foreign trade describes the historical stages of trade liberalisation in Arab countries and the roles of the IMF, WB, WTO and European Union in binding Arab countries to free trade. It then shows how trade liberalisation has massively damaged local industry and agriculture, increased unemployment, raised fiscal deficits and created economic dependencies.

Chapter 5

Discusses employment policies in Arab countries. Unemployment is a major problem, and the lack of policies to deal with this problem disastrous. In addition to highlighting various imbalances in labour markets, such as gender inequality and youth unemployment, the chapter addresses topics like the informal labour force, workers' rights, and provision of decent jobs and wages.

The final two chapters address serious and fundamental issues that massively and directly affect the livelihoods of millions of people in the region, namely: social protection, environmental justice, extractivism and sustainable development.

Chapter 6

Focuses on social protection systems in Arab countries and shows, if they exist at all, how deficient they are. It also discloses the urgent need to change the status quo if Arab governments intend to reduce poverty, enhance social justice and develop their economies.

Chapter 7

Sharply criticises economic and development policies in the region, based on concrete examples from several countries of their destructive impacts on natural resources, ecological balance, the environment, and the livelihoods of large proportions of the population. It illustrates how development based on extractivism under capitalism is a form of neo-colonial plunder and incompatible with social or environmental justice. It warns against falling into the trap befalling many NGOs and civil society organisations in becoming co-opted into, "[A]n artificial and partisan civil society sector, useful only for deepening the marketisation

and privatisation of the social¹⁵.”

This volume is a part of a FES project entitled For « Socially Just Development in MENA¹⁶». Its authors are scholars from various academic backgrounds and from and/or with experience in several Arab countries. It is an outcome of intensive discussions during the years 2015-2017 among the authors themselves and also involving local stakeholders¹⁷ from eleven countries in the region¹⁸. The main findings of the project are strongly reflected in the book's chapters and supplement them well, mirroring the latest developments on the ground.

15) See, e.g., Achcar (2005, 2009)

16) For Socially Just Development in MENA is a regional project funded and organised by Friedrich-Ebert-Stiftung (FES) and running for the years 2016-2019. Its main aims are: to provoke debate on neoliberal economic policies in the Arab countries; to increase awareness of their social and environment effects; and finally to support/mobilise activists, scholars and civil society to suggest alternative policies and new development paradigms that can improve social justice and increase living standards for the population of the whole region.

17) In order to hear a wide range of stakeholder views, invited participants to closed discussion workshops included academics, activists, and representatives of trade unions, civil society, farmers' associations, government, political parties and the private sector.

18) Case study countries were Lebanon, Syria, Yemen, Jordan, Iraq, Algeria, Tunisia, Morocco, Palestine, Sudan, and Libya. The discussion workshops with national stakeholders took place during 2016 in connection with the FES-regional project For Socially Just Development in MENA.



Social Justice and Neoliberalism

Gilbert Achcar

Social Justice and Neoliberalism

Gilbert Achcar

The great Arab uprising, which sprang from the heart of Tunisia in December 2010 and spread to the whole Arab region in 2011, was not only a revolt against political tyranny but also against unemployment, low standards of living, and corruption. Indeed, 'social justice' was one of the most widely used expressions in the 'Arab Spring' of 2011.

The slogan, "Bread, Freedom, Social Justice", chanted in Cairo's Tahrir Square and other Arab cities, encapsulated the deep aspirations of the regional uprising. These aspirations were not limited to political and cultural freedoms, as preconditions for true democracy. They were also very much about living conditions: the aspiration to secure an income that allows for a decent life, which in turn involves the creation of job opportunities and the eradication of unemployment ("Employment is a right, you gang of thieves," has been one of the main slogans of the Tunisian social movement before, during and since the 2010-2011 uprising). These goals were regarded as intimately linked to the eradication of corruption and nepotism, two of the most serious scourges affecting Arab countries.

1.1 Social Justice

By 'social justice', most people in the Arab world – and elsewhere – refer on the one hand to eradication of poverty (as the most blatant indicator of social injustice), and on the other hand to reduction of social inequality through measures such as: provision of free education and health care; ensuring a decent standard of living for all via provision of decently-paid jobs, job security, adequate and affordable housing; and support for raising children through free childcare and social subsidies. Most people understand these goals as achievable only through state mobilisation for that purpose of national income: both the part derived from natural

resources and that contributed by members of society, especially the richest among them, through progressive taxation.

Such views clash with basic tenets of neoliberalism as an economic doctrine that postulates that free market and free enterprise, with the role of the state reduced to a minimum, represent the ideal formula for all societies. To make this perspective more palatable, advocates of neoliberalism usually present their conception of individual economic freedoms and divestment of the state as necessary correlates of the political freedoms to which most people aspire, much as they aspire to social justice. The truth is, however, that economic and social liberalism (neoliberalism) are distinct from political liberalism. In the United States of America, the label 'liberal' actually designates progressives who are critical of neoliberalism, the full version of which is upheld only by conservatives.

Whereas neoliberals believe that a self-regulating market and unrestricted social inequality eventually benefit most of society, progressives or liberals believe that the state should regulate markets to avoid economic crises or smooth them over, thus diminishing their social consequences, while providing social security and reducing social inequality. Economic regulation is thus seen as a basic condition of political freedom, since the latter cannot be truly and fully enjoyed in the absence of social and economic security. This is indeed a classical philosophical distinction between right and left: whereas the right regards economic freedom as a crucial value, at the expense of social equality, and postulates that political freedom cannot exist without its economic counterpart, the left regards economic regulation as a key condition of social equality, which it sees as a basic condition for real political freedom and equal political rights.

1.2 Historical Background of Neoliberalism

Classical economic liberalism, of which neoliberalism is the heir, came under attack at the time of the Great Depression that began in 1929 and continued until the outbreak of the Second World War in 1939.

The traumatic experience of the depression, and its terrible consequences in the rise of fascism and the war, convinced the leading economic powers of the need for economic regulation aimed at countering cyclical economic downturns and providing a social safety net: especially in regard to unemployment, which grew to massive proportions during the crisis. As Karl Polanyi put it in 1944, the 'self-regulating market' was a dangerous utopia that provided the background for the crisis and the rise of the far right. In the USA, early on, the need for the state to step in, stimulate demand and create jobs was a basic tenet of the fight against the depression. It stood at the core of the New Deal implemented by US President Franklin Roosevelt (1933-1945).

At the end of the Second World War in 1945, Keynesianism inspired the economic policy that became dominant in the global capitalist economy: a policy based on state regulation of the economy, stimulation of demand, state provision of social security – the 'welfare state' – and central planning. This model informed the global economic system and its international financial institutions (IFIs) – the International Monetary Fund (IMF) and World Bank – at their inception. It prevailed during the long postwar boom that peaked in the 1960s – a period of roughly three decades (1945-1975) that appears in retrospect as the 'golden age' of capitalism. In many countries of the Global South, this same period was an era of 'developmentalism', characterised by an active and decisive role of the state in promoting industrialisation, either through the public sector or through close collaboration of government with private corporations.

Neoliberalism developed as an ideological counteroffensive against Keynesianism following the early postwar period. It gained momentum with the first signs of crisis in the international monetary system in the late 1960s and the first major postwar global recession in 1975. Although incomparably milder than the Great Depression, this crisis was seized upon as an opportunity to discard the postwar Keynesian economic model and replace it with new policies inspired by neoliberalism. The 'conservative revolution', as it was called, was led by Prime Minister Margaret Thatcher (1979-1990) in the United Kingdom and President

Ronald Reagan (1981-1988) in the United States. The European Union espoused the basic tenets for its Eurozone through its founding Maastricht Treaty of 1992. Thus, once adopted by the greatest world economic powers, neoliberalism was confirmed as the new dominant economic doctrine at global level.

Neoliberal economic doctrine adheres to a monetarist perspective opposed to inflation. It advocates supply-side economics, with tax cuts, especially for businesses and the rich, as a central component. This accompanies removal of labour rights won by the workers' movement; radical trimming down of the state and its role through privatisation, deregulation and reduction of state expenditure, in particular social expenditure; and free trade. Since it was inevitable that such policies would increase social tensions by drastically augmenting social precarity, they were accompanied by increases in repressive laws and measures ('zero tolerance') and – most spectacularly in the case of Ronald Reagan's USA – major increases in military and police expenditure, in strong contrast with imposed 'austerity' in social welfare matters.

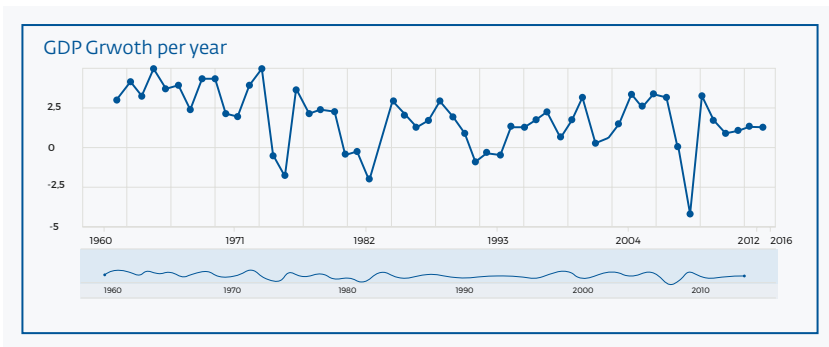
The same policies were imposed upon developing countries with market economies, with IFIs playing a major role. They took the opportunity provided by the debt crisis, which unfolded in the 1980s as a result of heavy borrowing incurred primarily in order to cope with steep rises in energy prices in the 1970s and early 1980s. In 1989 the IFIs established the so-called 'Washington Consensus' (common to the IMF, World Bank, US Treasury and US Federal Reserve) embodying the basic tenets of neoliberalism. This became the cornerstone of conditionality attached to debt relief and financial aid. By means of Structural Adjustment Programs (SAPs) reflecting the Washington Consensus, the IFIs imposed neoliberal agendas on the Global South. Import-substitution industries gave way to economic restructuring towards export-oriented industries. Liberalisation of foreign trade through removal of tariffs and other barriers protecting the productive bases of national economies culminated in the foundation of the World Trade Organisation (WTO) in 1995.

A key aspect of neoliberal doctrine is its dogmatism. It postulates that its measures, based on promoting the role in development of the private sector and drastically reducing that of the state, are universally valid, regardless of specific economic and political conditions in the countries on which these measures are imposed. This doctrinal rigidity overlooks the fact that where the private sector has historically fulfilled a development mission independently of the state it has enjoyed conditions of political stability and rule of law, and that the most successful recent experiences of development have taken place in countries like South Korea, Taiwan, and China where the state played or still plays a central role. Even experiences regarded as showcases of the neoliberal formula, such as India or Turkey, are countries that had accumulated an industrial base in earlier developmentalist phases of their history.

The overall balance sheet of neoliberalism is negative when compared with that of the Keynesian era. Global rates of economic growth have been substantially lower since the global crisis of the 1970s and the subsequent neoliberal turn than in the 1960s, let alone the postwar years.

Figure 1.1:

Average Global Percentage Annual Rates of Economic Growth, 1960-present¹⁹



19) Source: <http://data.worldbank.org/indicator/NY.GDP.PCAP.KD.ZG>

The downward trend in rates of growth over time would be much more marked if China – a country where the state plays a major role in steering the economy, thus contravening key neoliberal tenets – was excluded. Most importantly, the social costs of neoliberalism have been devastating: huge increases in social inequality and social precarity, unemployment and unprotected informal labour. The bulk of the global reduction in poverty that partisans of neoliberalism claim as its major achievement has actually been realised in China. Faced with a blatant failure of their measures in many developing countries, IFIs added to their neoliberal doctrine a new emphasis on 'good governance' as a requirement of success, and its lack therefore an explanation of failure. However, in practice this political condition is not regarded as a prerequisite for enforcement of neoliberal economic measures: the latter takes precedence over any other consideration. Neoliberal dogmatism has had devastating economic and social consequences in many parts of the developing world, and in the Arab region more than anywhere else.

1.3 Neoliberalism in Arab Countries

The Arab region witnessed a 'socialist' era that culminated in the 1960s, with sweeping nationalisation that enhanced the role of the public sector as the main component of the economy. This went along with the implementation of economic and social reforms aimed at improving the conditions of the poor and intermediate strata of society and providing social security in the form of a 'welfare state'. Egypt under the presidency of Gamal Abdel-Nasser (1954-1970) led the way in this 'socialist' radicalisation. His huge influence led to its imitation, to varying degrees, in most Arab countries in the 1960s. After Nasser's death, and despite the decline of the political trend that he personified, the early 1970s saw further expansion of the public sector through nationalisation of the hydrocarbon sector.

The «Arab socialist» era was characterised by authoritarian developmentalism, mostly implemented through the public sector by creation of an import-substitution industrial sector. It aimed to achieve social justice through progressive taxation and redistributive

agrarian reforms. The latter tried to address a problem of surplus rural populations, which inevitably increased with improvements in health care, one of the era's major achievements. Another such achievement was the democratisation of education, including higher education. To help absorb growing numbers of graduates, state recruitment increased tremendously, creating a bloated state bureaucracy. Expansion of the armed forces became an instrument for privileged employment of young people from both rural and urban areas.

Dictatorial political conditions undermined the positive achievements of the 'socialist' era, and fostered government corruption against a backdrop of increasing economic inefficiency of inflated state apparatus. States came out of this era burdened with heavy fiscal deficits and accumulated debts, results of a combination of welfare and military-security expenditure. Whereas the surge in oil prices in the 1970s and early 1980s attenuated these problems in oil-rich countries, they became acute in others, especially the most populated Arab country: Egypt. It is therefore not a coincidence that Egypt, the country that led the way into 'Arab socialism', also led the way out of it. Under the heading of *Infitah* (economic overture), Egyptian president Anwar al-Sadat (1970–1981) embarked on economic liberalisation in the aftermath of the 1973 Arab-Israeli October War. Inspired by the logic of economic liberalism, later to assume the guise of neoliberalism, the Egyptian *Infitah* was a forerunner of policies that would later be enforced in most of the Global South. These policies shifted away from statist economic measures towards fostering private sector initiative by offering enticing conditions for foreign and domestic private investment, especially in the form of economic 'free zones'.

A new era of neoliberal dominance over economic policy, in the Arab region as in most of the world, especially from the 1990's on, saw 'socialist' era policies increasingly dismantled under the supervision of the IFIs. Developmentalism was abandoned for policies based on the expectation that the private sector would take over from the state in fostering industrialisation, reoriented from import substitution to export-oriented production, and with major roles allocated to foreign

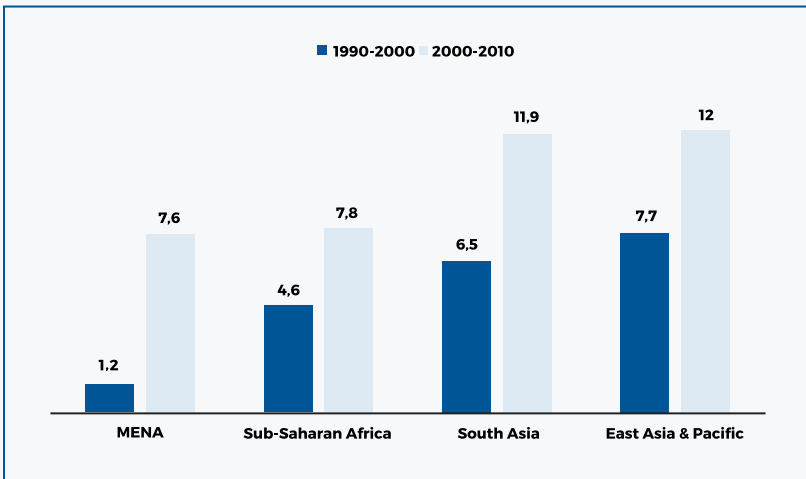
direct investment in production and offshoring of services. As in other parts of the world where statist economies combined with dictatorial regimes, advocates of neoliberal policies presented them sweetened with promises of political freedoms.

However, while several Arab states experienced different degrees of political liberalisation, none demonstrated genuine and thorough democratisation. In fact, the implementation of neoliberal reforms – especially those consisting of reduction or removal of price subsidies for basic goods and energy – was often met with social unrest. Several such early experiences – from the 1977 bread riot in Egypt to similar riots in Morocco, Tunisia and Jordan during the 1980s – ended in retreat on the part of governments. This signaled the strength of one of the most important barriers to neoliberal transformation in the Arab region: popular resistance. Accordingly, all Arab states saw continuous expansion of their military-security complex, which remained major vehicles for the absorption of youth labour in a region that has nevertheless had record levels of youth unemployment for the past few decades.

The basic flaw in the imposition of neoliberal measures in the Arab region is that it represents probably the most blatant instance of dogmatic disregard for the actual conditions under which such measures are supposed to work. Advocating reduction in public investment in the expectation that it will be offset by private investment, in political contexts ranging from patrimonial to neopatrimonial states, crony capitalism, arbitrary rule and local and/or regional political instability and unpredictability, was doomed to fail. Average annual growth in gross capital formation was 1.2 per cent in the Middle East and North Africa (MENA) during the 1990s, much lower than in Sub-Saharan Africa, South Asia and East Asia. In the decade 2000-2010 the rate of growth in MENA rose to 7.6 per cent due to sharp rises in oil incomes, but still remained behind those in Sub-Saharan Africa, South Asia and East Asia.

Figure 1.2:

Annual Growth in Gross Capital Formation by Region²⁰



Not only did private investment not make up for depressed public investment, private money has gone primarily into speculative investments promising rapid return of profits – real estate development, trade, tourism – while industrial investments went mostly to limited-risk capital-poor and labour-intensive ventures wherever low labour costs were conducive to short-term profit.

Neoliberal-inspired policies have failed miserably in fostering development - both economic growth and human development - in the Arab region. A trinity of poverty, precarity and inequality indeed afflicts the region. Poverty varies from one Arab country to another, and within countries from one region to the next. While there is less poverty in the Arab region overall than in South or East Asia, mainly due to the presence of hydrocarbon resources, some Arab countries such as Yemen and Mauritania are among the poorest in the world. Abject poverty is rife in rural areas, urban peripheries and slums in countries like Morocco, Egypt and Syria. The Arab region is thus the world's most unequal single geopolitical ensemble.

²⁰) Source: Achcar 2013, p. 57.

Table 1.1: Gross National Income (GNI) Per Capita of Selected MENA Countries in 2015 ²¹

Country	GNI (USD per capita)	Country	GNI
Qatar	83,990 \$	Iran	4,678 \$
UAE	43,090 \$	Tunisia	3,980 \$
Kuwait	42,150 \$	Jordan	4,680 \$
Saudi Kingdom	23,550 \$	Iraq	5,820 \$
Bahrain	19,840 \$	Morocco	3,030 \$
Oman	16,910 \$	Syria (2009)	2,678 \$
Libya (2009)	15,150 \$	Egypt	3,340 \$
Turkey	9,950 \$	Sudan	1,920 \$
Lebanon	7,710 \$	Yemen (2009)	1,190 \$
Algeria	4,870 \$	Mauritania	1,370 \$

Poverty is closely linked to precarity, which promotes social marginalisation. Precarity takes two forms. First, expansion of the informal sector, in which workers lack most basic rights, including access to health care and social security. The informal sector involves a very significant proportion of the workforce in countries such as Yemen, Syria, Morocco, Jordan, Lebanon and Algeria. Second, unemployment, general levels of which in Arab countries are highest in the world, with staggering rates among youth, women, and graduates (see Box 1).

Box 1.1

Youth unemployment in MENA countries remains the highest in the world, reaching 27.2 per cent in the Middle East and more than 29 per cent in North Africa in 2013. This is more than twice the global average. For example, unemployment among young people has reached around 19 per cent in Morocco, over 22 per cent in Algeria and Lebanon, 25 per cent in Egypt, closer to 30 per cent in Jordan and Saudi Arabia, around 40 per cent in the Occupied Palestinian Territory and over 42 per cent in Tunisia²².

²¹) Source: World Bank (<http://data.worldbank.org/indicator/NY.GNP.PCAP.CD>)

²²) Source: International Labour Organisation (2014)

Job security achieved during the 'socialist' era was undermined by both legal changes and privatisation, resulting in general precarisation of labour on much greater scales than witnessed (since the advent of neoliberalism) in the Global North.

Moreover, poverty is not only an objective issue. It is also, and above all, a relative condition: what could be described as poverty in a country like Sweden, for example, may be closer to the median standard of living in a country like India. Thus, poverty is above all what people regard as poverty in relation to the social context in which they live. From this perspective, social inequality in the Arab region is most pronounced in relation to income inequality, whose figures are carefully hidden by Arab governments. This creates strong feelings of injustice among the poorest and most precarious strata, and even among many in intermediate strata, forced to work very hard to cope with constantly rising prices at the same time as they witness lavish wealth and ostentatious spending among higher social classes.

Social justice is thus the heart of the issue, in that it highlights the nature of established regimes in the Arab region and their economic policies. These are the root causes of the Arab upheaval that in 2011 opened a long and ongoing period of turmoil for the region. No one can foresee either when this turmoil will end or what further tragedies it may yet engender beyond those of the last six years, the worst of these indisputably being the catastrophe afflicting Syria and its people. The only prediction that can be safely made about the future of the Arab region is that it will not overcome its present crisis and find a new condition of long-term stability without radical change in its social and economic policies.

1.4 Overcoming the Regional Crisis through Social Justice

It should be obvious indeed that the only route out of the crisis plaguing the Arab region is through implementation of new economic and social policies, radically different from those the region has witnessed to date. Social justice is central in this respect, with a central emphasis on

equality and balance between equal rights and equal duties. Equal rights imply fair distribution of state incomes, prioritising enhancement and development of the situations of marginalised people and regions. It also implies developmental investment of state and societal resources in order to maximise employment and boost the productive economy instead of the parasitic and rentier economies prevailing in Arab countries.

A major role of the state in this regard is promoting women's employment and ensuring women's emancipation, the two being closely connected. The heavily downtrodden status of women in the Arab region, reaching global extremes in some states, is not only the most important dimension of inequality, oppression and injustice in the region, but also a major source of wastage of economic potential. A study of the growth differential associated with gender inequality carried out by two University of Munich economists found that if rates of female employment in MENA countries had since 1960 been the same as those in East Asia, the region's per capita GDP immediately before the regional upheaval would have been roughly double its actual level.

To achieve all these goals, state revenues must include contributions from individuals and private enterprises to provision of the resources the state needs to deploy for public benefit. The role of the fiscal system is crucial in this regard, as it lies at the heart of social justice. There can be no social justice without progressive income taxation through which each member of society contributes to national development according to their ability. This stands in sharp contrast with the current situation of blatant injustice in the Arab region, where only wage earners pay income tax whereas owners of capital and profit-making projects largely avoid taxation. Social justice cannot be achieved without securing state income through fair taxation of firms and individuals, and without fair distribution of this income aimed at reducing social differences and securing a decent life for all.

This is the principal meaning of dignity, another central slogan of the great Arab uprising.



Fiscal Policy and Social Justice

Naser Abdelkarim

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While the precise role of the state in supporting development outcomes is debated, the centrality of its role has never been contested. One of the key instruments through which the state exercises its influence is fiscal policy. Fiscal policy is defined here as encompassing tax and expenditure policies, budget deficit and public debt. The choice of the level and composition of government financing affects a broad range of developmental outcomes: the size and structure of expenditure has direct and indirect effects on capital formation, infrastructure facilities, employment opportunities, social protection and human development; all of these are central to sustainable and inclusive growth. Taxation and subsidies affect private investment, consumption, production, well being of the poor, efficient resource use and developments in the civil service and labour market. In addition, the size and financing of budget deficits determine macro-economic stability and, through the 'crowding-out effect', influence the availability of finance for the private sector. More importantly, fiscal policy is a tool used for redistribution of income and wealth among different classes of society, which in turn has important impacts on social mobility and political stability.

In the aftermath of the global financial crisis that erupted in September 2008, economic output in many countries, including the Arab countries, declined sharply. Given their impact on society, fiscal choices are eminently political. Indeed, as such, analysis of the role of fiscal policy in shaping past development outcomes in Arab countries requires a broad political economy lens that encompasses not only economic dynamics but also the ways in which states evolved, income distribution changed, and social movements emerged. From the perspective of the social and political transformations that are today evident in the region,

initially called 'The Arab Spring', exploration of the trajectory and broad characterisation of past fiscal policies can reveal much about how power relations have evolved and about the underlying social grievances leading to the popular movements rocking the region since 2011.

This crisis has raised concerns, and invited strong debate, about the economic choices of many Arab countries. A number of Arab countries are experiencing costly and often bloody socio-political transformations (resulting from the Arab Spring). These have been closely linked to strongly perceived inequalities resulting from the ways governments have conducted economic policy, particularly taxation. At issue are the fair distribution of wealth and the implication of this for setting tax policy.

This chapter presents a diagnosis and analysis of fiscal policy - as a key aspect of economic policy - in Arab Countries. It also offers recommendations, from a social justice perspective, on how to reform this policy. Its focus is an analysis of fiscal policy in several Arab countries reliant to varying degrees on oil as a source of state revenues: Syria, Yemen, Sudan and Iraq; and several other countries traditionally classified as resource-poor and labour-rich: Egypt, Tunisia, Jordan, Lebanon, Morocco, and Palestine.

2.1 A Look at Fiscal Policy in Arab Countries

Fiscal policy in Arab countries has gone through dramatic changes over the past five decades, with state expenditures initially growing to extraordinary levels and subsequently shrinking enormously. The nature and size of both the rise and fall in government spending coloured in important ways the economic and political history of the region. From small post-independence states, to rising nationalist states, republics and kingdoms alike, state expenditure rose to 50-60 per cent of Gross Domestic Product (GDP) in most of the region during the 1960s and 1970s. At the time, high expenditure was needed for state building and expansion, consolidation of internal power (expenditure on police and security), military expenditure resulting from the conflict with Israel,

to finance socialist and nationalist policies in state employment and to fulfil development ambitions.

By the 1990s, however, state expenditure had shrunk, on average, to 25 to 30 per cent of GDP. To a large extent this reflected the drying up of the sources of finance that had permitted the prior rise of the state, and a move to economic liberalisation. This 'fiscal bulge' was the result of two main factors, whose respective importance varies from country to country. The first factor is the price of oil. The peaks of the 1970s and lows of the 1980s and 90s affected both exporters and importers of oil: the latter because of fluctuations in the amount of aid received from oil exporters and in workers' remittances. This connection brought about stagnation in agriculture and manufacturing due to reduced state investment in these sectors, while trade, services, real estate, and construction boomed because they attracted private investment. The second factor is political. Implementation of market liberalisation reforms saw gradual replacement of the socialist-oriented policies of the 1950s by liberal-oriented ones. With this policy shift, socialist regimes sought the political support of business elites and the middle class instead of their traditional constituencies of farmers, workers, and civil servants.

The main indirect impact of this political-economic regime on fiscal accounts has been growth in the informal sector and low growth in the formal economy, negatively impacting tax revenues. Formal employment in the private sector remains low everywhere: only 10–15 per cent of the labour force in Egypt, Yemen and Morocco and even Tunisia, slightly larger at 22 per cent in Jordan and Palestine where the formal labour market is less regulated²³.

In addition, the share of government spending on basic social services such as health, education and social protection has decreased, leading to widening social inequality²⁴. On the other hand, tax policy has also changed. Governments began to impose new forms of taxation, with emphasis on indirect taxes (such as sales or value added taxes) rather than direct taxes (income and property taxes) as the major source of state revenues²⁵.

23) MF (2015)

24) See Abboud, Chapter 3 and Abdelhaliem, Chapter 6

25) Mansour (2015)

This restructuring of taxation has increased socio-economic injustice. It is evident that the economic policies applied in these countries, including fiscal policies, have failed to respond to challenges of social inequality and regional disparity.

2.2 Tax Policy and Revenues

In the six resource-poor countries under consideration here, government tax revenues increased slightly from 19.2 to 21.7 per cent of GDP between 1990 and 2014.²⁶ In real terms, over the same period per capita revenues declined by about one-third in the Mashreq group countries (Jordan, Lebanon, Palestine), and increased by one-third in those in the Maghreb (Egypt, Tunisia, Morocco). Tax revenues remained very low and stagnant in the resource-rich group (mainly the Gulf Cooperation Council (GCC) countries) and increased slightly in the resource-poor group, because the former rely on oil and other resources rather than taxes to finance their budget. Differences in tax revenues between the two geographical groupings are more significant. Over the period 2005-14, Mashreq tax revenues have stagnated while those in the Maghreb have increased. In international comparison, taxation rates in the Mashreq are comparable with those in low- and lower-middle-income countries²⁷, while those in the Maghreb are comparable with those in upper-middle-income countries. The tax ratio in the Maghreb seems to be higher than suggested by standard econometric analysis of the relationship between tax effort and income levels.

2.2.1 Tax Types and Contributions to Total Revenues

In Arab countries there are two main types of tax revenue: direct taxes based on income and/or wealth, and consumption-based (indirect) taxes including sales/value-added tax (VAT) along with customs and excise taxes. The relative proportions of these two types of tax in government revenues may indicate how fairly tax burdens are distributed.

²⁶) IMF (2015)

²⁷) IMF (2011)

2.2.1.1 Personal Income Taxes

With the exception of GCC countries, all Arab countries levy personal income taxes. These incorporate progressive rates on wages and business income and flat rates on portfolio and real estate income, including capital gains. These tax systems thus have an element of dual taxation of income.

From a revenue perspective, taxation of individuals' income is one of the weakest areas (if not the weakest) of Arab tax systems. On average, personal income taxes generate revenues totalling around 2 per cent of GDP in resource-poor countries (11 per cent of tax revenues), less than 0.5 per cent in resource-rich countries (9 per cent of tax revenues). Top rates have declined substantially in all Arab countries except resource-poor countries in the Maghreb. Despite these declines in rates, revenues from personal taxes have increased. Additionally, the cap on untaxed levels of income is very low relative to per capita GDP. Palestine and Morocco are exceptions, where the first untaxed portion of income is slightly above per capita GDP. Jordan, on the other hand, provides a much larger exemption from income tax, over triple the per capita GDP. While it is not atypical in a developed country that the exemption threshold is around a quarter to half of per capita GDP, higher ratios should apply in developing countries in order to shield a higher proportion of the population from income tax, since public services are fewer and of poorer quality. This has the additional advantage of limiting administration costs by eliminating from taxation a large proportion of the population, whose potential contribution to tax revenues is very low.

2.2.1.2 Taxation of Business Income and Investment Incentives

Corporate income tax plays an important role in Arab countries' tax systems, with the exception of GCC countries where it applies mostly to foreign companies. It currently provides revenues equivalent to between 1-1.5 per cent of GDP in resource-rich countries (excluding GCC), 2.3-4.3 per cent in resource-poor countries. In the latter group, the contribution to revenues of income tax is high (just below 20 per cent of total tax

revenues) and comparable to its contribution in developing economies. Corporate tax rates in Arab countries have declined significantly, and there are signs that rates are converging. In the early 1990s, average top rates of income tax across country groups ranged from about 35 per cent in the Mashreq to over 55 per cent in the Maghreb. This trend has also been observed elsewhere around the world, and interpreted as a form of corporate tax competition. In recent years, however, this decline has slowed. Egypt even increased its top rate from 20 to 25 per cent in 2014.

In addition, all Arab countries provide tax incentives in the form of investment laws or free-zone laws. With a few exceptions, free-zone laws have mostly been introduced since the 1990s, while investment laws are older. Tax incentives are only one aspect of these laws, albeit an important one. Other aspects include guarantees of non-expropriation, free repatriation of profits for foreign investors, liberal foreign exchange rules, and one-stop-shops for foreign investors to lessen the administrative burden of dealing with multiple government agencies.

A cursory reading of income tax laws in Arab countries suggests that general tax laws in many countries provide additional incentives. These include exemption or low rates for certain types of income, including agricultural income, small business income, capital gains, and reinvested profits (dividends). It is not uncommon that such incentives overlap with those provided in tax exemption laws. Tax incentives usually serve the interests of wealthy people at the expense of poor and marginalised groups. One of the major criticisms of the tax incentive regime in most Arab countries is that these incentives are given to large corporations and not to small and medium enterprises that are the backbone of national economies and usually owned and run by families. Thus, personal and corporate income taxes in most Arab countries are considered by many to be regressive rather than progressive, suggesting that income tax policy does not serve the purpose of income and wealth redistribution.

2.2.1.3 Sales/VAT, Customs and Excise Taxes

Taxes on consumption in the Arab region take general three forms:

general sales taxes, import customs, and excise taxes. Various specific transaction taxes also exist. General sales taxes originated in two different ways. First, as successors to cascading sales taxes that applied prior to the 1990s; this was the case in Maghreb countries and Egypt, who transformed old sales taxes into VAT through legal changes expanding taxation to services as well as goods and reducing cascading by enhancing tax refunds on intermediate and capital goods. Second, via introduction of new VATs without national historical antecedents, as was the case in Lebanon, Jordan, and Palestine. Contributions of VAT to tax revenues in Arab countries range between 30 and 55 per cent, except in Egypt where it is much lower and in Palestine where it reaches 80 per cent. Concerning customs and import duties, until the mid-1990s Arab countries, apart from the Gulf States, generally applied relatively high customs tariffs. National tariffs varied from more than 35 per cent in Syria, Morocco, Palestine and Egypt to less than 5 per cent in Oman and Qatar.²⁸ By 2007, the average tariff had to some extent decreased in all countries: to below 17 per cent in Egypt, 11 per cent in Tunisia, 10 per cent in Jordan, 20 per cent in Palestine and 5 per cent in all Gulf States²⁹. Despite this tariff reduction, statistics show that since 2000 state revenues from international trade have risen in almost all Arab countries, reflecting growing value and volume of imports³⁰.

Nonetheless, contributions of taxes on trade to overall tax revenues in Arab countries have declined, from an average of about 35 per cent from 1990-2010 to 21 per cent in 2011-2 and 15 per cent in 2013-4³¹. National proportions of taxes on trade in total tax revenues varied from 88 per cent in Bahrain (where tax on income and profit is zero), to 8 per cent in Jordan and Tunisia, 6.8 per cent in Egypt and below 4 per cent in Morocco³². Income from taxes on trade remains relatively small compared with oil revenues, as a proportion of both state revenues (4 per cent in 2003, 2 per cent in 2009, 2.6 per cent in 2014) and GDP (below 2 per cent in 1990-1 and below 1 per cent in 2011-12)³³.

Excise taxes are levies on specific goods and services that generally apply in addition to VAT. Consistent and comprehensive data on excise revenues are scarce; the conclusions reported here are based on data

28) Said (2011)

29) WTO (2017)

30) AMF (2011, 2014)

31) IMF (2015); Mansour (2015)

32) AMF (2015)

33) AMF (2015); Mansour (2015)

on the main excise taxes applied in Arab countries: those on tobacco, alcoholic and non-alcoholic drinks, petroleum products, cars and mobile telephones. Since 2000, excise revenues as percentage of GDP have declined significantly in all Arab countries except Egypt, Palestine and Lebanon, where they remained fairly constant or increased. In all cases, particularly those with yields below two per cent of GDP, excises are underexploited and potentially significant revenue sources.

In summary, indirect taxation - of consumption of goods and services - accounts for more than half of tax revenues. Since these types of taxes apply to all consumers regardless of income and wealth, and without differential rates for different groups of goods and services, their importance raises concerns about inequality.

2.2.1.4 Fees and Stamp Duties

In addition to general taxes, most Arab countries levy fees on the transfer of immovable and movable property, along with stamp duties on various types of contracts, deeds, and other official documents. A detailed description of these systems, which are very complex, is beyond the scope of this paper. This type of tax does not appear to be a significant source of revenue.

2.3 Tax Policy and Social Justice

The above account of types of taxes in Arab countries raises concerns about inequality and social injustice. While income taxes are regressive and favour both wealthy social classes and those deriving income from capital, a growing volume of indirect taxes on goods and services are paid by all consumers, regardless of income level and without distinction between basic and luxury consumption. This ensures that tax systems contribute to deepening social inequalities and effective wealth-based discrimination, rather than being tools to promote fairness via income redistribution.

Broader issues of the implications and relevance of tax policy to social justice have been debated in very recent literature covering the Arab

region³⁴. Sufficient grounds and evidence exist to support the assertion that tax policy in most Arab countries is unresponsive to social justice and thus increases disparities between rich and poor³⁵.

The Arab Network of Non-Governmental Organisations for Development (ANND) recently conducted several studies on tax policy, most important of them a comparative analysis of Tax Systems in Six Arab Countries. Conducted in collaboration with Christian Aid and the Social and Economic Policy Monitor in Palestine, this study explores how tax systems in Arab countries have contributed to lack of opportunity along with growing inequality, marginalisation and exclusion, resulting in suffering for the majority of people in the region. Based on the findings of relevant studies about tax systems in the Arab region, the following conclusions can be drawn³⁶:

- Tax collection from individuals (tax collected at source) greatly exceeds tax collection from companies, due to numerous legal flaws along with corruption and undeclared alliance between the state administration (political and security power) and companies (capital) in a liberal economic structure: the phenomenon of conflict of interest.
- Tax exemptions and incentives provided to foreign and domestic firms in various sectors are not in line with development priorities. In addition, these incentives are given to firms with large amounts of capital, leaving small and medium-sized firms disadvantaged. By contrast, tax exemptions on individual income and wages are few in general, linked to national poverty lines, and do not take into consideration living costs.
- Tax evasion and avoidance are widespread phenomena in most Arab countries. Regions and social groups within a given country find themselves paying taxes in full, but at the same time the state fails to allocate sufficient fiscal resources in their budgets to social and development programmes that meet the needs of these regions and classes. This creates a sentiment of injustice and pushes underserved classes and regions to stop paying taxes or to practice tax avoidance and evasion. Still, large businesses are more likely to evade and avoid taxes than individual taxpayers. Tax evasion encourages a kind of parallel (non-state) tax system based on corruption and clientalism. Well-connected companies pay fewer taxes to the state budget, but at the same time

34) ANND (2016); Abdelkarim (2016)

35) Fofna et al. (2012); Chamliou & Karshenas (2016)

36) ANND (2016)

finance a corrupt network of state-employees. This not only further increases disparities within the same group of economic actors and reduces state revenue, it also escalates a dangerous social phenomenon, namely corruption, which is by nature unjust.

- The size of the informal sector, which operates outside economic regulations set by the state, is a structural economic problem apparent in Arab countries. The size of this sector varies between 50 and 70 per cent in some cases. It is considered a tax haven for employers, but offers no legal protection to workers.

Box 2.1 :

In early 2015 Egypt announced tax measures including increased taxes on high salaries and corporate profits, along with introduction of a real estate tax and 10 per cent capital gains tax. These measures work in favour of the poor and middle class and hence of women³⁷. However, the capital gains tax was later dropped under pressure from investors.

2.3.1 Ongoing Versus Investment (Development) Expenditure

Government spending increasingly emphasises payment of salaries and other ongoing expenditure, with expenditure on infrastructure and production declining in relative terms. In terms of sectors, spending has focused on education and health, with shares of sectors like agriculture and manufacturing declining over time.

In most countries, the proportion of the public budget allocated to ongoing expenditure (rather than investment) has risen to around 60–80 per cent. Unlike public investment (developmental expenditure), ongoing spending has positive but unsustainable impacts on economic development. Public investment in most countries has collapsed: from about 14–15 per cent of GDP in almost all Arab countries during the 1980s and early 1990s to 6–7 per cent by the end of the 1990s³⁸.

³⁷) UNDP (2016)

³⁸) IMF (2015); for further discussion and analysis of public investment see Abboud, Chapter 3

According to neoliberal economic thinking, this investment gap is to be fulfilled by private investment, encouraged by tax exemptions and other incentives. However, this gap has been only partially filled³⁹. Private investment has risen only slightly in some countries, remained low in others (for example, below 15 per cent of GDP in Egypt), and even declined in Syria, Yemen, and Algeria.

2.3.1.1 Spending on Basic Social Services

Freezes in health and education budgets slowed progress in human development and led to deterioration in the quality of services, especially for those too poor to purchase them in the burgeoning private sector. A slowdown can be observed worldwide, but it is particularly marked in the Arab region.

The combination of low public expenditure on social services and growth in private provision of education and health has deepened inequality, since the cost of private services is beyond the means of the poor.

In addition to the persistence of poverty, rising inequality has been cited as a major factor behind the Arab uprisings. There is notable variation in inequality, which is highest in Morocco, Jordan, Tunisia, and Yemen (where Gini coefficients are around 40 per cent), and lowest in Egypt and Syria (where Gini coefficients are around 30 per cent)⁴⁰. These data suggest that, from a low base, inequality rose across the region following the reforms of the 1990s. It may well be that people benchmark relative to their past experiences rather than global circumstances, in which case rising inequality may help explain the frustrations behind the uprisings⁴¹.

A distinct possibility is that while disparities between the poor and the middle class have not changed much, those between the middle class and the rich seem to have increased considerably since the 1990s⁴². Indeed, two groups have profited most from neoliberal reforms. The first constitutes perhaps the top ten per cent of the population, who have a household member employed in formal labour markets. The second group is the one per cent whose political connections have allowed them to enrich themselves greatly.

39) See Abboud, Chapter 3

40) The Gini Coefficient is a measure of the deviation from an equal distribution of either individual or household incomes within a country. A value of 0 represents absolute equality, a value of 100 maximum inequality.

41) Bibi & Nabli (2010)

42) ESCWA (2013)

2.3.1.2 Subsidies

The other budgetary item that was most severely cut during the phase of adjustment is subsidies, especially for basic goods and energy (in the case of Syria at least subsidies for farmers and other producers were also very important). In the 1980s, these often took the form of food subsidies and predominantly benefited the poor. This line item is imprecisely recorded in fiscal accounts, as it is often financed off budget. Nevertheless, the imprecise figures we have available illustrate the magnitude of the decline in subsidies: especially in non-oil producing countries, where they have fallen from a peak of about 9.7 per cent to about 1.1 per cent of GDP. Early attempts to cut these subsidies led to food riots (e.g. bread riots in Egypt and Jordan in the 1980s). As a result, governments had to resort to 'stealth' reforms, reducing subsidies gradually over time.

In the 2000s, with increasing energy prices and attempts by many governments to persuade the rich and middle class to continue supporting their weakened hold on power, subsidies for energy and petroleum products rose, further shrinking an already squeezed fiscal space. Energy subsidies grew over time and by 2011 were much higher in the Middle East than in any other region of the world. In absolute terms, about 50 per cent of public energy subsidies globally are disbursed in the Arab region. By around 2010, these subsidies represented about 8.5 per cent of regional GDP and 22 per cent of total government revenues: much larger than in other developing regions, bearing in mind that such energy subsidies tend to be negligible in advanced economies. Within the region levels of all types of subsidy vary; however, 12 of the 22 countries in the region have aggregate subsidy levels greater than five per cent of GDP. About half of all subsidies are for petroleum products, with electricity the next biggest expenditure⁴³. Government expenditures on these subsidies therefore depend on international energy prices. Since 2011, subsidy policy has also considered political and social demands to improve the living standards of low-income social classes.

In many countries subsidies now represent an expense several times higher than total spending on health or education. In 2011, energy

43) IMF (2013)

subsidies represented 41 per cent of government revenues in Egypt, 24 per cent in Yemen, 22 per cent in Jordan and 19 per cent in Lebanon, compared with 'only' 10 per cent in Kuwait, 15 per cent in the UAE and 18 per cent in Saudi Arabia. Palestine is an exception, where energy subsidies are non-existent. It is well known that such subsidies are very regressive, as oil products tend to be consumed in much larger quantities by richer people. For example, a study in Egypt showed that 46 per cent of the benefits of petroleum subsidies accrued to the top quintile⁴⁴. Once in place, it is almost impossible to reduce or eliminate subsidies because of the threat of political backlash by key constituents. However, an efficient subsidy program, mainly targeting low-income populations, could help reduce inequality.

2.3.1.3 Military Spending

The level of spending on security matters is much harder to measure. Typically, military expenditure was also cut, but remained very high. Military expenditures dropped from an extraordinary average of 10.4 per cent GDP in the 1990s to a still high level of 6.2 per cent in 2014 (the global average is less than two per cent)⁴⁵.

2.3.1.4 Public Debt

As a result of decreasing revenues and increasing spending, budget deficits have risen in most Arab countries. Accordingly, in 2014 total outstanding public debt (both domestic and external) for Arab countries grew about 14.2 per cent to USD 590.6 billion, up from USD 516.8 billion in 2012. The ratio of public debt to GDP thus grew to 52.2 per cent in 2014, up from 48 per cent in 2012⁴⁶.

2.4 Tax Policy Assessed from Gender Perspective

In the last decade, governments, civil society organisations and international institutions have widely and increasingly acknowledged gender biases in fiscal policies enacted by both developed and developing countries worldwide⁴⁷. Gender inequality has a two-way relationship with socio-economic injustice, being both a consequence and a contributing factor.

44) IMF (2015)

45) Elbadawi & Keefe (2014)

46) IMF (2015)

47) UNDP (2015); ESCWA (2012, 2015)

The detrimental effects of tax policies on gender equality have been an issue of concern in both developed and developing countries in recent years. As such, gender mainstreaming in tax policy has been a key topic in recent debates over public finance, financing of development, and responsibilities of governments to their citizens⁴⁸. It is widely recognised that countries must raise sufficient tax revenues to ensure sustainable financing of their growth strategies and provision of basic social services to citizens, especially the poor. Moreover, reliance on taxation as a source of government revenues can have a governance dividend, as it fosters domestic accountability between government and citizens. Gender equality and women's empowerment are a development goal in their own right, articulated by the United Nations (UN) in the third Millennium Development Goal and CEDAW (Convention on the Elimination of all Forms of Discrimination Against Women) Declaration⁴⁹, and more recently affirmed in the UN Sustainable Development Agenda 2030. Mainstreaming a gender equality perspective within tax policy can significantly improve the general quality of public policy, and reduce the gender gaps in wealth, income and opportunities typical of most societies.

Development research has not yet succeeded in fully accounting for and addressing the gender imbalances that result from prevailing systems of taxation in Arab countries, especially in a broader view that considers taxes as tools for redistributing wealth and income among various segments of the population, including divisions based on gender, rather than just their role in mobilising fiscal resources. In the Arab region there has been limited research – if any – that analyses fiscal policy from a gender perspective. There are nonetheless sufficient grounds to support the proposition that fiscal policy in most Arab countries is responsive neither to social justice nor to gender and thus increases inequalities between rich and poor, and between male and female taxpayers alike. Thus, empirical research in this area of increasing public concern and importance to development is highly warranted.

48) Stotsky (1997); Capraro (2014)

49) <https://www.un.org/womenwatch/daw/cedaw/>

BOX 2.2:

The United Nations Development Fund for Women, UNIFEM, now part of UN Women, has used Gender Responsive Budgeting (GRB) as a tool to facilitate adequate budget planning, to ensure adoption of gender equity goals and to monitor governments' behaviour in this regard. However questions remain over whether it is relevant in every country and to what extent it is succeeding in holding governments to account. Empirical evidence on the implementation of GRB as an alternative to traditional approaches (namely, item budgeting) suggests that it has achieved limited success. Some developing countries, including South Africa and Philippines, made good progress in shifting from item budgeting to GRB. Others, including some Arab countries (Morocco, Jordan and Palestine), are still making very limited progress in this regard.

2.5 Conclusion

We have seen in this chapter how fiscal policy was at the centre of the political settlements that emerged in Arab countries after the 1980s, as governments across the region moved from state-oriented to market-oriented economic policies in line with neoliberalism and the Washington Consensus and formed coalitions with narrow business elites. Fiscal policy became more regressive; public investment took the brunt of the adjustment and has remained low ever since, slowing economic growth; expenditure on wages, health, and education stagnated and is too low to deliver the type and size of services needed to maintain progress on human indicators; expenditure on energy subsidies and security shot up and taxation was reduced. As the political settlement in the transitional countries evolves, one would expect rebalancing of the interests of the poor and lower middle class with those of the rich and upper middle class.

To strengthen fiscal positions further, while limiting impacts on growth, and over time to reduce debt burdens (which are particularly high in Egypt and Jordan), countries should undertake further reform of subsidy programmes and social welfare provision; re-orient and

increase efficiency of investment expenditure in priority sectors including education, health and infrastructure (including water management, energy and transportation); mobilise higher levels of domestic revenue while enhancing fairness by broadening tax bases and enhancing collection; and improve management of public finances. Tax policy needs to be restructured in a way that places more emphasis on collection of revenues from direct taxation (of income and wealth) than of indirect (consumption) taxes. Tax collection should be improved to tackle evasion and corruption by improving state institutions and increasing accountability. It is also important to increase the number of tax brackets to ensure better social justice.

To improve economic and social equality, it is necessary to reassess tax policies, raising marginal rates of personal income tax for high earners and taxes on investments yielding high short-term returns, while reducing rates for low earners and small and medium-sized businesses. It is also necessary to redesign tax incentives to target not just large investments, but also small and medium enterprises, which comprise more than 95 per cent of businesses in most Arab countries and contribute significantly to both GDP growth and employment. These enterprises could play key roles in redistribution of income and wealth as well as in reducing regional disparity within countries by attracting capital to less developed regions.



Investment Policy

Samer Abboud

Investment Policy

Samer Abboud

One of the central questions any government faces is how to finance development policy. Formulation of development policy implies short-term and long-term fiscal commitments necessary to achieve specified outcomes and goals. These fiscal commitments are realised through public and private investment, both of which raise challenges for governments. Public investment largely depends on the ability of the state to acquire revenues through mechanisms such as taxation, and to mobilise these fiscal resources towards development policy goals. Private investment is usually attracted through specific investment opportunities and policy, legal, and institutional structures designed to encourage and facilitate entry of private capital into the national economy. In a global economy increasingly defined by mobility of capital, these investments can come from virtually anywhere in the world. Removal of capital restrictions and deregulation of investment laws has been advanced by International Financial Institutions (IFIs), justified as a necessary means to match global capital with the investment needs of capital-poor countries.

The shift towards greater private investment has been driven both by ideological prescriptions to the effect that the profit motive increases economic efficiency and growth, and by the perceived stagnation and failure of public sector-led development in the immediate post-colonial period. Indeed, one of the central logics of contemporary development thinking is that the profit motive, and by implication the private sector and free market, is the most efficient way to distribute resources and pursue development goals. The function of government, then, is to create the necessary conditions for private investment in order that development goals can be achieved. Such logic often presupposes a weak, inefficient, or corrupt counterpoint in the public sector. As such, the IFIs have aggressively promoted decreased public spending to reduce fiscal burdens on governments while simultaneously encouraging economic deregulation to support increased flows of private capital. Many states within the Arab region, whether through conditional prescription or not, have adopted policies consistent with these ideals.

The relationship between public and private investment is not zero-sum. Nor is there a strict competition between public and private investment. The two forms of investment are, in fact, much more intertwined and complementary than is perceived. Most research suggests that strong public investment is a prerequisite for productive private investment. There is a general consensus that increased public investment leads to an increase in the productivity of private capital. Moreover, a decrease in infrastructure or social spending, for example, has demonstrably negative effects on productivity. These findings are consistent across the Global North and South. Finally, public investment enhances the productivity of private investment through infrastructural and social spending that complement private investment. Thus, while private capital operates in the interests of the profit motive, public investments are necessary to advance social goals. Public investments and robust public policy are prerequisites for the success of private investment in advancing social justice.

Despite this, investment policy in recent decades has sought to supplant public investment by enhancing opportunities for private capital's entry into different sectors of national economies⁵⁰. In terms of social justice and social policy in general, this means that states make political commitments without committing the fiscal resources to realise them. Instead, they pursue policies that seek to realise social justice through enhanced private sector activity. For example, privatising education and expanding private schooling from primary to higher education has been a feature of Arab countries over the last generation. The logic of such shifts means that social justice and social goals are to be achieved through the market and not the public sector. This means that state institutions and the public sector more generally have taken a reduced role in providing services while services such as health care are increasingly privatised. In place of many of the social services that states require for growing populations, non-governmental organisations (NGOs) have also assumed greater responsibility. The phenomenon of (NGOs) and governmental non-governmental organisations (GoNGOs) that has emerged in recent decades is a direct result of states channelling

50) Matar (2014)

social policy provision through different private actors. These are two significant structural changes that a shift towards greater private investment has created.

The emphasis in the Arab region on increasing private investment is driven by a global logic of capital mobility, and by the perceived stagnation of a public sector-led model of development that was seen as corrupt, inefficient and incapable of leading development. Demographic changes within Arab societies and broader changes within the global political economy have provided further justification for shifting investment policies. In the region today, however, many of the same challenges remain and indeed have even worsened. Among the challenges facing investment policy are: first, how to address the social and demographic characteristics of a changing region; second, how to ensure stable, secure, and meaningful employment; and third, how to foster more even economic distribution in an era of economic growth. Many of these challenges involve linking labour market structures to investment and advancing laws that ensure investment contributes positively to social policy goals. They also involve linking enterprise structure and capacity with policy in ways that can stimulate activity and meet social goals. At present young people in the region, who make up the demographic majority, have not reaped any of the benefits of economic gains, have very little job security, and are experiencing declines in social service provision. These trends have disproportionately impacted women and rural communities and have been accelerating in recent years rather than reversing. Investment policy needs to concentrate on addressing insecurity within these populations in order to advance social justice.

3.1 Investment and Social Justice

Many economists and non-economists alike equate increased investment with increased development. This, however, is not empirically correct as countries can absorb high levels of private and public investment that do not produce positive development outcomes. This is precisely why we can observe the phenomenon of simultaneous economic growth and development stagnation, as characterised many Arab economies prior to

2011. Indeed, countries such as Egypt and Tunisia were often celebrated as success stories precisely because their macroeconomic indicators were positive. Yet, this ignores the reality that macroeconomic 'success' does not necessarily produce momentum towards positive development. It is thus imperative to abandon the assumption that increased investment alone produces positive development outcomes. Instead, we should consider how investment, and what areas of investment, can contribute positively to development, in contrast to those investments that have lesser, or negative, development impacts.

This is especially true in the Arab World, where high oil revenues have circulated throughout the region in the form of investment. Many of these are concentrated in a few highly speculative sectors such as real estate or in commercial enterprises with limited development impacts such as shopping malls⁵¹. Some forms of speculative investment⁵¹ in real estate or financial services may have positive effects on macroeconomic indicators but do not contribute to equitable growth in any direct way. While certain forms of private investment may contribute to growth, other forms of investment, especially public investment in social and physical infrastructures, directly contribute to social justice.

A more accurate way of measuring investment that excludes factors such as land speculation and financial services is gross capital formation (GCF). The GCF indicator refers to increases in net physical assets of a country owned by businesses and households, but does not take into account either depreciation or use of existing assets. By excluding land purchases and financial transactions, existing assets, and depreciation of land and assets, GCF gives a concentrated picture of the actual increase in total net assets in a country or region. It thus provides a more substantial picture of all new investment. For the Arab World (minus the Arab Gulf states), GCF remained relatively stable as a percentage of GDP from 2010 to 2014 (Table 3.1).

51) Hanieh (2011)

Table 3.1: Gross Capital Formation in the Arab World (excepting the Gulf States) as Percentage of GDP, 2010-2014 ⁵²

Year	GCF as percentage of GDP
2010	28.2
2011	26.0
2012	26.6
2013	26.0
2014	28.2

While GCF provides a more accurate indicator of net asset growth, it does not sufficiently answer the question of how investment contributes to social justice. The rest of this chapter explores how public, private, and public-private investment patterns in the Arab region have led to specific outcomes. It will conclude with suggestions about how better to link investment policy with social justice goals.

3.2 Public Sector Investment

Public and private investment in the Arab World have been structured by the region's incorporation into the global economy in the postcolonial period. There are three major factors that have structured public and private investment patterns in the region: war and conflict, oil rents, and neoliberalism. Persistent conflict in the region has meant that most governments in the region have, since the 1960s, consistently devoted more public funds to military spending than to social issues. Nevertheless, availability of oil rents and their circulation within the regional economy in the form of grants, loans, workers' remittances, and investments, has allowed many countries in the region to provide public investment in social infrastructure and industrialisation projects, generating development gains. Expansion of the public sector created employment opportunities for growing populations and capacity to provide a wider range of services. Over time, this development model

⁵² Source: http://data.un.org/Data.aspx?d=WDI&f=Indicator_Code%3ANE.GDI.TOTL.ZS

stagnated in favour of greater emphasis on attracting foreign capital as a major source of investment. This entailed slow declines in levels of public investment expenditure.

These patterns have had a profound impact on social progress in the region and have led to inconsistent and uneven social gains, both within and between countries. For example, a study of development policies in Morocco, Tunisia and Mauritania found that rates of poverty and inequality increased in rural and peripheral areas outside those mainly targeted for development⁵³. There were demonstrable and important gains in certain indicators of health (such as mortality) and education (such as literacy), and in general macroeconomic indicators that suggested steady growth rates in many countries. However, these advances largely disguised the failure of investment policy to generate widespread development, combat poverty, or expand economic opportunities for growing populations⁵⁴. In the face of growing socio-economic challenges, total public investment in Arab countries declined steadily from the early 1980s until 2000, subsequently increasing until 2011 only to resume a further steady decline⁵⁵. Such patterns can be attributed to episodes of regional political instability, the low absorptive capacity of Arab economies and the weak productive capacity of many enterprises in the region. Regardless, compared to other non-Western countries, overall public investment expenditure in Arab states was among the highest.

Public investment figures in many oil-producing states have remained high relative to oil-importing states in the region, which can be attributed to declining fiscal sources in the latter countries. This also explains the growth of public investment in the 2000s when oil prices increased substantially and most oil producers engaged in increased public spending. However, in times of fiscal austerity, states in the region have often chosen to increase revenues by eliminating social benefits such as subsidies. This is partly because of the limited revenue base of Arab states, which remain heavily reliant on rents and external debt. Weak tax administrations and tax codes have led to a shrunken tax base with only a small proportion of total revenues in the region accruing from

53) African Development Fund (2011)

54) El-Ghonemy (1998)

55) Cammet et al. (2015)

direct taxes. Meanwhile, investment incentives in many countries have created corporate tax loopholes that cost states hundreds of millions of dollars in lost revenue each year.

In the context of fiscal crisis, it is often expenditure on social programmes that is cut to compensate for losses. Thus, in the last generation public spending has declined throughout the region, even in oil-producing states. For example, during the 1980s public investment was around 14-15 per cent of total GDP in almost all Arab countries, but by the early 1990s had declined to 6-7 per cent⁵⁶. This was in part because national budgets were increasingly devoted to recurrent expenditure, diverting resources away from public investment. Reductions in public investment were supposed to be offset by increased private investment, which never materialised in sufficient volume to meet investment and development needs. This occurred despite deep cuts in states' social welfare responsibilities. While a dramatic increase in oil prices in the mid-2000s contributed to some increases in public investment, this then levelled off and eventually decreased once oil prices stabilised.

A central challenge is overcoming the legacy of the politicisation of the public sector and the absence of accountability, deliberation, and participation of the citizenry in public decision-making. Most public sector institutions throughout the region are unaccountable to the larger populace and serve as transmitters of elite rather than popular decisions. This has contributed to institutional weakness in many Arab states, which has negative impacts on the administration of social services.

Public investment in areas that directly impact social justice, such as health care and education, has receded and private markets have assumed greater roles in provision. Increasingly, people throughout the Arab World look to private hospitals and schools for services, placing greater burdens on families and households. Throughout the region a phenomenon of secondary employment has emerged, even among public sector employees. In Egypt, for example, many teachers take secondary jobs as tutors or labourers in order to meet their household needs. This is true for many people throughout the region. In addition, reorientation of the state in relation to the economy and social service

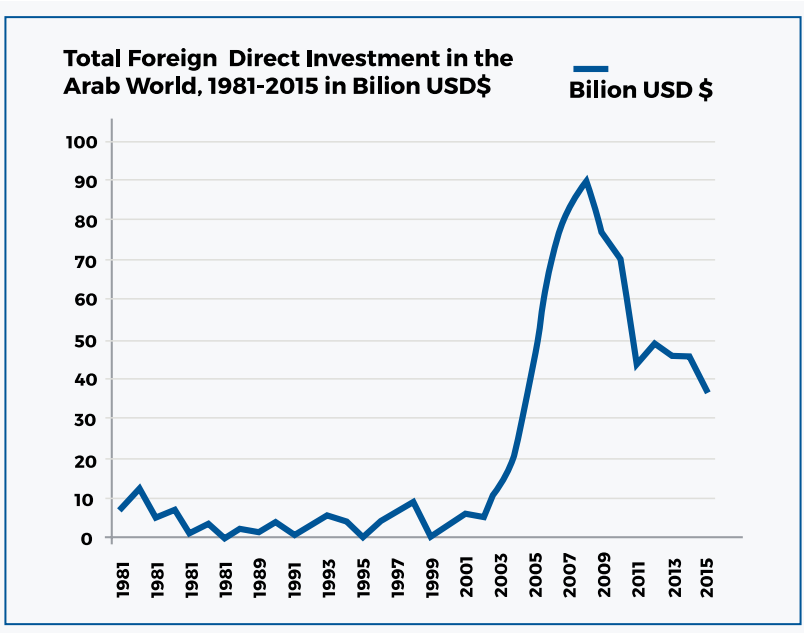
provision has meant that an increasing number of Arab citizens rely on NGOs and other charitable associations for social services. This is particularly true in rural areas, where non-state actors have assumed substantial roles in people's daily lives.

While public sector investment has receded in real terms, the promise that markets and private actors would fulfil these distributive roles has never been fulfilled. This has coincided with concentration of GDP in service sectors while contributions of agriculture and industry to GDP have decreased. Throughout the Arab World, economic policies have thus incentivised growth in service sectors at the expense of agriculture and industry. Many Arab citizens have suffered from withdrawal of subsidies and reduced spending on essential services, while the quality of social services has also diminished. To be sure, the effects are uneven both among Arab states and within them: in the Arab Gulf, most development indicators are very high, while throughout the rest of the region they lag behind other Economically More Developed Countries (EMDCs).

3.3 Private Sector Investment

Against this background of declining state revenues coupled with public sector stagnation, states sought to facilitate greater entry of private capital into the region in order to spur development. This occurred through a series of economic reforms in different countries that began in the 1970s. Generally speaking, the aim of these reforms was to withdraw the state from its central role in the economy and instead cultivate the role of private business as an engine of development. Private foreign investment in the region gradually increased through the 2000s and began to decline dramatically from 2010 following the Arab uprisings. For example, foreign investment reached almost USD 90 billion in 2008 but had dropped by more than half to USD 37 billion by 2015. Moreover, private foreign investment is unevenly distributed in the region, with Saudi Arabia and the United Arab Emirates alone receiving just over forty per cent of the total⁵⁷. Figure 3.1 illustrates these trends for the region overall. With the exception of a boom in the mid 2000s, reflecting a dramatic rise in oil prices, private foreign investment has been relatively low.

⁵⁷) World Bank Statistical Database, available at [http://data.worldbank.org/Bank Statistical Database](http://data.worldbank.org/Bank%20Statistical%20Database), available at <http://data.worldbank.org/>

Figure 3.1:Total Foreign Direct Investment in the Arab World, 1981-2015 ⁵⁸

In addition to the relative concentration of foreign private investment in the Arab Gulf countries (more than fifty per cent), most investments are in either petroleum or real estate. Between 2003 and 2015, more than fifty per cent of investment in oil-exporting Arab countries was in these two sectors. For oil-importing Arab countries the figure over the same period was around 63 per cent. Manufacturing investment during this period was negligible, and most investment did not contribute to growth in employment levels⁵⁹. Compounding the problem of limited foreign private investment is the weakness of domestic private sectors as engines of investment. A number of factors contribute to this problem, including weak or unenforceable property rights regimes, lack of capital and credit facilities, limited policy incentives, corruption and nepotism, and uncertain regulatory environments.

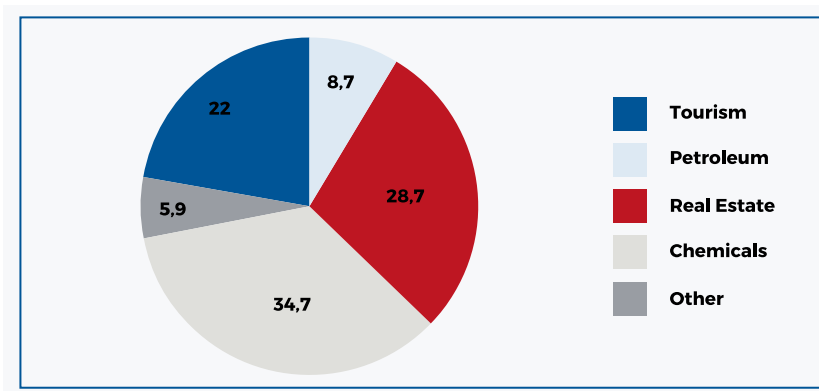
⁵⁸) Source: World Bank Statistics available at <http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD>

⁵⁹) World Bank Statistical Database, available at <http://data.worldbank.org/>

The structure of private investment from both domestic and international sources limits the contribution of this investment to social gains⁶⁰. As well as being geographically concentrated in regions that are already well-developed (as mentioned above), private investment is unevenly distributed by sector and tends to target natural resources and non-tradable sectors such as real estate and construction. Domestic private investment also targets the tourism and banking sectors, as has been the case in Syria, Tunisia, Morocco and elsewhere. These sectors have limited capacity to generate employment and, in the case of non-tradable sectors, are often reliant on seasonal, contingent and/or migrant labour. Private investment that fosters widespread employment in the manufacturing, infrastructure or service sectors has been extremely limited in the region. Furthermore, investment projects show a marked urban bias. The absence of strong municipal governments or rural authorities that could develop and attract investment projects, coupled with a focus by many governments on enhancing urban investment, has led to major gaps between urban and rural investment in the region. One of the problems with foreign investment is that it is often concentrated in 'industrial zones', where various incentives are guaranteed and limited added value generated.

Figure 3.2:

Cumulative Foreign Direct Investment Flows by Sector in the Arab World, 2003-2015⁶¹



60) World Economic Forum (2012)

61) Source: International Monetary Fund data available from <http://www.imf.org/en/Data>

One of the major consequences of concentration of foreign private investment (both geographically and by sector) and declining public sector investment is poor overall productivity of investment in the region. Productivity in the Arab world is very weak and mostly accounted for by products of low added value⁶². Research and Development (R&D) spending is among the lowest in the world, and scientific and technological knowledge are imported rather than developed endogenously. Technological advances have remained limited – except in resource sectors – and most economies are mired in low technology, low added value production. This not only disincentivises investment, it negatively affects labour markets and workers⁶³. Since 2000, numbers of working-age citizens who are unemployed or in forms of contingent labour such as seasonal employment and the informal sector have exceeded those in the formal labour market.

One of the central issues here is that many businesses in the Arab World are of a size that allows them to be categorised as Small and Medium-sized Enterprises (SMEs). SMEs can be engines for social justice, in that they provide employment and other benefits to large numbers of people. However, policy and regulatory frameworks have not provided sufficient means for SMEs to become engines of investment and growth. In Syria, for example, Law No. 10 (1991) was passed to serve as a cornerstone of private investment aimed at alleviating unemployment. While more than two million Syrians entered the workforce between 1991 and 2005, investment projects approved under the law created barely 6000 jobs per year over that time⁶⁴. Prior to the conflict, more than 96 per cent of all Syrian enterprises were SMEs. The gap between policy and capacity needs to be bridged in order for the domestic private sector in the Arab World to take a lead in investment.

This is a major issue as SMEs are increasingly recognised as engines of development and social justice. Indeed, throughout the world, many countries have established specific ministries and created targeted policies to enhance the capacity of SMEs⁶⁵. In doing so, these policies acknowledge that smaller enterprises, and not just larger multinational corporations, can help advance the goals of social justice. In the Arab

62) Kadri (2015)

63) World Economic Forum (2012)

64) Jamil (2007)

65) International Labour Organisation (2010)

world, however, one of the main problems is that the role of the SMEs in the economy has been severely restricted by various direct and indirect measures⁶⁶. Thus, Arab SMEs are unable to contribute positively to development and social justice to the same degree as their counterparts elsewhere in the world⁶⁷.

During the period of liberalisation from the 1990s onwards, reforms in the Arab region often served to prop up and consolidate existing elites. In other words, liberalisation was always intended to be selective and to benefit a narrow group of individuals and conglomerates. While this group of beneficiaries has certainly expanded over time, the procurement and other benefits of liberalisation have predominantly accrued to domestic business networks, regional capital (especially from the Gulf), and international companies. The smaller enterprises that form the core of the domestic private sector have experienced limited gains in terms of investment, capital stock and enterprise growth. Compounding this situation is the absence of parallel social policies and programmes that could advance social justice goals – which is usually what is meant by the term ‘inclusive growth’. Investment does not, by itself, create development and advance social justice. It does this only if accompanied by policies that protect workers, expand employment, define and protect labour and social rights, and help distribute the wealth created through investment to society at large. Thus, in the Arab world, inclusive growth has been elusive, as policy has focused primarily on only one side of the equation: attracting investment.

Another major obstacle to the private sector playing a strong role in social justice is the economic environment in which many SMEs operate. The conditions for economic and political stability are, quite simply, largely absent in the region. Guarantees for investment and property rights are tenuous at best; this has driven much Arab capital away from the region or into non-productive assets. Many investors consequently lack the economic security required to put their capital to productive use. The situation faced by the private sector in the region is thus complicated and constrained by the lack of institutional and political provision for investment security.

66) Azour (2014)

67) Azour (2014)

3.4 Public-Private Partnerships (PPP)

Evidence from the neoliberal period suggests that the large-scale structural reforms enacted throughout the Arab World - involving dismantling of state spending schemes, ascension into various bilateral and multilateral free trade agreements, and increased reliance on the private sector for development investment - have largely failed to fulfil their promises of bringing about private sector-led growth. In response, many governments have sought to create new incentives for investment in the form of public-private partnerships (PPPs). These partnerships are largely devoted to infrastructural projects and public service delivery, areas in which investment, public and private, has not led to the necessary advances. By all accounts, the Arab World is in need of major investment in physical infrastructure such as transportation networks, electricity provision, water delivery, sanitation services and irrigation, and in social infrastructure in the form of schools and hospitals. Tremendous disparities in quality of both physical and social infrastructure exist both between countries in the region - GCC countries have high levels of infrastructural development relative to others - and within countries, with noticeable differences between rural and urban areas in almost all countries.

The basic premise of PPP is to incentivise private investment in infrastructural development and social service provision by linking private and public capital and creating various investment incentives. However, these partnerships result in transfer of public funds to private interests through two basic mechanisms: user fees (such as tolls or service payments) and payment of public money to private companies to manage and operate projects. The terms of many such partnerships favour private interests and place significant financial burdens on the public sector. Ownership remains with the state but managerial control is transferred to the private sector. Although various laws have been passed in the region to regulate PPPs and open up investment space, such as Egypt's Law No. 67 (2010), in practice many PPPs have resulted in contracts being awarded to economic elites close to ruling regimes. Moreover, between 1990 and 2011, 88 per cent of all PPPs have been in

either the Telecommunications (64 per cent) or Energy (24 per cent) sector. Both these sectors involve direct payment for services by consumers and are thus regarded as reliable investments⁶⁸. In contrast, infrastructure projects in areas such as water and transport rely on government subsidies and payments and are considered less attractive as investment opportunities. As a result, the shift towards greater private investment and use of PPPs has not resulted in higher overall investment, but rather in investment capital targeting particular sectors accompanied by a general decline in public investment expenditure. Thus, trends in the region towards different forms of privatisation undertaken in order to enhance private investment have demonstrably failed to achieve this.

3.5 Investment Challenges

Investment policy is often narrowly thought of as focused on achieving growth. However, growth without attention to distribution cannot begin to meet the many social and economic needs of Arab citizens or to achieve greater social justice. With private investment from both foreign and domestic sources declining throughout the region and concentrated within Arab Gulf countries, public investment stagnating and the political legacies of corruption ensuring mistrust of the public sector, there is a need for new ways of thinking about how to activate public and private investment in complementary ways that overcome these structural obstacles and begin to address some of the broader goals of investment.

It is a puzzling paradox that in the face of the Arab uprisings, largely driven by Arab populations' socio-economic concerns, the major recommendations of IFIs, policy makers and business leaders are to deepen market reforms and expand privatisation. Thus, the answer to the problem of economic stagnation and declining social services is to persist with the very processes that created the problems in the first place. Market liberalisation since the 1990s onwards has simply not led to the promised development gains. There have been some macroeconomic gains but the benefits of these have been concentrated and not reached the population at large.

68) OECD (2014)

As such, investment policy needs to be reoriented from its sole focus on cultivating private investment and towards reinvigorating the role of public capital in investment, in order that the two can work in conjunction. What is needed is not a wholesale dismissal of private investment, nor a return to the public-sector dominance of the immediate post-colonial period, but rather policies that ensure that investment needs in key sectors and regions are fulfilled through a balance of contributions from both public and private sectors, in order that investment in the Arab countries produces social gains rather than merely concentrating wealth. This would involve incentivising private investment in areas that realise greater social gains and finding policy mechanisms to disrupt the concentration of investment in sectors with low potential for generating stable employment. No sector needs to dominate the economy to the detriment of others. Instead, public and private investment have to be balanced in such a way as to facilitate more even distribution of wealth and to enhance social indicators. The state's role should thus be to serve as both regulator and director of private investment policy and as an engine of investment in key strategic sectors.

This would involve a number of major shifts, including but not limited to the following. First, spending in key social sectors needs to increase to match the needs of growing populations. Throughout the region, per capita expenditure on health care and education is significantly lower than in other Emerging Market and Developing Countries (EMADCs), with higher levels recorded in Arab Gulf countries than the rest of the Arab region. Overall, public spending decreased slightly between 2013 and 2015, while from 2011 to 2015 social expenditure increased from 33 to 34 per cent of total expenditure. This negatively impacts both social policy goals and prospects for private investment. Second, investment needs to be channelled into neglected areas, both across the region as a whole and within countries: especially rural areas where significant numbers of people live, mainly working in agriculture. Policies need to incentivise investment in more overlooked areas. Third, national policies should not focus solely on meeting demands of IFIs and global capital for increased capital mobility, but should also engage with domestic actors such as business associations and municipalities to shape policy

that meets both local needs and the capabilities of domestic enterprise. Fourth, it is necessary to diversify and increase revenue sources: restructuring public budget financing while alleviating fiscal pressures on the citizenry. This could involve multiple interrelated measures such as enhancing the tax administration, and investing in technology and machinery to help boost productivity and revenues in existing public sector enterprises. This should also involve re-evaluation of how public debt is accrued and distributed and attention to intergenerational consequences of assuming debt without enhancing development. Fifth, reliance on investment in petroleum and real estate needs to be broken, by incentivising and expanding opportunities for investments that enhance productivity and increasing numbers of labour-intensive projects. Sixth, the incentive structure of private investment needs to be reconsidered. In free zones or special economic zones, private companies receive public subsidies in the form of resource and service relief. Water, electricity, and infrastructure are publically subsidised in order to attract investment. However, this investment rarely creates long-term benefits for the national economy as private sector actors are not generating the employment and wealth necessary to foster sustainable growth. Seventh, trade agreements and investment laws reflect the interests of foreign capital and so lack strict rules on capital repatriation, local ownership, technology transfer, or anything related to social justice. They also fail to include labour provisions that would ensure minimum standards of workers' rights and social protection. This means that investment is predicated on removing protection and rights for society as a whole, rather than contributing to such protection and rights. While the Euro-Mediterranean Partnership (EMP) agreements, for example, contained social and political clauses, these were rarely enforced. The negative effects of liberalisation upon partner countries were evident throughout and beyond the 2000s when the agreements came into effect. Similarly, ascension by some Arab countries to the General Agreement on Trade in Services (GATS) has not produced sustainable, diversified investment.

As we have seen, private investment has not led to productivity increases or more equitable distribution of wealth. More opportunities for growth and expansion of private enterprise, along with spending on R&D, are necessary to begin to allow Arab economies to become more productive.

3.6 Conclusion

What is the link between investment and social justice? Throughout the world, there is an alarming and growing disconnect between profits and wages. Private sector-led growth has not only failed to bridge this gap, it has accentuated it. In most countries, economic growth takes place without accompanying wealth redistribution, against a background of assumptions that economic growth will necessarily lead to broader social gains. The so-called 'trickle down' argument has been thoroughly refuted by most research yet continues to justify policies that concentrate rather than redistribute wealth. In this sense, investment for investment's sake, especially through the private sector or public-private partnerships, will not by definition enhance social policy goals and social justice. What is needed, then, are policies that are redistributive in nature, that target neglected sectors and regions of the Arab World and neglected areas within countries, and that bear potential to provide meaningful employment. Public, private, and public-private investments can all contribute to enhancing social goals by providing decent employment, availability of public resources to distribute, infrastructural growth and development, and education and training for the workforce.



Foreign Trade Policy and Social Justice

Salam Said

Foreign Trade Policy and Social Justice

Salam Said

Foreign trade policies adopted by Arab governments since the 1980s rank among the most important factors contributing to social injustice in the Arab world. Foreign trade policy is not only a necessary tool for income redistribution (through import duties), it has also significant effects on domestic production, economic structure and employment. For this reason, social inequality, unemployment, poverty and economic dependency are frequently outcomes of misguided trade policy.

Foreign trade policies have great effects on domestic production and employment, especially in small and developing countries such as those in the Arab world. Trade policies that control flows of foreign goods and services, facilitate imports of production materials and support the export sector can attract investment, expand local industrial capacity, develop the agricultural sector and maintain high level of employment. In contrast, free trade policies, which demand elimination of trade barriers and subsidies, usually have detrimental effects on employment and a wide range of domestic economic activities, in particular infant industries⁶⁹, small-scale business and agriculture. Victims of such policies are mostly local producers, farmers and workers, who not only lose their jobs and businesses but also have to pay higher prices for imported products. Free trade in relatively uncompetitive economies can additionally encourage commercial and import-led activity at the expense of productive and labour-intensive sectors such as manufacturing and agriculture. As a result, affected countries might become increasingly dependent on production in other countries, operate trade deficits and experience high levels of unemployment and poverty (see Box 4.1).

69) An infant industry is a new industry that in its early stages of development is usually incapable of competing with established competitors abroad. Governments therefore often used to support and subsidise such industries in order to promote development and industrialisation.

Box 4.1

An illustrative example of the potential danger to domestic economies of free trade is the effect of the North American Free Trade Agreement (NAFTA), involving USA, Canada and Mexico, on Mexican maize production and farmers. Mexican maize farmers incurred losses estimated at USD 6.6 billion between 1997 and 2005⁷⁰. Mexican exports of maize to the USA have increased slightly, while maize imports to Mexico from the USA have grown dramatically. In 2015, the volume of maize exported from Mexico to the USA was less than one per cent of that imported from the USA to Mexico⁷¹. Figures from 2013 suggest that an estimated two million maize farmers in Mexico have become jobless since NAFTA's introduction. Meanwhile the price of maize, the main staple food in Mexico, has risen. Jobless farmers and workers either end up among the 20 million Mexicans living in food poverty or as illegal labour migrants into the USA. Remaining maize production in Mexico is dominated by multinational corporations operating extensive agriculture⁷².

For these reasons, countries – in particular developing countries – need a certain degree of protection to achieve two things. First, to be able to meet domestic demand for goods and services. Second, to fend off tough competition from well-established and highly experienced global rivals - who themselves defended their own businesses during past protectionist phases, and still offer the same protection to uncompetitive domestic sectors. Furthermore, developing countries urgently need to reduce unemployment and poverty at the same time as they support socioeconomic development processes. These goals cannot be achieved without well-balanced trade policies that provide and sustain decent job opportunities, protect strategic industrial and agricultural activities, ensure social protection for employees and subsidise poor populations.

At the global level, free trade policies have often been blamed for growing inequality between poor and rich countries as well as for increasing social inequality within countries. Not only is world poverty increasing alongside growing international trade, global wealth inequality reached

70) Wise (2009)

71) Comtrade Statistics, 2016

72) Carlsen (2013)

a new record in 2017, with just eight men owning as much as the half of the world's population⁷³. Trade liberalisation also contributes to wage disparity and informalisation of labour within countries⁷⁴.

Global propaganda for free trade, led mainly by international financial institutions (the International Monetary Fund (IMF) and World Bank (WB)), and the World Trade Organisation (WTO), focuses on quantitative indicators such as rates of economic growth and growth in exports and neglects negative socioeconomic impacts on a large proportion of the world population, especially marginalised social groups (the very poor, rural populations and women). It also ignores the fact that international trade has in practice never been either free or fair. The European Union (EU) and USA, major advocates of free trade, obstruct liberalisation of trade in agricultural products. They protect and subsidise their own farmers, but request free market access to southern partners without any concession to social and development considerations.

Despite these controversial effects of liberal foreign trade policies, Arab governments continue to liberalise foreign trade further and negotiate dubious free trade agreements (FTAs) - even after the 'Arab Spring' protests calling for social justice, decent employment and dignity.

4.1 Foreign Trade Policies of Arab Countries

Since their political independence Arab countries have passed through different developmental stages characterised by different approaches to foreign trade policy. In the immediate post-independence years, protectionist foreign trade policies to promote economic independence and self-reliance at national and regional levels were popular throughout the region. As a result, apart from some failed attempts at economic integration in the 1950s motivated by Pan-Arabist ideology, it is hard to observe any great effort towards opening markets.

During the protectionist phase import substitution, industrialisation, self-sufficiency and socioeconomic development were explicit goals of economic policy, regardless of whether the economic system was

⁷³ Oxfam (2017)

⁷⁴ International Labour Organisation (2013)

capitalist or socialist in orientation. Accordingly, foreign trade policy mainly favoured imports of raw materials, intermediate products and machinery, while tending to limit imports of finished goods and restricting exports of strategic products such as wheat. Despite this common ground, the degree and duration of protectionism varied from one country to another. Syria, an example of a country with a highly socialist economic model, maintained a highly restrictive foreign trade regime until the 2000s. At the other extreme, oil-rich Gulf countries like Saudi Arabia began gradual tariff reduction as early as the late 1960s⁷⁵.

During the 1990s almost all Arab countries experienced trade liberalisation, at unilateral, bilateral and regional levels. Many countries relaxed restrictions on trade either to bring national economic policy in line with international trends towards globalisation or to meet the demands of domestic economic elites who were ready for opening of markets and sought more interaction with international capital. Trade liberalisation was also widely imposed by international organisations and major trade partners: Arab countries receiving loans from the IMF and WB were committed by the terms of the loans to implementation of neoliberal economic reforms, including trade liberalisation⁷⁶.

Negotiations for accession to the WTO oblige candidate countries to commit to removing all non-tariff barriers to trade, to reducing import tariffs and to eliminating all types of protection for domestic products, including subsidies. The decision to join the WTO is usually a voluntary one. However, many investment and trade agreements with the US and the EU encourage or require membership of the WTO. As a consequence many Arab countries making such agreements have simultaneously applied for WTO membership (see Table 4.1).

75) Olds (2009); Said (2011)

76) Mossallem (2015)

Table 4.1: Major Bilateral and Regional Free Trade Agreements Involving Arab Countries ⁷⁷

	Euromed Association Agreements		Agadir Agreement Current status	Middle East Free Trade Area	GAFTA Current status	FTAs with Turkey	WTO
	Signed	In force					
Mediterranean countries	Mauritania		-	In force	Candidate	Signed	Member
	Morocco	1996	2000	-	Member	-	1995
	Tunisia	1995	1998	2006	Member	2004	1995
	Algeria	2002	2005		Member	2005	1995
	Palestine	1997	1997		Candidate		Observer
	Egypt	2001	2004		Member	2004	
	Syria	Initiated 2008			Member	2005	1995
	Lebanon	2002	2003		Member	2004	Observer
	Jordan	2002	2003	2001	Member	2010	Observer
	Libya	Observer status (negotiation for Trade Agreement since 2008)			Member	2009	2000
GCC	Saudi Arabia		-		Member		Observer
	Oman		-	2006 (signed)	Member	Nego-	2005
	Qatar	EU-GCC free trade agreement (Negotiation since 2002)			Member	tiations	2000
	UAE				Member	started	1996
	Kuwait				Member	2005	1995
	Bahrain			2006	Member		1995
	Yemen	-	-		Member		2014
	Iraq	-	-		Member		Observer
	Comoros	-	-		Candidate		Observer
	Somalia	-	-		Candidate		-
	Sudan	-	-		Member		Observer
	Djibouti	-	-		Candidate		1995

4.2 North-South Trade Agreements

Trade liberalisation based on North-South FTAs has been widespread in the Arab region since 1995. The EU started bilateral negotiations to set up the so-called 'Euro-Mediterranean Partnership' (EMP) with eight Arab Mediterranean countries in the early 1990s. The main economic component of the EMP is Association Agreements aiming to establish a free trade area at bilateral level involving a 12-year transition period during which the EU provides technical and financial assistance to the Mediterranean country and promises to increase direct investment. Despite these pledges, the EMP has been often criticised for its form and for negative effects on the Arab partners. Firstly, it is a free trade area only in a limited sense: it only covers selected industrial products and excludes agricultural and agro-industrial goods⁷⁸. In addition, European investments and assistance have gone mainly to the export sector and towards fostering free trade and liberal investment regulations, rather than supporting socioeconomic development and job creation⁷⁹. Moreover, the bilateral north-south arrangement (a so-called 'hub-and-spoke' model) had negative effects on the 'spoke' countries: trade and investment tend to concentrate in the 'hub' (the EU), increasing economic dependence on the 'hub' and reducing cooperation potential among the 'spokes' (the Arab partner countries)⁸⁰. Finally, the absence of social and labour provision in the agreement has led to tolerance of informal employment, wage-dumping and unfair labour conditions⁸¹.

In 2013, the EU initiated new negotiations with Tunisia and Morocco to sign the Deep and Comprehensive Free Trade Area (DCFTA) agreement, aiming on the one hand to expand trade liberalisation to services and the agricultural sector and on the other to create investment opportunities and support economic reforms. The EU plans to negotiate the DCFTA with all Mediterranean partners on – once again – a bilateral level, and to cover strategic sectors that directly impact social development such as education and health. Many critical voices warn governments against these negotiations and recommend learning from the failures of the EMP⁸². Higher-level coordination with other Mediterranean partners to make a claim for collective and inclusive negotiation might be the first step towards maximising the trade advantages of such agreements and

77) Source: Author's compilation based on data from the WTO, European Commission and Office of the United States Trade Representative (USTR)

78) Said (2011)

79) Dimitrova & Novakova, (2015)

80) Wonnacott, (1996)

81) International Labour Organisation (2013)

82) Dimitrova & Novakova (2015)

making them fairer for all interest groups, including rural populations, workers and small producers.

During the 2000s, further bilateral FTAs were contracted with Turkey and the USA (see Table 4.1). While the agreements with Turkey conform to the Association Agreements with the EU in terms of structure and plans for opening markets, the US-Middle East Free Trade Area (MEFTA) covers many areas other than bilateral trade, including investment and support for neoliberal economic reforms and trade liberalisation, but does not provide concrete plans for bilateral opening of markets. Although Turkey is not a developed country in the traditional or conventional sense, its economic development over recent decades seems to enable it to adopt the role of the 'northern' country in North-South trade relations. Turkey excluded agricultural products from the FTAs and negotiated with Arab countries at a bilateral level, which was in its favour.

In line with its political-economic goals in the region, the USA set up so-called Qualifying Industrial Zones (QIZs) in Jordan, Palestine and Egypt to support Israel's integration into the region. According to the QIZ agreement, Arab textile and clothing exports manufactured in QIZs and used in Israeli-made intermediate products enjoy free access to the US market.

4.3 South-South Trade

Intra-Arab trade follows various bilateral FTAs and different forms of regional economic integration. Recent regional initiatives include the Greater Arab Free Trade Area (GAFTA) and the Agadir Agreement. GAFTA was introduced by the Arab League and is considered a successor to many previous unsuccessful attempts at Pan-Arab economic integration. In 1997, 14 countries signed GAFTA to establish a free trade area covering the industrial and agricultural sectors by 2005 and deeper forms of economic integration (such as a common market) in the future. The Agadir Agreement was initiated by the EU in 2004 to encourage interregional trade among its Arab Mediterranean partners by enabling them to benefit from the pan-Euro-Mediterranean cumulation of origin⁸³

83) The Pan-Euro-Mediterranean cumulation of origin systems allows for the application of diagonal cumulation between the EU, European Free Trade Area states, Turkey, signatory countries to the Barcelona Declaration, the Western Balkans and the Faroe Islands. Diagonal cumulation means that materials that have obtained originating status in any participating country may be incorporated into products manufactured in another participating country without those products losing their originating status when exported to a third country within the pan-Euro-Med zone. Further information on these rules is available at: <http://urlz.fr/66QB>

(see Table 4.1). The Gulf Cooperation Council (GCC) and the Maghreb Union are further sub-regional economic integration initiatives, respectively created in 1981 and 1989⁸⁴.

One of the main motivations for South-South trade is collectively to face the challenges of integration into a global economy that requires a high degree of neoliberalism in individual countries at the expense of social development, economic autonomy and income equality. In contrast to North-South relations, where agreements will tend to be to the detriment of the weaker parties, intensifying trade liberalisation and economic integration among partners with similar standards of competitiveness and productivity and complementary production structures could contribute to fairer trade. Regional trade can encourage competing local producers to expand and develop their production. It can also increase intra-regional investment, making the region an attractive economic hub and creating collective bloc interests. Also, South-South cooperation might reduce dependency and support a country's autonomy to follow a long-term economic policy that lies in its best interests and favours increasing stability. Not only is stability generally positive for investment and economic activity, it also has a strong distributional effect. Individuals and companies with moderate income, little capital and reduced access to strong sponsors and international networks are affected most by sudden and unpredictable fluctuations, and also have the least capacity to adapt. For the poorest, it becomes a matter of survival. Reducing volatility and vulnerability is therefore a key issue in relation to social justice.

These positive impacts of South-South FTAs can be undermined by different degrees of protectionism against third countries, absence of an effective 'rule of origin', and intraregional technical and political obstacles (see Box 4.2). Therefore, implementing deeper economic integration that offers favourable access to job and investment opportunities for regional populations and at the same time protects local producers and workers against unfair competition could improve the prospects of sustainable development across the whole region.

⁸⁴ Said (2011)

Box 4.2:

Intra-Arab trade faces many technical, institutional and political-economic challenges. First, official removal of trade barriers in line with regional FTAs is not completely implemented. Non-tariff barriers (including import quotas, time-consuming customs clearances and red tape) are very high in most countries. Second, the Arab region lacks functional and supportive transport networks and communications infrastructure that could increase trade among non-neighbouring countries. This obstacle explains the high proportion of intra-Arab trade among neighbouring countries. Third, structural economic weaknesses and limited competitiveness of domestic goods affect countries' abilities either to withstand foreign competition or to exploit export opportunities. The most attractive market for non-oil exporters in the region is the rich Gulf states, and to a lesser degree Algeria, Libya and Iraq, as they mostly export oil and import a wide range of agricultural and industrial commodities. However, a common external tariff of only 5 per cent limits the degree to which Gulf states and Iraq can offer preferential market access to Arab suppliers. Fourth, political and economic elites in the region seem to mistrust each other and to follow different interests, which hampers regional trade. Fifth, absence of an efficient regional institution, unworkable rules of origin and a lack of compensation mechanisms for small and poor countries have all limited regional trade. Finally, ongoing political instability and armed conflict in the region are among the most critical current challenges to trade. Their consequences spill over the whole region and include smuggling, illegal trade, informality, large-scale corruption and war⁸⁵.

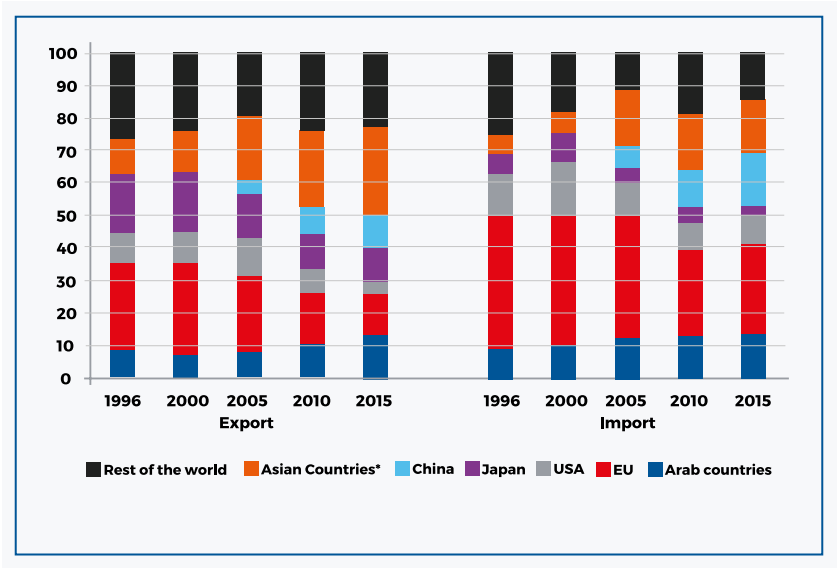
4.4 Structure and Destination of Arab Trade

Until the 1990s, Arab foreign trade was characterised by high concentration in terms of both geography and commodities. The main trade partners were the European countries, the previous colonial powers in the region, along with the USA and Japan. Until 2005 they collectively constituted more than fifty per cent of Arab foreign trade (see Figure

85) ESCAW (2016); Said (2011)

4.1). Trade structure by commodity conformed to the typical pattern of North-South trade relations. The major part of total Arab exports was crude oil (70 per cent), raw materials and unprocessed agricultural goods, while the main imports from northern developed countries were machinery, transport equipment, technological and electronic products, and consumer goods with a high proportion of added value. However, since 2000 some countries have increasingly exported petrochemicals and manufactured goods such as leather products, textiles and apparel (see Figure 4.1).

Figure 4.1:
Arab Trade by Destination as Percentage of Total Trade, 1996-2015 ⁸⁶



*Figures for Asian countries in the years 1996 and 2000 include China

Trade liberalisation polices have led trade structures in the region to change to varying extents, in relation to both the partners and the commodities involved. Surprisingly, these changes cannot be explained only by the FTAs, but also reflect the unilateral tariff reduction, which

86) Source: Author's calculations based on Arab Monetary Fund, Joint Arab Report (2002-2016), foreign trade statistics

encourages low-cost imports from China and other Asian countries. Despite a dramatic decline in its share in total Arab trade since 2005 the EU is still an important trade partner for North African countries (see Figure 1). Between 2011 and 2015, on average around 73 per cent of Tunisian, 61 per cent of Moroccan and 60 per cent of Algerian exports went to the EU, while the EU accounted for almost fifty per cent of their imports⁸⁷. While resource-rich Algeria mainly exports fuel to the EU, resource-poor Tunisia and Morocco increasingly export manufactured goods. In 2016, machinery and transportation equipment made up 41.8 per cent of Tunisian and 36 per cent of Moroccan exports to the EU. The next most important category of exports was textiles and clothing, around 24 per cent of Tunisia's total and 20 per cent of Morocco's⁸⁸. Growth in industrial exports is an outcome of increased outsourcing on the part of European companies taking advantage of cheap labour, geographical proximity and low operational costs, rather than any improvement in the terms of trade or competitiveness of national products⁸⁹. This intra-company trade is based on subcontracting to subsidiaries or local firms (offshore). Therefore, it is uncommon to see Tunisian or Moroccan labels on products such as garments and olive oil sold in Europe. Most are sold under European brands, with the place of production identified by a statement such as "Made in Tunisia" somewhere on the label⁹⁰.

In contrast to its trade with North African countries, EU trade with Mashreq countries has declined dramatically since 2000. The European share of total trade dropped from an average of 50 per cent in the 1990s to 2015 levels of 16.9 per cent in Jordan, 37.7 per cent in Lebanon and 31.3 per cent in Egypt. Main exports to the EU in 2015 were mineral fuels, textiles and clothing, chemicals, mineral products and agricultural goods, while imports were mostly machinery and equipment⁹¹.

Regardless of its importance as a trade partner, all EMP countries showed consistent negative trade balances with the EU from 2000-2015 (see Figure 2). While Tunisia and Morocco both had positive trade balances in sectors like textiles and clothing, there was considerable growth in food imports from the EU to all Mediterranean countries that one would expect to have comparative advantages for these products.

87) Comtrade (2017) and International Trade Centre (ITC) (2017)

88) European Commission (2017).

89) Bagdadi (2016)

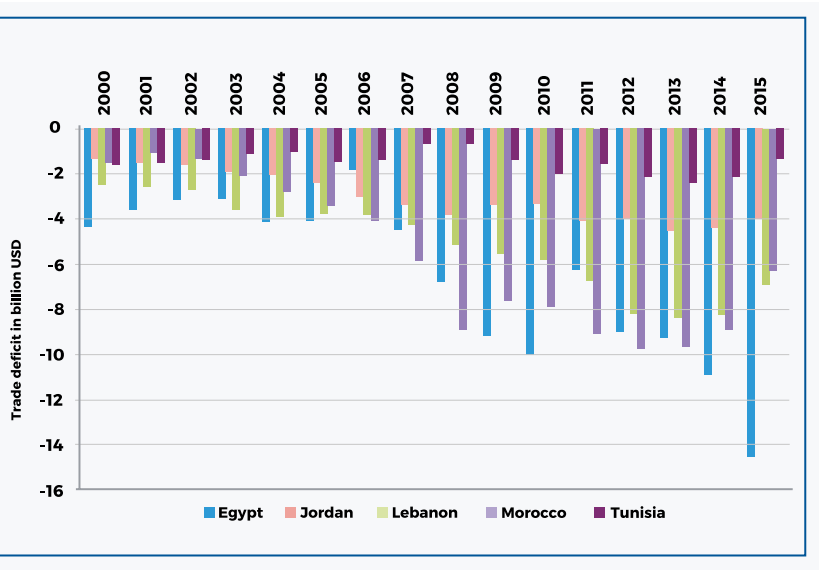
90) Said (2011)

91) European Commission (2017)

This highlights a basic imbalance in EU-Arab trade relations. On the one hand, Arab food exports are restricted by European protectionist measures including the Common Agricultural Policy, import quotas, and strict health, technical and environmental standards. On the other, food production in Arab countries has become increasingly export-oriented rather than prioritising food sovereignty or security (see Hamouchene, Chapter 7).

Given that the EU is a strong trading bloc with greater competitiveness, higher negotiation skills and longer export experience than individual EMP members, the latter will have little chance of improving current conditions or balances of trade unless they rethink trade agreements with the EU.

Figure 4.2:
Trade Balances with EU of Egypt, Jordan, Lebanon, Morocco and Tunisia (2000-2015)⁹²



92) Source: Author's calculations based on Comtrade (<https://comtrade.un.org/data/>), accessed 20 March 2017.

The USA has also declined in importance as a trade partner for the region since 2000, despite the MEFTA agreement (see Figure 1). However, Arab exports to the USA have diversified, and now include aluminium, fertilisers, chemicals and clothing. While the QIZ Agreement means that Jordan and Egypt largely export clothing products, Morocco exports mostly fertilisers and phosphate. Typical Arab imports from the US are machinery, aircraft, electronic machinery, transport equipment and technology. Similar to the situation with the EU, the majority of non oil-producing Arab countries show a negative trade balance with the US⁹³.

Asian countries, in particular China, have become the most important current trade partners for the Arab region. Since 2010, more than a third of Arab foreign trade has been with Asian countries. This results from a combination of unilateral trade liberalisation and the price competitiveness of Asian economies. Countries like China, India and South Korea have improved competitiveness due not only to technological transfer and economies of scale, but also to low exchange rates and low labour costs. Wage dumping, unfair work conditions, forced labour, child labour and environmental pollution are not uncommon costs of their high economic growth and rise to becoming world's largest exporters⁹⁴. While growing industrialisation in Asian countries raises demand for Arab oil, a large proportion of domestic needs for industrial and consumer goods in Arab countries have been satisfied by cheap imports from Asia. This might have positive short-term effects on low-income consumers and re-export businesses in the Arab countries, but in the long term endangers local producers, employment and worker's rights.

Some Arab countries seem to have begun negotiating FTAs with Asian countries, a risky step for their domestic economies. The Moroccan-Chinese FTA, signed in 2016, seems to be a major socioeconomic challenge for Morocco. Experts suggest that Morocco will not gain much from free access to the largest Asian national economy as it exports only a limited range of products, while Chinese imports will endanger local industries and employment⁹⁵.

93) See trade statistics between the USA and Arab countries in Census (2017)

94) International Labour Organisation (2017); Zhou (2016)

95) Meyer (2016)

4.5 Regional Trade

International trade between Arab countries has increased from an average of 10 per cent of total international trade before 2005 to 13 per cent in 2015 (see Figure 1). Non-oil trade between Arab countries is estimated to exceed twenty per cent. The rising importance of intraregional trade may be a result of GAFTA, which officially eliminates all trade barriers among 18 member countries, or an outcome of the global financial crisis, which caused stagnation in international export markets, in particular the EU.

However, GAFTA has not had the same stimulating effect on all member countries. While the Arab region has become the main trade partner of Mashreq countries, its share in total trade is still modest (up to ten per cent) in Maghreb and GCC countries. The share of Arab trade in the Mashreq surged in 2015 to 30 per cent of exports and 22.5 per cent of imports⁹⁶. It moreover exceeded fifty per cent in Syria, Jordan and Lebanon. Intra-Arab trade is also important for the less developed Arab countries: Somalia and Djibouti. Over ninety per cent of their exports remained in the region between 2011 and 2015⁹⁷.

Due to GAFTA, intra-Arab trade has diversified since the 1990s. Mineral fuel no longer dominates intra-Arab trade. In 2015, manufactured goods made up 55 per cent of regional exports, followed by agricultural products (20 per cent) and mineral fuels (18 per cent)⁹⁸. The rise in non-oil trade can be attributed not only to tariff reduction and low oil prices, but also to growing re-export. Some countries with zero import tariffs have taken advantage of cheap Asian imports, free market access to GAFTA and state support for offshore businesses to become re-export centres for the region. GAFTA's inefficient rule of origin has encouraged re-export activities, distorting trade and competition. A good example of this practice is the United Arab Emirates (UAE), which became the region's largest re-exporter of machinery, electrical equipment and some articles of clothing⁹⁹. Local added value of re-exported products is usually low and results mainly from packaging or re-packaging rather than manufacturing¹⁰⁰.

96) ESCWA (2016)

97) AMF (2016)

98) AMF (2016)

99) ITC (2017)

100) Said (2011)

4.6 Trade Liberalisation, Domestic Production and Employment

Opening of markets is supposed to expand export and production capacities of competitive domestic sectors and attract private investment that can create job opportunities. However, it seems to have had totally different results in Arab countries, namely higher unemployment (see Abdelhak, Chapter 5), decline in productive sectors in favour of services¹⁰¹, and reduction in local value added chains.

The trade policies of Arab countries put domestic manufacturers and farmers at risk by exposing them to tough competition from globally leading producers, without any support programmes to increase their own competitiveness. While FTAs with the EU and Turkey affect specific sectors, unilateral tariff reduction permitting low-cost imports has challenged key domestic sectors (textiles, garments and agriculture) and infant industries such as electronic devices, vehicles and machinery.

Growing competition has placed particular pressure on small-scale enterprises to reduce production costs, either through redundancies or cheaper and lower quality imported intermediate products; this in turn affects their productivity and product quality. Many have chosen to enter other sectors (see Box 4.3). Small-scale businesses are significant in Arab countries as they represent the majority of private sector and middle-income populations. Putting them at risk therefore risks reducing a large part of the middle class to poverty and destroying a considerable part of the production sector.

Box 4.3:

Since Syria reduced the tariff on textiles and garments in 2005, its market has been flooded with Chinese cotton t-shirts, sold at lower prices than domestic ones despite customs duties and transportation costs. Syria previously ranked among the major producers and exporters of raw cotton, textiles and garments and offered comparative advantages in these sectors. The industrial chain (cotton-textile-garment) is

101) The contribution of the manufacturing sector to GDP in the Arab region has declined from 11.4 per cent in 1999 to 9.4 per cent in 2011 and 11 per cent in 2015, compared with around a third of GDP in countries like China. The contribution of the agricultural sector showed an even larger decline, from 12.3 per cent in 1990 to 5.8 per cent in 2015. The services sector, including government administration, made up 51 per cent of GDP in 2015 (AMF 2016, 2000).

fundamental to the Syrian economy. In the 2000s it provided an average of 20 per cent of industrial production, 22 per cent of industrial labour forces and 32 per cent of total non-oil exports. In 2001 the cotton sector comprised 7.2 per cent of GDP and employed more than 2.7 million people¹⁰¹. Domestic producers reacted to price competition by cutting employment and wages and by substituting local inputs with cheaper imports, which both damaged backward linkage industries (textiles) and diminished local added value chains. The effects on this sector of opening the market with Turkey from 2007 were disastrous. Huge numbers of small clothing manufacturers, especially in Aleppo, have had to close, leading to large-scale redundancy and bankruptcy¹⁰³.

In addition to the risks of trade liberalisation, the promised advantages for production and employment are for many reasons not guaranteed. Foreign and private investments in the region were attracted mainly by export-oriented sectors and have not necessarily favoured local economies. The export sector depends considerably on imported intermediate materials and expensive manufacturing equipment and high technology. This limits domestic backward and forward linkages, reduces local value added chains, and increases economic dependency. Consequently, trade liberalisation has not promoted local production or brands, but merely attracted multinationals to establish subsidiaries (e.g. assembly firms) and encouraged activities directed at re-export. Given these circumstances and Arab countries' lack of any solid industrial base derived from endogenous resources and innovations, it is unlikely they will have an opportunity to catch up.

Although export sectors could in some cases provide relatively higher wages than inward-oriented activities¹⁰⁴, employees in export sectors have become increasingly exposed to competition with counterparts in countries with low labour costs and highly qualified workers in advanced economies¹⁰⁵. Any rise in labour costs in the host country can provoke relocation of investment to more attractive sectors or countries. Domestic investment might increasingly target service sectors such as trade-based businesses (importers) and real estate, at the expense of

102) Said (2011)

103) Barout (2011)

104) International Labour Organisation (2013)

105) See, e.g., Hassine (2014) on violations of the economic and social rights of working women in the textile export sector in Monstir/Tunisia

agriculture and manufacturing, while foreign investment seeks more lucrative locations that offer higher profit margins. Some operations in the export sector even employ cheap imported labour to maximise profit, despite high levels of unemployment in the host country. Garment factories in the QIZs in Jordan and Egypt are good examples of this¹⁰⁶. This is why such investments are neither sustainable, nor favourable for local economic development.

Finally, productivity and efficiency gaps between Arab countries and strong trade partners are not the only reasons for the weak position of domestic producers. The nature of the domestic private sector also limits its opportunity to expand through economies of scale, and makes its survival within its home market impossible without state protection and subsidies. The Arab private sector consists of small and medium-sized enterprises with limited production capacity, is rent seeking and depends on state privileges¹⁰⁷. This is a result of a political-economic setting, characterised by close interconnections between authoritarian regimes and capitalist elites. From a social justice perspective the trade liberalisation imposed by these elites further discriminated against small businesses and a workforce already disadvantaged by a corrupt and clientistic state network. Therefore, the call for a well-considered trade liberalisation policy should be understood not as a request to continue protecting privileged elites, but rather to defend the interests of small businesses, workers, farmers and other marginalised economic actors.

4.7 Trade Liberalisation, Social Inequality and Informality

The social cost of foreign trade policies in Arab countries is relatively high, and not offset by any substantial economic development that might ameliorate future social deterioration. In addition to trade deficits and declines in tariff revenues, which increase public deficits and debts and limit state spending on social services, Arab trade policies tolerate unfair foreign competition, involve signing up for unfavourable North-South FTAs, allow wage dumping and offer unbalanced advantages to foreign investors. Neither FTAs and the WTO nor domestic labour

¹⁰⁶) See the report on migrant workers in Jordan by Toppa (2017)

¹⁰⁷) World Bank (2010)

laws take account of gender issues or sufficiently maintain workers' rights such as social protection, protection against dismissal, trade union membership, workplace safety and unemployment benefit¹⁰⁸. This not only encourages employers to put pressure on labour in terms of wages and social contributions, directly affecting their standards of living, it also allows redundancy without compensation, which leaves employees and their dependents without any income¹⁰⁹. Hence, closure of enterprises resulting from unfair opening of markets can immediately exacerbate unemployment, poverty and income inequality in countries lacking basic provision for people in need.

Under these conditions women suffer more than men due to gender imbalances in access to economic and social resources and decision-making power. Women earn less than men, accept harder working conditions and are more flexible in their employment demands. They are therefore favoured as low-cost labour, especially in the export sector¹¹⁰.

Similar income inequality can also be observed between the formal and informal sectors, and between different economic sectors. Price competition and market fluctuations led the private sector to reduce its costs through informality, via tax evasion and unregistered enterprises and workers. This might explain why trade liberalisation coincides with growth in the informal sector in Arab countries. In 2010 its output was estimated at 35 per cent of GDP in non-GGC countries, where it employed 67 per cent of the labour force¹¹¹. In addition, rural populations, peasants and those dependent on agricultural employment increasingly suffer from declining income and rising living costs due to agricultural trade policies that have removed subsidies, favoured imports and not ensured free access to export markets. Women, who constitute over half the Arab agricultural labour force, are again affected most¹¹². These policies have not only destroyed local production of and self-reliance in food, they have also driven rural populations to seek better jobs in the cities, massively deepening rural-urban divides in countries like Tunisia, Morocco and Syria. Critics of neoliberal trade policies claim that investment in large-scale agriculture that might withstand competition

108) International Labour Organisation (2013)

109) See, e.g., the case of Tunisia in Hassine (2014)

110) Randriamaro (2005)

111) Angel-Urdinola & Tanabe (2012)

112) Arafat, El-Fattal & Laamrani (2007)

and successfully export to Europe is very likely to damage the livelihoods of rural populations and threaten them with poverty¹¹³.

Under these circumstances, only reconsidering trade policies to make them fairer to all social groups instead of favouring domestic capitalist elites and foreign investments will improve social justice. It might also be necessary to call into question the concept of the 'slim state' favoured by neoliberal reforms in order to enable the state to assume responsibility as a planner and regulator of economic activity and socioeconomic development and as a major provider of social security.

4.8 Conclusion

The foreign trade policies of Arab countries contributed to the deteriorating economic situation prior to the outbreak of uprisings in 2010. High unemployment rates reflect not only lack of new investment, growing populations and absence of job opportunities, but also damage to domestic industrial and agricultural production resulting from exposure to international competition and removal of subsidies and protection for many manufacturers and farmers. Simultaneously, declines in revenues and rising trade deficits increased pressure on state budgets and the cost of debts. The foreign trade policies of Arab countries might therefore merit review, taking into consideration requirements for domestic social and economic development.

The priority in relation to foreign trade might not be integration into the global economy and entry into 'North-South' FTAs at any price, but protection of strategic domestic agricultural and industrial production to reduce dependencies and expand local value added chains. Arab governments might consider the demonstrated positive effects of 'South-South' integration and support GAFTA, instead of persisting with opening markets with China, Turkey and the EU. They might take advantage of collective bargaining through GAFTA and use the socioeconomic challenges and critical security situation after the Arab Spring to renegotiate trade conditions for more favourable terms of trade and enhanced protection for local production and employment.

¹¹³) Ayeb & Bush (2014)

Finally, it is fundamental to increase participation of all social groups (farmers, manufacturers, civil society, trade unions, small producers and women), especially those currently marginalised, in shaping foreign trade policies and trade negotiations. Former policies were tailored only to the interests of business and state elites, resulting in exclusion, disparity and social injustice. Reforming political economic structures and increasing participation in setting trade policies could enhance social justice.



Employment Policy and Social Justice in the Arab World

Abdelhak Kamal

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Employment is an important element of social justice as it provides a sense of inclusion and belonging. Unemployment is not simply a matter of not having a job; it draws in its wake a whole set of supplementary difficulties and can have large-scale social consequences. This is why promotion of full, productive and decent employment must be at the heart of economic policy.

In this context, employment policies should facilitate job creation, address labour market distortions and provide protection to the most vulnerable populations. To achieve these goals, growth-promoting macroeconomic policies should integrate redistributive measures and create decent employment. Such arrangements must be combined with a social protection framework likely to eliminate the causes of poverty and exclusion.

In fact, inclusive growth must ensure that all people reap the benefits of growth. In particular, it must: (1) generate more and better jobs, especially for women and young people; (2) help people of all ages to anticipate and manage change by investing in skills and training; (3) modernise labour markets and social protection systems; (4) ensure gender equality by promoting employment of women; and (6) reduce the number of people affected or threatened by poverty and social exclusion.

Since 2011, the Arab region has been shaken by a wave of protests and regime changes commonly referred to as the 'Arab Spring'. Unemployment and social injustice were among the main drivers of these uprisings. Responses to this turmoil attached great importance to job creation and inclusive growth in the region. Due to the financial crisis of 2008-2009 and its economic repercussions, Arab countries faced many challenges in terms of generating decent work, enabling constructive social dialogue

and improving social justice. Their employment strategies and social policies appear to have failed to overcome social inequalities and correct the imbalances that cause child labour and youth unemployment. Informal work, precarious working conditions and lack of social protection continue to affect the majority of the workforce.

This chapter focuses on employment policies in the Arab world and their relationship to social justice. More specifically, it first analyses to what extent employment policies have led to social injustice, and then suggests a set of employment strategies that could contribute to improving social justice in Arab countries. The first section provides an overview of labour market trends in Arab countries and highlights the main challenges. The second section reviews the main employment policies pursued in the Arab world and examines their relationship to social injustice. The conclusion discusses possible reforms of employment policies to promote social justice by increasing the availability of decent quality jobs that meet the aspirations of women and men to work under conditions of fairness, security and human dignity.

5.1 Trends and Key Challenges Relating to Labour Markets in the Arab Countries

Labour markets in Arab countries face major challenges, including low job creation, high youth unemployment, inadequate vocational skills, growing reliance on the informal sector, and job insecurity. Among the main constraints are the inability of the production system to create sufficient employment opportunities and a scarcity of adequately skilled labour caused by a deficient educational system. In addition to these constraints, many socio-economic factors affect the development of labour markets in Arab countries. The most important of these include low per capita growth rates, income inequality and rising poverty.

5.1.2 Major Socio-economic Issues

5.1.2.1 Rate of Growth in GDP Per Capita

Rates of growth in per capita GDP in the Arab countries over the last decade have been among the lowest in the world (about two per cent between 2000 and 2015) and comparable to growth rates in Low Income Countries (see Table 5.1).

Table 5.1: Average Annual Percentage Growth in Real GDP per Capita in Arab Countries from 2000 to 2015 ¹¹⁴

Country Name	2000-2015	2000-2008	2008-2015
Algeria	2.0	2.7	1.2
Egypt	2.0	2.9	1.0
Morocco	3.3	4.0	2.6
Sudan	4.1	4.5	3.6
Tunisia	2.3	3.4	1.1
Lebanon	0.3	1.8	-1.4
Iraq	1.1	0.0	2.4
Jordan	1.9	3.8	-0.3
Yemen,	-2.6	1.0	-6.7
West Bank and Gaza	0.8	-2.1	4.0
Middle income countries	4.5	5.1	3.8
Lower middle income countries	4.2	4.3	4.1
Upper middle income countries	4.8	5.7	3.9
Low income countries	2.3	2.1	2.6
Arab World	2.0	2.8	1.2

Some countries have experienced rates of growth in GDP per capita higher than the average for the Arab region (Sudan, Morocco, Tunisia), while others have shown stagnation or recession (Iraq, Yemen). The annual rate of growth in real GDP per capita reached a relatively high

¹¹⁴) Source: Author's calculations based on data from World Development Index

average level between 2000 and 2008 (around three per cent). However, over the period 2008 to 2015 the global financial crisis in 2008 and recent political and social instability in the region have contributed to a decline in economic activity, leading to sharp decreases in per capita GDP growth rate, for example to around one per cent in both Egypt and Tunisia, and a fall of 6.7 per cent in Yemen (see Table 1).

5.1.2.2 Income Inequality and Poverty

The slowdown in economic growth has had a negative impact on job creation and human development in the region. Average annual growth in the Human Development Index (HDI) dropped by more than fifty per cent between 2010 and 2014 compared with the period 2000 to 2010¹¹⁵. The region suffered an average decline of 24.9 per cent when the HDI is adjusted to take into account inequality. This is higher than the average global decline of 22.9 per cent, indicating that inequalities are increasing in Arab countries. Inequalities are greater in the education component of the inequality-adjusted HDI (about 38 per cent) than in health and standard of living¹¹⁶.

The share of the total income received by the poorest 20 per cent of the population in the Middle East and North Africa Region (MENA) is about 6.8 per cent¹¹⁷. In 2009 around nineteen per cent of the population of Arab countries lived on the equivalent of two United States dollars or less per day¹¹⁸. The percentage of the region's population earning less than USD1.25 per day, which represents the lowest poverty bracket, increased from 4.1 per cent to 7.4 per cent between 2010 and 2012¹¹⁹. These findings call into question the effectiveness of income redistribution mechanisms.

With a population of about 392 million in 2015, the region has the world's second fastest growing population behind sub-Saharan Africa. The annual rate of population growth between 2010 and 2015 has been estimated at about two per cent¹²⁰. Given this demographic change, Arab countries would need to create 51 million jobs by 2020 to meet the growing demand for labour¹²¹. As the following section considers, this seems unlikely to be realised in the light of current high unemployment rates. The challenge is not only to accelerate economic growth, but also

115 & 116) AHDR (2016)

117) World Bank (2011)

118) UNDP (2009)

119) UNDP (2015)

120) WDI (2016)

121) AHDR (2009)

to transform that growth into employment and fairly redistribute its benefits so as to reduce poverty and inequality.

5.1.3 Characteristics and Challenges of Labour Markets in the Arab Countries

5.1.3.1 Inactivity and Unemployment

Employment is a major challenge for Arab economies. The decade 2000–2010 showed strong annual rates of growth in the size of the working-age population (between 2.2 and 3.7 per cent). Yearly, 1.8 million people enter the labour market, a growth rate of 2.7 per cent¹²². In addition, labour markets in Arab countries are characterised by relatively low participation rates¹²³: estimated at an average of 52.8 per cent for the Arab world as a whole, 44.2 per cent in Algeria, 47.7 per cent in Tunisia, 49.3 per cent in Egypt and 50.7 per cent in Morocco¹²⁴. A considerable gap has been observed between male and female participation rates: particularly in Algeria (60.2 per cent for men versus 13.6 per cent for women), Jordan (60.4 per cent for men and 13.2 per cent for women) and Palestine (69.1 per cent for men compared with 17.4 per cent for women). Although women's participation has increased in recent decades, this trend remains very slow and is not uniform between the public and private sectors. In Egypt, for example, 54 per cent of working women are employed in the civil service and less than ten per cent work in the formal private sector¹²⁵.

Unemployment rates in Arab countries are among the highest in the world (see Figure 5.1). Unemployment rates grew substantially in the aftermath of the world economic crisis in 2008 and again following the Arab Spring in 2010, reaching an average of 11.5 per cent in 2012. Unemployment mainly affects young people, new entrants to the labour market and women. Unemployment rates among women (21.6 per cent) and young people from 15 to 24 years old (29.3 per cent) are thus higher than among men over 24 (8.61 per cent). The unemployment rate among young women in Arab countries reached a remarkable 48 per cent in 2014¹²⁶.

122) AITA (2008)

123) The labour market participation rate is defined as the ratio of the number of people in the labour market and the total number of people above fifteen years of age

124) International Labour Organisation (2016)

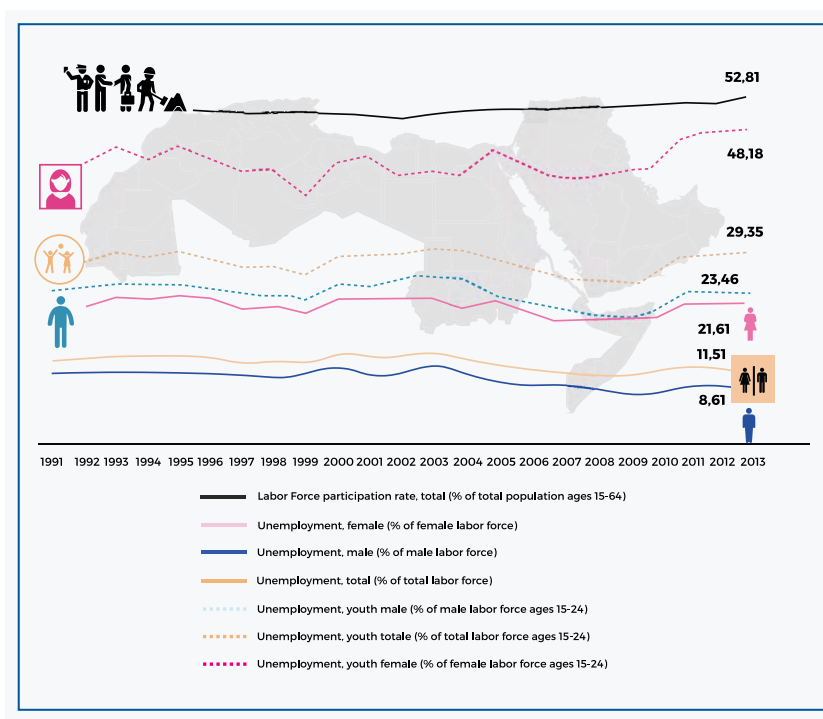
125) ETF (2015)

126) International Labour Organisation (2016)

A further feature of labour markets in the Arab world is high levels of unemployment among the highly educated. Unemployment rates for educated people (holding university degrees) were 42 per cent in Egypt, 31 per cent in Palestine and 29 per cent in Tunisia¹²⁷. In Morocco in 2015, unemployment was particularly high among those with a university degree (21 per cent) compared with those without university-level qualifications (7.3 per cent)¹²⁸. This phenomenon is socially difficult to accept, as illiteracy rates in the population overall remain high. This is why employment policies in Morocco have particularly focused on integration of graduates into labour markets.

Figure 5.1:

Unemployment Trends in Arab Countries by Gender and Age Group, 1991-2013¹²⁹



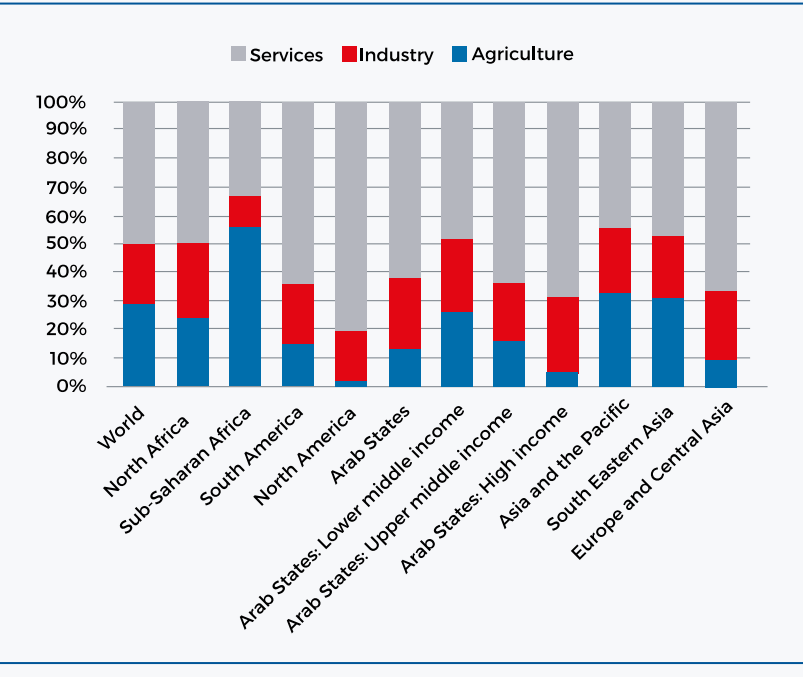
127) ETF (2010)

128) HCP (2016)

129) Source: Author's calculations based on International Labour Organisation data (ILOSTAT 2016)

Pressures on the labour market are aggravated by armed conflicts in the region and consequent massive influxes of refugees and migrants. More than one million working-age legal immigrants are living in the region (comprising two per cent of current documented employment¹³⁰), along with an undetermined number of irregular or illegal migrant workers (perhaps in excess of two million)¹³¹. The number of immigrants is particularly magnified by the large numbers of people displaced by the conflict in Syria. Jordan and Lebanon are the most affected (1.5 million refugees currently live in Lebanon, equivalent to about 34 per cent of the population before the Syrian crisis). Jobs occupied by migrant workers and refugees are usually underpaid and offer working conditions that do not conform to national labour rights.

Figure 5.2:
Share of Employment by Economic Sector ¹³²



130) The estimate here covers the Mediterranean Arab Countries (Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia and the Occupied Palestinian Territories). Gulf countries are not included.
131) European Commission (2010)
132) Source: International Labour Organisation (2016)

Figure 5.2, which depicts the structure of employment by sector in the Arab region, shows that the service sector accounts for the greatest part of employment (62 per cent in 2013): more than industry (25 per cent) and agriculture (13 per cent) combined. Changes in employment by sector between 2008 and 2013 show a significant drop, at least 10 percentage points, in agriculture (22 per cent in 2011) and a significant increase in the service sector (53 per cent in 2008)¹³³. However, the tertiary sector cannot by itself create all the jobs needed to meet the high demand for employment.

5.1.3.2 Youth employment

Young people from 15 to 29 years in age make up about thirty per cent of the total population of Arab countries. This represents a major challenge for labour markets¹³⁴. Youth unemployment in the Arab region is among the highest in the world. In 2014, young people made up close to half of the unemployed population in many Arab countries, for example 48.7 per cent in Libya, 43.9 per cent in Palestine and 42.3 per cent in Tunisia¹³⁵.

Despite the fact that the global youth employment crisis has eased due to the slight economic recovery between 2012 and 2014, Arab countries continue to display by far the highest youth unemployment rates in the world, rising from 28.2 per cent in 2012 to 30.5 per cent in 2014¹³⁶. For young women in particular, unemployment rates have continued to decline since 2012, surpassing those among young men by as much as 22 percentage points in 2012 and 20 percentage points in 2014. Arab youth remain highly disadvantaged in the labour market compared to other age groups and usually occupy precarious jobs. Youth unemployment is particularly worrying not only as an economic challenge, but also as a social issue that could force young job-seekers to accept undesirable jobs in the informal sector.

Moreover, the growing number of young people who are neither working nor in education or training ('NEETs') is a particularly worrying problem with regard to their employability. NEETs receive little attention in most employment policies. Table 5.2 provides estimates of their numbers in selected countries, based on data from the SAHWA project¹³⁷.

¹³³) International Labour Organisation (2016)

¹³⁴) International Labour Organisation (2013)

¹³⁵) International Labour Organisation (2015)

¹³⁶) International Labour Organisation (2015)

¹³⁷) www.sahwa.eu

Table 5.2: Proportion of NEETs Among People Aged 15-29 ¹³⁸

Country	Total	Men	Women
Morocco	35.4	24.3	43.5
Egypt	40.1	11.8	65.9
Tunisia	45.7	39.7	51.5
Algeria	39.5	36.1	49.2

Within the 15-29 age group the proportion of NEETs is around 35 per cent for Morocco, 39 per cent for Algeria, 40 per cent for Egypt and 46 per cent for Tunisia. Rates are much higher for young women (Table 5.2). This exclusion of young people from the labour market contributes to maintaining high levels of poverty. Weak prospects of finding work breed discouragement, which in turn could itself become a cause of inactivity.

On another level, child labour remains a problem in the Arab world. In 2012, about 11.8 per cent of children in the region between five and fourteen years old were involved in child labour. Employment of children is much more common in rural than urban locations, with largest numbers employed in agriculture, construction and mining¹³⁹.

5.1.3.3 Low Levels of Qualification among Employers

Educational attainment among those in the Arab population aged 15 and over (a figure frequently used as an index of level of human capital) remains low, despite substantial progress made in the provision of schooling. In 2010, the average time spent in school was about 3.7 years in Yemen, 5 years in Morocco, 7 years in Tunisia and Egypt, and 9 years in Jordan. These figures are low compared to those recorded in developed countries (typically at least 11 years)¹⁴⁰. Those who have attended higher education account for only 3 per cent of the working-age population in Yemen, 10 per cent in Morocco, 12 per cent in Tunisia, 11 per cent in Egypt and Algeria, and 19 per cent in Jordan. Early dropout from the education system is one of the major barriers to development of human capital in Arab countries¹⁴¹. A large proportion of the population stays out of

¹³⁸) Source: author's calculations based on SAHWA Youth Survey 2016

¹³⁹) International Labour Organisation (2016)

¹⁴⁰) Benaabdelaali et al. (2012)

¹⁴¹) ETF (2014)

school and many young people leave the education system without any qualifications. The fight against illiteracy remains an enormous challenge in many of these countries, especially Morocco and Egypt, and to a lesser extent Algeria and Tunisia¹⁴².

Inadequacy of professional skills is an important challenge and reflects a mismatch between the supply of and demand for labour. Therefore, there is a need to adopt appropriate policies for professional training and qualifications.

Most of the employment created in MENA countries has been in low productivity jobs, especially in the informal sector. Internally generated technological improvements that could enhance the scale of economies have been lacking¹⁴³. This reflects the weakness of systems for training and technical education.

5.1.3.4 Relative Importance of the Public Sector

Most Arab countries are experiencing declines in employment levels in sectors that were formerly the main providers of jobs: the agriculture, industry and the public sector. The public sector has provided a large employment reservoir in many countries, but its importance has stagnated in recent years due to budgetary constraints, resulting in measures such as freezing of civil service employment in Jordan and Morocco, and imposition of limits on public employment, mainly in the education and health sectors, in Palestine¹⁴⁴.

Nonetheless, labour markets in Arab countries remain dominated by the public sector. The share of public employment has remained high (an average of around thirty per cent in 2012), with marked variation among countries. In Morocco public employment is relatively low (eight per cent), while Libya has one of the highest public sector employment levels in the world (up to seventy per cent of all employees work in the public sector¹⁴⁵).

¹⁴²) Martin & Bardak (2012)

¹⁴³) International Labour Organisation (2011)

¹⁴⁴) ETF (2014)

¹⁴⁵) ETF (2014)

It should be noted that the public sector has not only become less capable of absorbing the growing number of educated workers, it has also diverted human resources from the potentially more dynamic private sector.

5.1.3.5 Informality

The prevalence of informal employment is another characteristic feature of labour markets in Arab countries. It accounts for a significant proportion of both employment and production (around fifty per cent of non-agricultural employment). A significant number of jobs created in the informal sector focus mainly on low-value-added activities. Many young people in the region work in informal, low quality jobs offering them little in the way of professional prospects or possibility of social advancement¹⁴⁶.

A World Bank study conducted in seven Arab countries in 2012 showed that informal employment with no access to social security, as a percentage of total employment, was in all cases high, ranging from 44.2 per cent in Jordan to 91.4 per cent in Yemen, with intermediate levels of 56.2 per cent in Lebanon, 58.3 per cent in Egypt, 66.9 per cent in Iraq, 71 per cent in Syria and 81.9 per cent in Morocco. In addition, a higher proportion of women than men are in vulnerable employment (self-employed or as contributing family workers): 56.6 per cent in North Africa and 29.7 per cent in the Middle East. One of the main reasons for this difference is that there are more women working informally in agriculture in North African countries than in the Middle East¹⁴⁷.

The informal sector is perceived as a short-term solution for youth unemployment, as it offers employment opportunities for young people. But it has a long-term negative impact on the employability of young people, who suffer deterioration of their human capital and become discouraged from participating in the formal labour market. Activities in the informal economy take place beyond the scope of government regulation and workers lack access to social protection. The existence of a significant informal economy is likely to undermine the capacity of Arab states to regulate employment, both economically and socially.

¹⁴⁶) ETF (2012)

¹⁴⁷) World Bank (2012)

5.2 Employment Policies and Social Injustice

5.2.1 Labour Law Frameworks and Labour Market Regulation

On the whole, constitutions and laws in the Arab countries guarantee the right to work. However, labour rights (social protection, rights to free trade unions, rights to strike, rights of children, etc.) are not always respected. The right to free trade unions and collective bargaining is in most cases not observed. The right to go on strike, although recognised in some countries, remains very limited. Although all Arab countries have ratified international Conventions on the Elimination of Discrimination and Child Labour, in practice they are not fully implemented. Moreover, International Labour Organisation (ILO) conventions and the United Nations Pact on Economic and Social Rights do not seem to be scrupulously respected, despite their ratification. Implementation of core labour principles¹⁴⁸ and other components of 'decent work'¹⁴⁹ are slow and inadequate¹⁵⁰.

Wages in the private sector are on average lower than in the public sector and influenced by massive unemployment pressures. In addition to higher wages, public sector employment offers social protection and other benefits. For example, wages in Egypt are generally higher in the public than the private sector. Law 53 of 1984 sets the minimum monthly public sector salary at 53 Egyptian Pounds, around ten United States dollars (USD). By 2005/6, the value of this level of salary had reached 168 Egyptian pounds per month (about USD31), compared with 154 pounds (USD29) in the private sector, taking into account the additional social benefits accompanying public sector employment. Additionally, the legal minimum wage is not respected in either the formal or informal private sector. In 2004, around 56 per cent of workers in Syria (including 57 per cent of those in the public sector and 77 per cent in the formal private sector) had monthly salaries less than 7,000 Syrian pounds, equivalent to USD140. In Tunisia, public sector pay is on average twenty per cent

148) International Labour Organisation (1998)

149) Decent work sums up the aspirations of people in relation to their working life. It includes opportunities for a productive work that delivers a fair income, security at the workplace and social protection for worker's families. It offers also better prospects for personal development and social integration. Decent work assures freedom for people to express their concerns, organize and to participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men (ILO definition). See International Labour Organisation (1999).

150) Arab countries adopted a framework for action to promote job creation, the employability of human capital and decent employment (Euro-Mediterranean Conference of Ministers of Labor and Employment held in Marrakech in November 2008 and the Conference of Ministers of Employment and Labor of the Union for the Mediterranean held in Brussels in November 2010), see AITA (2008).

more than in the private sector¹⁵¹. In Morocco in 2013, the average public sector salary was 7,250 Dirhams (USD727) per month compared to 4,711 Dirhams (USD472) in the private sector. In the private sector, fifty per cent of employees received an average monthly salary of less than 2,517 Dirhams (USD252) and nearly forty per cent of employees earned less than the minimum wage¹⁵².

Despite their importance for social justice and poverty eradication, minimum wage laws and basic social protection systems are systematically undermined by the neoliberal policies adopted in many Arab countries.

5.2.2 Employment Policies

Employment policies in Arab countries focus more on active employment programmes than strategic policy measures for job creation, education, training and social security taking into account all the challenges that characterise their labour markets.

These active employment programmes usually aim at improving the employability of jobseekers and increasing their chances of finding work, thus directly reducing overall unemployment (see the case of Morocco in Box 5.1). They provide employment services (job placement agencies), offer training, deliver public works programmes and support entrepreneurship. However, they bear little resemblance to a comprehensive and effective employment policy that would address the challenges faced by labour market described above.

In order to achieve the goals of employment programmes, there is a need for effective labour market institutions (labour ministry, trade unions, employment agencies and ministry for social affairs). However, labour market institutions in Arab countries are largely deficient and have not produced the expected results. A 2008 study highlights a lack of effective job placement agencies, adequate pension systems, health protection and unemployment insurance. In addition, trade unions play very limited roles either in designing policies or in protecting workers' rights¹⁵³.

151) AITA (2008).

152) L'Economiste (2014)

153) AITA (2008).

Rather than improving labour institutions through far-reaching reforms, some public policy instruments developed micro-credit agencies¹⁵⁴, whose effectiveness is very limited. Young people who have seen no improvement in their situation are turning to the informal sector. In Morocco, young people targeted by the Moukawalati programme for promotion of self-employment lack a managerial culture, do not benefit from assistance or post-start-up monitoring and have difficulties accessing finance.

Furthermore, employment policies in the Arab countries have paid too little attention to the quality and sustainability of jobs created, to education and lifelong learning needs, and to social security measures. There therefore remains a need to develop these policies further so that they promote better employment prospects for young people and strengthen labour market institutions.

Finally, policies adopted in Arab countries cannot address structural deficiencies in labour markets such as stagnating demand for labour, low productivity of the labour force and the competitiveness of the economy in international markets. There is a need to design and implement real strategies likely to promote the efficient functioning of the labour market and the optimal of human resources in order to promote economic growth and serious employment protection regulations.

Box 5.1: Employment Policy and Social Inclusion in Morocco

Active employment programmes in Morocco are of two types:

1. Improvement of young people's employability through access to their first professional experience ('contract insertion' entry into the workforce) and skills training. These are the Idmaj programme (workforce entry contracts, professional integration contracts, and exemption for companies hiring graduates as trainees from payment of employers' social security contributions) and the Taehil programme (qualified skills retraining, training under contract and support instruments for emerging sectors).

¹⁵⁴) For example in Algeria: ANGEM (National Microcredit Agency), ADS (Agency for Social Development) and CNAC (National Unemployment Insurance Fund). In Morocco, there is 13 Microcredit Associations

2. Promotion of self-employment: Moukawalati Programme.

These programmes have had no impact on specific groups of young people particularly affected by unemployment, especially young dropouts from formal education, long-term unemployed and young people with specific needs. The quality of the jobs created is among the weaknesses attributed to these programmes. The Idmaj programme's workforce entry contracts do not envisage social security coverage for beneficiaries, which makes the measure unattractive.

In order to target vulnerable people (youth, women and those disadvantaged by low levels of education), the Moroccan government drafted the new National Employment Strategy 2015-2025 and the National Integrated Youth Policy 2015-2030.

The new National Employment Strategy 2015-2025 seeks to enhance social inclusion of women and professional integration of young people through creation of long-lasting jobs supported by improvements in productivity and the unit cost of work. It is based on four strategic axes:

- Guiding macro-economic and territorial policies towards creation of new job opportunities (creation of 200,000 jobs annually);
- Bringing value to human capital via stronger training, improved levels of qualification and reform of social protection systems;
- Strengthening active employment programmes;
- Improving the governance and functioning of the labour market.

The National Integrated Youth Policy 2015-2030 involves a range of government divisions with the aim of ensuring convergence in actions dedicated to young people in all domains (education, employment, housing, health, culture, etc.), alongside reduction in inequality in order that all young people in Morocco can benefit from the same opportunities. The strategy emphasises economic and social inclusion of young people, in particular of disadvantaged youth.

The effectiveness of this strategy depends on involvement of social partners not only in policy-making processes but also in the implementation and monitoring and evaluation of policies.

5.3 Conclusion

With growing unemployment, the Arab region faces many challenges in creating work opportunities to meet the aspirations of its people and achieve social justice. Exclusion of woman and young people from the labour market contributes greatly to persistence of high levels of poverty. Moreover, most Arab countries face problems of discrimination against migrant workers and refugees. Such a situation reflects the inadequacy of social and employment policies that fail to offset the negative effects of neoliberal measures and promote social cohesion.

Particular attention should be given to economic and security challenges following the region-wide 'Arab Spring' protest movement. While the economic crisis has to be addressed through increased efforts to create jobs and enable previously excluded populations to access labour markets, social issues such as social protection, social dialogue and minimum safety nets must also be taken into account.

National employment strategies have to be implemented and should be oriented towards strengthening and development of skills within the labour force, entrepreneurship, and improvement of social protection systems and their extension to the informal economy, with particular emphasis upon women and young people.

The informal economy needs to be modernised and formalised, in particular by facilitating access to credit institutions and vocational training, especially for young people without qualifications. It is also necessary to protect vulnerable migrant workers: to eliminate harsh and degrading labour conditions and establish labour inspection systems.

Moreover, employment strategies should focus on productive and decent employment alongside socio-economic policies capable of overcoming social inequality. There is a need to allocate resources efficiently in order to correct imbalances in the labour market, including exclusion, informal employment, child labour and youth unemployment.

Inclusive growth strategy is an increasingly important concept because it focuses on the nature of growth, including the needs of vulnerable

groups and eradication of poverty. Emphasis should be placed on strengthening democratic processes, freedom of association, collective bargaining, promoting the work of trade unions, and ratification of ILO labour conventions and the ILO Social Justice Declaration of 2008.

Thus, social dialogue and high participation of all social groups, especially trade unions, in creating a national consensus on labour issues and developing employment strategies could play a central role in improving working conditions and the quality of employment.



Social Protection: The Neglected Path Towards Social Justice in the Middle East and North Africa

Reem Abdelhaliem

Social Protection: The Neglected Path Towards Social Justice in the Middle East and North Africa

Reem Abdelhaliem

6.1 Social Justice and Social Protection

Waiting for the trickle-down effect to take place, poverty eradication literatures, donor organisations and governments have for a long time dealt with social protection programmes targeting the poor as short-term relief for those negatively affected by economic reform plans. Belief in neoliberal theory and adherence to the Washington Consensus, combined with inability to compensate for the removal of sustained efforts by governments to create jobs and provide universal subsidies, both in turn entangled with institutional and political frameworks that hinder free organisation of labour and production via trade unions and producer cooperatives, all led to a situation where public budgets for poverty eradication programmes were managed in isolation from wider plans for community development. A focus on very narrow views of growth creation has led to neglect of people's rights to social protection programmes¹⁵⁵. The result is a situation where the vulnerable can easily fall into poverty without any social safety net, and the poor became poorer through lack of genuine development and absence of opportunities to enhance their capabilities and create better lives.

The Washington Consensus reduced the definition of social protection to provision of tiny safety programmes for those who cannot be part of making growth. In contrast, the International Convention on Social, Economic and Cultural Rights defines social protection in more general terms. Its human rights-based definition sees social protection as the right of every individual, whose basic aim is to protect people from poverty and assist them to escape it. In this perspective, social justice

¹⁵⁵ Loury (1981); Aghion & Bolton (1992)

becomes a normal outcome of robust social protection policies that narrow the paths towards poverty and help people to get out of it. This requires strategies to combat poverty irreversibly. These strategies should guarantee continued access to public resources, and the continued utilisation of these resources for public benefit. Based on an integrated perspective, these policies should take as their key premises: (1) fair allocation of resources, (2) fair access to services, (3) effective governance and (4) localisation of needs.

According to the World Food Programme (WFP), social protection, “Includes labour and insurance-related interventions – such as health insurance, pensions and various labour policies – and the provision of social services as part of sectoral policies for the education, nutrition, health and other sectors,” while safety nets are, “Formal or informal non-contributory transfers provided to people vulnerable to or living in poverty, malnutrition and other forms of deprivation¹⁵⁶.”

This definition of social protection encompasses several complementary factors that in combination can create an effective path towards social justice.

Social protection is an important component of development policy agendas, for which numerous definitions exist. In general they encompass concern for the prevention and management of risks that adversely affect people's lives and livelihoods, along with assistance for poor, vulnerable, and/or marginalised populations. The most common social protection instruments used to address risks that threaten people's wellbeing are:

- Social insurance against risks associated with unemployment and injury
- Social insurance against old age, disability and ill health
- Provision of resources, cash or in-kind, to support vulnerable individuals and households
- Social inclusion efforts or labour market interventions, i.e. policies and programmes that promote employment, efficient operation of labour markets and protection of workers¹⁵⁷

¹⁵⁶) WFP (2012): 5–6, cited in Devereux (2015): 14

¹⁵⁷) HLPE (2012)

6.2 Social Protection in Arab Countries

In the Arab region, state-led social protection originated during the 1960s through the state's new role as a major employer and guarantor of a universal system of subsidies. This role has since changed in the face of neoliberal reforms. While the role of the state has contracted, religion-based (i.e. Islamic) charity has increasingly bridged the resulting gap in social protection. The religion-based system tended to transfer government responsibilities for maintaining minimum levels of subsistence to religious institutions, without transferring full accountability for this role. In this respect charitable approaches are less effective than claims-based schemes where a minimum level of subsistence is viewed as a basic right of citizenship¹⁵⁸.

Social protection systems in the region include social insurance programmes, universal and nominally free public health and education in which every person can benefit from a universal subsidy and access to public services (which have declined in quality as their state budgets contracted), subsidies for energy and some basic food products, and very limited social assistance programmes offering cash payments to specific targeted demographic groups.

In general, social protection policies are drawn up to achieve social, economic or political objectives. Social objectives include lowering inequality and encouraging social inclusion. Economic objectives emphasise poverty eradication and stimulation of economic growth and development. Political objectives aim at maintaining the legitimacy of the state and upholding social cohesion¹⁵⁹.

Arab governments' development plans include clear social protection policies. Despite this, social protection in Arab countries is implemented largely towards economic and political objectives, with its social roles long since left to religious institutions and family¹⁶⁰. Leaving the social objectives of social protection in the hands of religious institutions without any form of public accountability jeopardises the desirable effects of protection and leaves citizens at risk of being without protection during times of political instability.

158) Devereux (2015)

159) Devereux (2015)

160) Devereux (2015)

Since the 1980s, many Arab countries have implemented structural adjustment programmes (SAPs) associated with loans or advice from International Financial Institutions (IFIs) and intended to help them overcome economic crises and reduce public spending deficits. In response to the adverse social effects of SAPs, some social funds and safety net programmes were legally introduced to mitigate impacts on those groups most affected by austerity policies. Some such programmes targeted, for instance, government employees who had been made redundant. However, they were rarely applied, leaving ever greater numbers of people to fall into poverty. As a result, social policy became a scattered set of short- and medium-term social strategies rather than a comprehensive and effective set of policies to provide social protection for all citizens.

Constraints on public budgets following the economic crises in 2008 and 2009 and the impacts of the uprisings in 2011 have led to economic policies that seek to reduce state provision for social protection, mainly by lowering allocations for universal price subsidies. Introduction of these measures unfortunately coincided with political attacks on the religious institutions providing informal social safety nets. At the same time deteriorating economic conditions made employment opportunities increasingly scarce. This left social justice in the Arab region in a very precarious position, with the poor and needy bearing the costs of economic crises without assistance from governments lacking alternative, comprehensive, rights-based social protection policies. Trial measures towards creation of alternate social protection schemes were too dispersed to have meaningful effects.

Lebanon, for example, has no unified social protection policy. However, in 2010 the government devised a National Social Development Strategy (NSDS) encompassing the remits of various ministries. Several short-term and long-term policy reforms were derived from the plan. The plan not only aimed to reform social assistance programmes, it also sought to introduce new programmes targeting marginalised groups, such as cash support for female-headed households, people with disabilities and child labourers¹⁶¹.

¹⁶¹ Karam et al. (2015)

In Palestine, a new era of social protection policies was initiated following reform of the government and related institutional frameworks in 2010. Prior to this, the country had been totally dependent on Zakat as a social support mechanism. From 2010, the government began work on unifying various programmes into a comprehensive national strategic framework, with the National Development Plan for 2014-16 giving considerable attention to the need for social protection. However, the Palestinian government has limited institutional capacity and suffers from a weak monetary system. In 2013 the government launched The Social Protection Sector Strategy 2014-2016, with the objective of enforcing a sense of partnership among different actors responsible for social protection. Eight key characteristics were identified: a rights-based approach, better coordination among all stakeholders, raising capacities of government agencies, incorporating child-centeredness, using a developmental approach, raising capacities of partner institutions, including humanitarian assistance in the social protection system, attention to both formal and informal social protection, and enhanced monitoring and evaluation systems.

Although Jordan's economy experienced high rates of growth in gross domestic product over the period 2000-2010 (an annual average of 5.4 per cent), economic development in Jordan faces crucial obstacles. These include a high unemployment rate: up to twelve per cent of the total labour force and 27.2 per cent among people aged 20-24, according to figures from the International Labour Organisation (ILO). In 2012, Jordan ranked 95 out of 187 countries, reflecting poor levels of education, low per capita income and low life expectancy¹⁶². To overcome these socioeconomic challenges, since 2010 the Jordanian government has adopted several social protection policies and programmes targeting marginalised and poor people. However, Jordan lacks any integrated official national strategy or policy for social protection.

¹⁶² Cousins (2012)

In common with the cases of Palestine and Jordan, Morocco recognises several laws related to social protection. These include International Agreement Number 25 relating to social insurance for agricultural workers (1927), International Agreement Number 70 on sailors' social security (1946), International Agreement Number 121 concerning grants in case of work-related injury (1964), Arab Agreement Number 3 concerning minimum levels of social insurance (1971) along with various other agreements. These laws cover only some elements of social protection and lack any overarching policy framework for their coordination, leaving many cases beyond the scope of existing laws or not easily categorised as covered by any specific law.

In Tunisia the issue of social protection is better organised. Since independence in 1956 and until the 2011 revolution, social protection was allocated a significant part of public expenditure. The government has allocated a considerable proportion of state revenues to financing social and economic development and improving health care.

6.2.1 Components of Social Protection Programmes in Arab Countries

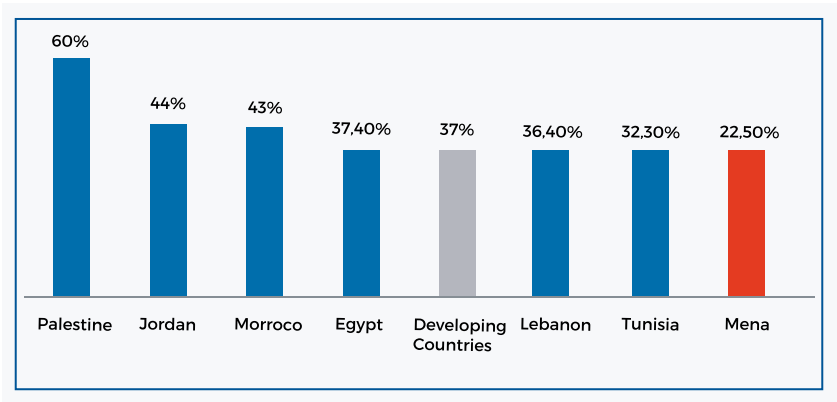
Apart from universal price subsidies, which are now being reduced, social protection programmes in Arab countries can be classified as contributory social insurance, social security and assistance, and health insurance. The following sections consider each of these in turn.

6.2.1.1 Contributory Social Insurance

This provides pensions for workers forced to leave work for any reason. While formal employment can benefit from social security, scattered laws remain a huge problem in the region. Egypt, for instance, has four laws regulating social protection: Law 79 of 1975, Law 108 of 1976, Law 50 of 1978 and Law 112 of 1980. These laws mainly target public and private sector employees in cases of retirement, disability, unemployment and sickness. On the other hand, social protection for informal labour is very limited, and often non-existent. The informal sector in the Middle East and North Africa region (MENA) is extremely large. An ILO report released

in 2012 estimated informal employment to comprise 22.5 per cent of total employment in MENA¹⁶³. Informal employment outside agriculture exceeded fifty per cent in some countries, e.g. forty per cent in Morocco and Jordan and sixty per cent in Palestine (see Figure 6.1). Therefore, the proportion of employed people covered by social insurance does not exceed fifty-two per cent in Egypt, sixty per cent in Morocco or forty-one per cent in Jordan.

Figure 6.1: ¹⁶⁴
Informal Employment as Proportion of Total Employment in MENA Countries in 2012

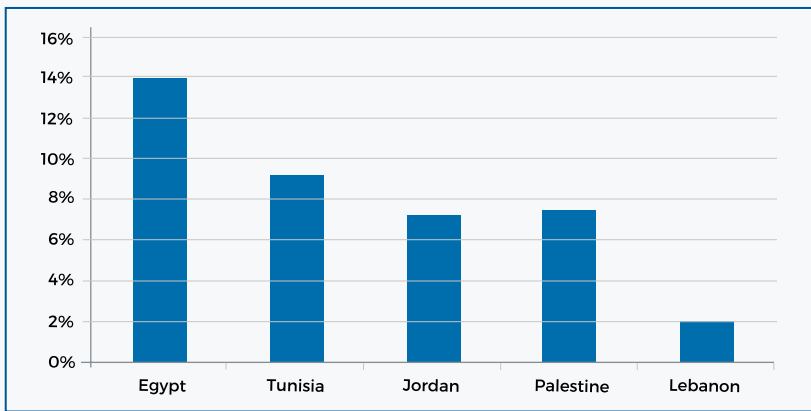


6.2.1.2 Social Security and Assistance

This category includes various forms of cash payment to the poor and needy without any requirement for contributions from the beneficiary.

¹⁶³) International Labour Organisation (2012)
¹⁶⁴) Source: International Labour Organisation (2012)

Figure 6.2:
Rates of Social Security Coverage in Selected MENA Countries ¹⁶⁵



Zakat, the Islamic obligation for the rich to donate a proportion of their accumulated income for the poor without government intervention, remains the most important tool for income redistribution and risk minimisation for poor people in the Arab region.

At governmental level, cash-based social assistance such as cash allocations and conditional cash transfer programmes for a long time remained very limited in all Arab countries. This is mainly due to lack of the institutional capacity necessary to ensure payments are correctly directed to those in need.

For instance, direct income transfer programmes in Egypt have had some effect on key development indicators such as poverty levels¹⁶⁶. Some of these target widows, divorced women, aged people and orphans; others support social programmes in areas like education and health. Conditional cash transfer programmes like Takafol and Karama are among the most important innovations in social protection in Egypt. Revision of universal subsidies and declining oil prices resulted in public expenditure on oil subsidies dropping from 74 billion Egyptian

¹⁶⁵) Source: World Bank development indicators database, 2016
¹⁶⁶) Holzmann & Jorgensen (1999)

Pounds (EGP) in 2014/2015 to an estimated EGP35 billion in the budget for 2016/2017. Expenditure on social protection cash transfers increased from EGP 4.7 billion to EGP 11.2 billion over the same period. Takafol and Karama included transfers to people of old age and conditional cash transfers to poor families with school age children, applied in Upper Egypt since 2015. By end of 2016, some features of the program expanded to include poor families across the country (see Box 6.1).

Box 6.1:

Social transfer schemes in Egypt prior to introduction of the Takafol and Karama Conditional Cash Transfer Programme in 2015

The Ministry of Insurance and Social Affairs Programme. In place since the 1960s, this is the largest programme and is open to widows, divorced women, aged people, orphans and invalids but not to the unemployed¹⁶⁷. Ministry of Awqaf. Payments made by the Ministry since the 1950s do not have a wide effect. For example, of EGP5 million spent by the ministry on social assistance 1991, eighty per cent went to its own employees¹⁶⁸.

Nasser Social Bank's (NSB) Programme. Initiated in the 1960s, this scheme is funded by zakat payments from public enterprises. The main roles of the bank are on one hand to fund social infrastructure initiatives such as educational facilities, hospitals and ambulances, and on the other to provide social assistance and credit programmes¹⁶⁹.

The Mubarak Programme for Social Integration. The programme was initiated in 1996 to support widows, orphans and divorced women, but subsequently frozen due to lack of funds¹⁷⁰.

Social safety nets in Lebanon are more targeted, relying on Social Development Centres (SDCs) : social projects through which the Ministry of Social Affairs (MoSA) implements social development policies via a dynamic approach based on an integrated, participatory and sustainable process involving different stakeholders. Provision of activities through SDCs is coordinated across various departments within the MoSA. According to Decree No. 5734 of September 29th 1994, SDCs are considered to be hubs for the identification, design and implementation of projects aimed at initiating and promoting social

¹⁶⁷) Assaad & Rochdy (1999)

¹⁶⁸) Weippel (1996)

¹⁶⁹) Lowee (2000))

¹⁷⁰) Kheir-El-Dein (1998)

development in Lebanon at various levels. The location of SDCs does match the distribution of poverty and vulnerability in the country, and their performance has been uneven, reflecting inconsistent standards (in terms of mandate) and varying endowments of both financial and human resources.

In Jordan, the major provider of social services is the National Zakat Fund, a parastatal organisation that collaborates with the government to offer social services including cash transfers (permanent or temporary) to poor people of all ages through three main programmes: orphan cash transfers, cash assistance and occasional in-kind assistance.

The foregoing examples show that cash social assistance programmes in many countries of the region are significant, but that they lack the integration necessary for sizeable impacts towards the goal of poverty eradication. The absence of such programmes makes it more difficult to enhance social equality and justice.

6.2.1.3 Health Insurance

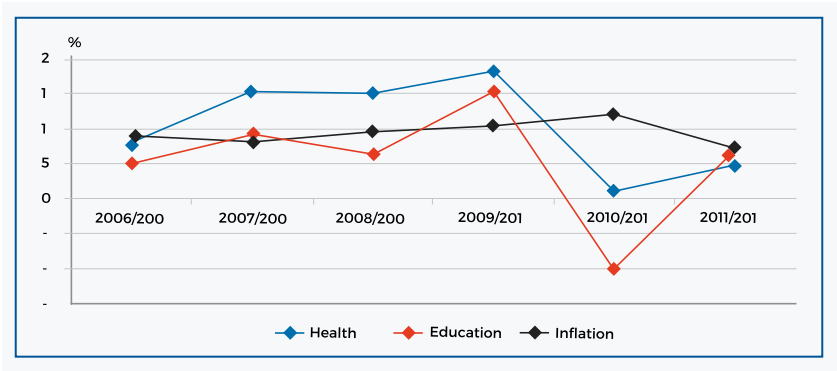
Concrete programmes for health insurance remain very limited in all MENA countries, while public health services deteriorate. The Egyptian Public Health Protection System, for instance, is highly fragmented, with multiple providers and funders. Health insurance falls into two categories: the social health insurance system under the management of the Public Health Insurance Organisation (HIO) and a system of governmental hospitals that provide health services to uninsured people at a subsidised rate¹⁷¹. The HIO has its own network of health care facilities along with additional contracted private doctors and pharmacies¹⁷². Declines in total state expenditure on both health and education in Egypt since 2005 could explain the ineffective operation of these systems. The ratio of operational costs to total expenditure on public education (capital, operations and wages) dropped from 12.8 per cent in 2005/2006 to only 6 per cent in 2014/2015. Similarly, in the health sector the ratio declined by half, from 31 per cent in 2005/2006 to 15.8 per cent in 2014/2015. This happened at a time when medical supplies accounted for more than half of household expenditure on health: 53

171) Maeda & El Saharty (2008)

172) Maeda & El Saharty (2008)

per cent according to the 2012/2013 Household Income, Expenditure and Consumption Survey, 54 per cent in the 2010/2011 survey.

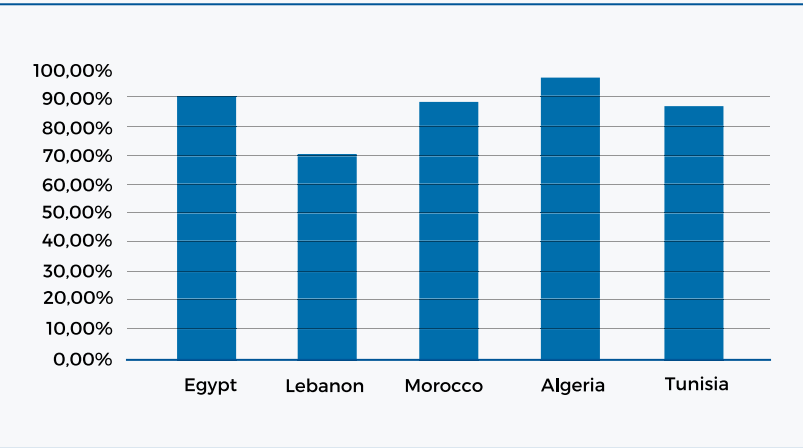
Figure 6.3:
Nominal Annual Rates of Growth in Public Expenditure on Education and Health, Compared with Inflation ¹⁷³



In Lebanon the current health support programme for the poor, which began in 2008, consists only of fee waivers financed by the Ministry of Public Health for hospitalisation in private and public hospitals. In Tunisia, the National Health Insurance Fund is the only authority that currently offers public health insurance services. Founded in the 1980s, it covers accidents, sickness and emergencies and is available for both private and public sector healthcare¹⁷⁴.

¹⁷³) Source: Figures on public budgets, Ministry of Finance, Egypt
¹⁷⁴) Hagerman (2015)

Figure 6.4:
Out of Pocket Expenses as Percentage of Private Expenditure on Health,
2014 ¹⁷⁵



6.3 Challenges of Providing Social Protection in Arab Countries

Social protection in the Arab region raises several challenges. While some countries suffer from lack of financial resources or weak legislative and institutional systems, others lack effective management and appropriate allocation of resources. Another aspect of the problem is with coverage, due to the prevalence of uninsured forms of employment such as private and informal employment.

6.3.1 Institutional Problems

Almost all Arab countries lack suitable institutions for successful implementation of social protection programmes. On the one hand, neoliberal ideology supports the 'slim state' concept, and hence reduction of state expenditure, including on employees, and greater delegation of the state's social responsibilities to private sector and other non-state

¹⁷⁵) Source: World Bank development indicators database

organisations. On the other hand, state institutions in the region suffer from corruption, bureaucracy, lack of capacity and limited management skills, all of which hamper the fair and transparent implementation of social programmes. In some cases social assistance programmes (both state and non-state) have even been instrumentalised in order to discriminate against political opponents or to favour supporters of a political party or religious group.

6.3.2 Financial and Fiscal Deficits

All the countries covered in the study on which this chapter is based (Jordan, Lebanon, Egypt, Palestine, Tunisia and Morocco) experience problems with sustainability funding social protection systems¹⁷⁶. Jordan has a budget deficit of 5.4 per cent of GDP and public debt in excess of sixty per cent of GDP, leaving little scope for investment in new social protection schemes¹⁷⁷. Fiscal deficit is also a major problem in Tunisian social protection, where protection funds have recorded escalating deficits since 2008 and the retirement and welfare fund is currently borrowing from the state in order to maintain pension payments¹⁷⁸. Similarly, the political situation in Lebanon means the resources available for social protection are far less than are needed, especially given the influx of thousands of Syrian refugees¹⁷⁹.

6.3.3 Corruption and Mismanagement

Regardless of the law, problems sometimes arise in the application of law and governance of implementation mechanisms. In Egypt, Palestine and Jordan, major administrative reforms are needed to restructure implementation processes for increased effectiveness and efficiency. Employees in insurance corporations need to be retrained. Considerable efforts need to be made to fight corruption. Most importantly, information systems need to be made workable¹⁸⁰.

In Lebanon, major limitations exist in relation to accountability and governance of the system. The regulatory role of the state in provision of social protection needs to be revisited, along with the administrative accountability of its constituent bodies¹⁸¹.

176) Lowee (2000)

177) Cousins (2012)

178) Mrad (n.d.)

179) Karam et al. (2015)

180) Awad (n.d.)

181) Oxfam (2015)

Morocco is a similar case, where the absence of a monitoring and evaluation body is a major problem. Although Morocco dedicates twenty-five per cent of its GDP to social protection, governance and accountability limitations mean intended recipients rarely benefit¹⁸².

Tunisia is the only case where significant measures have been taken to solve governance problems since the 2011 uprising. These include UNDP programmes to fight corruption and improve governance in social protection systems, along with many government programmes¹⁸³.

6.4 Conclusion

In many countries in the Arab region, tiny social protection programmes were provided on a 'discretionary' rather than 'entitlement' basis, usually for a limited time. Recipients were pejoratively labelled as 'aid beneficiaries'. Globally, social protection has in practice moved beyond this in many respects: quasi-welfare programmes such as social pension schemes provide regular and ongoing payments; cash transfers have replaced or complemented food aid in emergency and non-emergency contexts; 'beneficiaries' are now 'recipients', 'participants' or even 'claimants'. Regarding its role in attaining social justice, social protection can do more than help poor and vulnerable people to manage short-term risk: it can – and should – also tackle the underlying causes of their vulnerability. Since many sources of risk and vulnerability are social and political, it is imperative to understand the socio-political context and engage with the holders of power and drivers of inequality if socially equitable outcomes are to be achieved. Progressive forms of social protection are reconfiguring social policy and constructing new social contracts between states and citizens, and between supra-national entities and disenfranchised population groups such as refugees and migrants. Whether the governance system is a hierarchy of patronage or a formal democracy, a core responsibility of and source of legitimacy for governments is to protect the people they govern against physical harm and economic hardship.

¹⁸²) Angel-Urdinola et al. (2015)

¹⁸³) Hagerman (2015)

In the Arab region, escalating poverty rates are a sufficient indicator of the failure of social protection schemes, even in relation to the narrowly defined aim of combatting poverty. Social protection programmes remain scattered and do not complement each other. Arab governments offer very limited support to communities that rely on informal employment, have reduced universal subsidies without introducing concrete alternatives based on cash transfers, and have not created frameworks for governing targeted programmes.



What Kind of Development for the MENA Region? Environmental Justice, Extractivism and ‘Sustainable Development’

Hamza Hamouchene

What Kind of Development for the MENA Region? Environmental Justice, Extractivism and ‘Sustainable Development’

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7.1 The Ecological and Climate Crises in the MENA Region

Anthropogenic climate change is already a reality in the Middle East and North Africa (MENA) and is undermining the socioeconomic and ecological bases of life in the region. Tunisia, Algeria and Morocco witnessed severe heat waves during the summer of 2015 and a prolonged drought in 2016, which has been catastrophic for agriculture (particularly for small peasants in Morocco). The desert is growing, swallowing up adjacent land and placing huge pressure on already stressed water supplies. Intrusion of seawater into underground water reserves combined with overuse of groundwater will put MENA countries among those suffering from absolute water poverty (i.e. less than 500 m³ per person) by 2050¹⁸⁴.

According to Jos Lelieveld, Director of the Max Planck Institute for Chemistry and Professor at the Cyprus Institute, the number of extremely hot days recorded in the MENA region has doubled since 1970 and could increase by a factor of five by the end of this century. Dr Lelieveld and his colleagues believe the number of climate refugees could increase dramatically in the future¹⁸⁵.

The effects of climate change and the climate crisis are compounded by environmental degradation and exhaustion of natural resources resulting from a productivist model of development based on extractive industries: oil and gas in Algeria, Libya, Iraq and the Gulf petro-monarchies (and to a lesser extent Tunisia and Egypt); phosphate mining in Tunisia and Morocco; and water-intensive agribusiness combined with tourism in Morocco, Tunisia and Egypt.

¹⁸⁴) El-Zein et al. (2014)

¹⁸⁵) Lelieveld et al. (2016)

Alongside pollution, environmental destruction, and the rising prevalence of diseases like cancer, throughout my research visits to extraction sites of fossil-fuel and mining industries in the Maghreb, I saw clear examples of both what David Harvey calls «accumulation by dispossession»¹⁸⁶ and what Samir Amin describes as «development of under-development»¹⁸⁷. It is possible to state with confidence that poverty in these areas correlates with the occurrence of significant natural resources. There are numerous examples: the gas and oil towns of Ain Salah and Hassi Messaoud in Algeria, the Gafsa phosphate mining basin and Gabès in Tunisia, and the industrial town of Safi and silver mining town of Imider in Morocco.

7.2 Extractivism and Social Justice

The correlation of resource wealth and poverty is a paradox of extractivism under capitalism, in which sacrifice zones (along with sacrificial people) are created in order to maintain the accumulation of capital¹⁸⁸. Salah in Algeria is one of the richest gas towns on the African continent, but is an ugly town with very poor infrastructure. Residents call the single hospital in the town the 'hospital of death'. Gabès in Tunisia, the only coastal Mediterranean oasis in the world, used to be called 'a paradise on earth' prior to installation of a chemical factory on its shores to process phosphate from nearby mines in the 1970s. The factory has caused ecocide in the oasis by depleting its waters, polluting its air and sea, and killing some of its fauna and flora¹⁸⁹. Some even talk about environmental terrorism in a context of a highly saturated 'anti-terrorism' discourse. These examples, just two amongst many, highlight some of the ills associated with extractivism.

Throughout my travels in Algeria, Morocco and Tunisia I witnessed the material reality of this 'paradox of abundance' - also known as the 'resource curse'¹⁹⁰ - in the form of poverty, unemployment, toxic waste, flares, dumped poisons, pillaging of resources, and much more. It would be simplistic (and misguided) to place responsibility for this solely on corrupt local elites and despicable rent-seeking dictators. The biggest culprit is neo-colonial international relations that perpetuate the plunder of numerous countries; mediated by multinationals, trade rules

186) Harvey (2003, 2005)

187) Amin (1990, 2013)

188) Klein (2014)

189) Ayebe (2014)

190) Acosta (2013)

and agreements, and international institutions such as the World Bank and International Monetary Fund (IMF)¹⁹¹.

7.2.1 Extractivism and Neocolonialism

Extractivism is largely incompatible with social justice because of its disastrous social and environmental consequences¹⁹². Alberto Acosta describes extractivism as, «[A]n activity whose social and environmental costs are not included in the prices of products. These are externalised and carried by a society without democratic rights in a transnational entrepreneurial world¹⁹³».

The term refers to activities that overexploit natural resources, making them available for export to world markets. Extractivism is not limited to minerals and oil, but can also apply to farming, forestry, fishing and even to forms of tourism that rely on excessive water use. I was appalled to see golf courses being constructed in arid and semi-arid regions of Morocco. Fanon has been vindicated in his critique of tourism, which he regarded as a quintessential post-colonial industry where our elites have become «the organisers of parties» for their Western counterparts in the midst of overwhelming poverty¹⁹⁴.

The extractivist model of development is a mechanism of colonial and neo-colonial plunder and appropriation. It has been applied regardless of the sustainability of extractivist projects or even exhaustion of resources¹⁹⁵. In MENA countries, dependency on metropolitan centres for extraction and export of raw materials has remained largely unaltered from colonial times, notwithstanding some changes to traditional aspects of extractivism associated with increased state intervention. The neo-colonial label is no exaggeration: I was surprised and saddened to hear repeatedly in the Maghreb statements comparing the ravages of post-colonial industries to those of colonial ones. In some cases, it was even suggested that the French colonialists were more benign¹⁹⁶. To me, these comparisons suggest an internal colonialism, facilitated by an extractivist model of development that dispossesses populations and shifts the resulting socio-environmental costs onto them.

¹⁹¹) Bassey (2012)

¹⁹²) Gudynas (2013)

¹⁹³) Acosta (2013)

¹⁹⁴) Fanon (1967)

¹⁹⁵) Acosta (2013)

Moreover, extractivism cannot be disentangled from international war machinations and militarist global governance. Iraq and Libya warrant particular attention as victims of violence associated with fossil fuel abundance and the Western bombs and fighter jets that this abundance attracts.

7.2.2 Industrial Agriculture and Food Sovereignty

Agribusiness is another example of predatory and destructive extractivism, demonstrated by the examples of Morocco and Egypt, where water-intensive, export-oriented monoculture agribusiness dominates. The Moroccan government's 2008 Plan Maroc Vert (Green Morocco Plan, PMV), supported by the World Bank and setting out the country's agricultural plan for the period 2008–2020, aims to quintuple the value of export-oriented crops by shifting production away from staple cereals, promoting private investment in agriculture, and removing restrictions on private property rights¹⁹⁷. By focusing on cash crops that need large volumes of water, Morocco is effectively exporting its scarce water resources, exacerbating its water crisis. Moreover, agribusiness is not only environmentally unsustainable but also exploits its workforce - especially women, who face terrible working conditions, including sexual harassment.

Industrial agriculture (agribusiness) is an important driver of climate change. We cannot seriously talk about addressing the climate crisis and about a just transition without recapturing food systems from the greed of elites and multinationals. 'Climate Justice' cannot be achieved without realising food sovereignty. The global peasant movement Via Campesina defines food sovereignty as, «[T]he right of peoples to healthy and culturally appropriate food produced through ecologically sound and sustainable methods, and their right to define their own food and agriculture systems". It "prioritises local and national economies and markets" and "promotes transparent trade that guarantees just income to all peoples". It «implies new social relations free of oppression and inequality between men and women, peoples, racial groups, social classes and generations¹⁹⁸».

196) Hamouchene (2016)

197) Hanieh (2011)

198) Via Campesina (2007)

7.2.3 Extractivism and Socio-environmental Conflicts

People in these regions have long-standing grievances, which sometimes burst into uprisings. An epidemic of socio-environmental conflicts, linked to access, conservation and control over natural resources, and often marked by the appearance of new forms of mobilisation, is a major consequence of extractivism¹⁹⁹. Examples include Salah, where in 2015 people rose up in large numbers against plans to frack their land and pollute their waters²⁰⁰; emergence of an unemployed movement in Ouragla, close to the oil wealth hub of Hassi Messaoudin, in 2013²⁰¹; the 2008 uprising in the Gafsa mining basin (met with bloody repression by the Ben Ali regime); and ongoing struggles of Imider communities against the royal holding silver mines that are robbing them of natural resources, including water, and impoverishing the area²⁰².

There is always an ecological dimension to the struggles I've come across, but that dimension is generally secondary to more pressing issues of socio-economic rights such as jobs, development of urban and rural infrastructure, distribution of wealth derived from resources, and more inclusive decision-making processes. The social is emphasised over the environmental as social conditions shape people's environmentalism, which is about livelihoods rather than the surrounding environment as a separate issue. Therefore, environmental problems in the MENA regions need to be analysed in a broad fashion, taking into consideration social justice, entitlements and fair redistribution.

7.3 Environmental Governance in the MENA Region

7.3.1 Dominance of Neoliberal Discourse

Faced with so much injustice and destruction, who is shaping the environmental discourse and crafting a response to climate change in the MENA region?

International Financial Institutions (IFIs), along with the German Development Agency (GIZ) and European Union (EU) agencies²⁰³, are vocal

199) Svampa (2013)

200) Daragahi (2015)

201) Hamouchene & Rouabah (2016)

202) Bouhmouch & Bailey (2015)

203) Gaub & Laban (2015)

in the region, organising events and publishing reports. They highlight some of the dangers of climate change and argue for urgent action, including promotion of renewable energy and creation of adaptation plans. Given the scarcity of alternatives, their recommendations for reducing the impacts of climate change on the poor seem radical, especially in the light of relative silence on the part of governments in the region. However, their analysis of the ecological crisis is limited and does not include questions of class, justice, power or colonial history. The solutions proposed by these institutions are market-based and take a top-down approach, and hence fail to address the root causes of the crisis²⁰⁴. For example, rather than promoting the necessary reductions in greenhouse gas emissions, they issue pollution permits and subsidies to multinational and extractive industries.

The vision of the future pushed by the World Bank, GIZ, United States Agency for International Development (USAID), French Cooperation and much of the EU is marked by economies subjugated to private profit and further privatisation of water, land, and the atmosphere. This limited discourse is profoundly disempowering as these neoliberal institutions generally dominate knowledge production around climate change in the MENA region. Most writing on the ecological crisis in MENA overlooks questions of oppression and resistance, focusing largely on the advice of 'experts' to the exclusion of voices 'from below'²⁰⁵. These 'experts' end up introducing more chains by promoting neoliberal doctrine through what are called 'foreign aid' and 'international cooperation'. The critique of Burkinabe revolutionary leader Thomas Sankara in this respect remains relevant: he saw 'foreign aid' as, 'nothing more than disorganisation and enslavement', and refused to listen to, 'charlatans trying to sell development models that have all failed'²⁰⁶.

The dominant perspectives largely ignore grassroots struggles in places where adaptation to climate change is about justice and survival in the face of adversity. Knowledge production about the people of the region and their environments, and different representations of these people and environments, have long been used by colonial powers to pursue their colonial projects and imperial goals. In identical fashion, we see

204) Anderson & Bows (2012)

205) Waterbury (2013); Brown & Crawford (2009)

206) Dembele (2008)

control over discursive production once again used by these powers among their various tools of domination, and how our countries are being recast, once again, as objects of development, echoing the colonial civilising mission.

7.3.2 The NGOisation of Society and Regional Depoliticisation of Environmental Issues

The hegemonic institutions of international development have the financial and human resources to shape and co-opt local civil society by funding and helping to set up numerous environmental organisations. I was astonished to see what a huge number of such associations and organisations claim to be working on environmental issues in Tunisia and Morocco. To my knowledge, most of them are apolitical and actively, sometimes opportunistically, seek EU and foreign funding.

This phenomenon has sometimes been dubbed the 'NGOisation of the world'. It is supposed to 'empower civil society' but in fact leads to creation of an artificial and partisan civil society sector, useful only for deepening the marketisation and privatisation of the social²⁰⁷. I cannot think of a better and more eloquent quote to illustrate what I feel about the outbreak of NGOs in the Maghreb, and the MENA region more generally, than what Arundhati Roy said about the same phenomenon in India: «Their real contribution is that they defuse political anger and dole out as aid or benevolence what people ought to have by right. They alter the public psyche. They turn people into dependent victims and blunt the edges of political resistance. NGOs form a sort of buffer between the sarkar and public. Between Empire and its subjects. They have become the arbitrators, the interpreters, the facilitators²⁰⁸.»

In an insightful paper about the role of NGOs in Africa, Firoze Manji and Carl O'Coill argued that widespread resistance to a myriad of structural adjustment programmes (SAPs) in the Global South forced multilateral and bilateral agencies to rethink their approach to promoting development, particularly how to present the same neo-liberal economic and social programmes with a more 'human face'. This was repackaged into the 'good governance' agenda, with NGOs and other civil society

²⁰⁷) Bogaert (2011)

²⁰⁸) Roy (2014)

organisations co-opted to its purpose of 'social control', acting as substitutes for state welfare programmes undermined by an externally imposed austerity agenda. As a result, they actively participated in expanding and consolidating neoliberal hegemony²⁰⁹.

This sort of analysis needs to be revived, promoted and popularised in MENA countries. This is especially the case for Tunisia where, in my view, international development agencies and most NGOs are on the side of the ongoing counter-revolution as they depoliticise struggles, demobilise social movements, undermine resistance and divert attention away from colonial relationships. They are in various ways contributing to the deepening of neoliberal agenda in Tunisia (and beyond). We need to break with the mainstream assumption of a mechanical division between state and civil society and challenge the assumed uniformity of civil society by subjecting it to a class analysis. This analysis must take into account how international capital and imperialism maintain subordination and their ability to plunder by weakening states and favouring a civil society that largely safeguards imperialist and capitalist interests. Adam Hanieh has powerfully demonstrated how the uncritical use and championing of a catch-all notion of civil society is actually a distraction from the realities of class struggle against capitalist exploitation. He states:

«[I]t is nonetheless accurate to state that conventional accounts of the Middle East generally downplay questions of class, reducing it to just one of many different 'interest groups' such as 'business elites'. This is a fundamental flaw in mainstream conceptions of civil society, which, as Ellen Meiksins Wood has pointed out in her seminal analysis of the notion, is a 'conceptual portmanteau [that] indiscriminately lumps everything together from households and voluntary associations to the economic system of capitalism'. In this manner, the state/civil society dichotomy serves to conceptualize away the problem of capitalism, by disaggregating society into fragments, with no overarching power structure, no totalizing unity, no systemic coercions - in other words, no capitalist system, with its expansionary drive and its capacity to penetrate every aspect of social life²¹⁰.»

209) Manji & O'Coill (2002)

210) Hanieh (2013)

7.3.3 Decolonising Concepts of Justice: are they Applicable to the Maghreb ?

My several trips in the Maghreb and interactions with its people left me thinking about the relevance of concepts such as climate justice in the region. It is necessary to revise some priorities: can we ask people to care about climate change when they don't have jobs and experience poverty, political repression and marginalisation? Can we expect them to grasp and embrace climate justice without talking about the social and environmental ills from which they suffer?

It might be easier simply to talk about 'justice' and address the urgency of the climate crisis within this framework. My experience in Maghreb shows that it is hard to discuss climate change with local people and communities without talking about socio-economic conditions, democracy, multinationals and the whole capitalist system that generates interlinked injustices.

My conversations with people in the Maghreb led me to conclude that the concept of climate justice is alien and unintelligible. This is not the result of a fault with 'Orientals'. The reason for its unintelligibility lies in the fact that the concept is foreign and has no roots (at least not yet) in the region. The Arabic translation sounds odd and has no resonance with locals. Even the larger concept of environmental justice is not widely used.

Activists, intellectuals and organisations in the Maghreb working on issues of climate change and environmental degradation generally do not use these concepts. The few cases in which they are used are exceptions rather than the rule. In some instances they are imported from Europe without critical reflection and proper definition. I strongly believe that importing and imposing concepts on populations is not only counter-productive but could end up helping to maintain some of the hegemonic structures of domination of the North over the South, as this domination can also exist discursively and epistemologically²¹¹. While it is still useful to interact with and learn from movements elsewhere, we need always to contextualise our concepts and discourses and look at their history.

211) Escobar (2012)

Environmental justice is usually focused on community needs, making the fossil fuel industry and other large industries accountable, and moving towards a sustainable relationship to nature. It recognises that we cannot separate destructive impacts on the environment from impacts upon people, and that poorer communities are exploited for the benefit of the powerful. It is also about people's control over their lands and natural resources. Environmental justice assumes that people are an integral part of the environment.

Climate justice usually recognises the historic responsibility of the industrialised West for causing global warming and takes into account the disproportionate vulnerabilities faced by some countries and communities. It recognises the role of power in shaping both how climate change is caused and who carries the burden. Climate justice means breaking with a 'business as usual' that protects global political elites, multinational corporations and military regimes, in favour of radical processes of social and ecological transformation and adaptation.

Do we have to rely on terms such as climate justice to talk about the unjust politics of dealing with climate change? Or do we need to rethink our concepts, situating them more precisely in relation to specific issues that directly affect the livelihoods of, in this case, Maghrebi people: issues such as water scarcity, drought, industrial pollution and resource sovereignty. I am among those who favour the latter scenario. There is always an ecological dimension to the struggles I've come across, but that dimension is always secondary to more pressing issues of socio-economic rights such as jobs, development of urban and rural infrastructure, distribution of generated wealth, and higher levels of popular inclusion in decision-making processes.

Therefore, environmental problems in the Maghreb (and elsewhere) need to be analysed in a comprehensive way that includes consideration of social justice, entitlement, and fair redistribution. Our responses to the climate challenge need to be more inclusive, and not rely on admonishing people to prioritise this issue over their most pressing needs. We need to demonstrate that the immediate problems people

face and the ecological crisis are interconnected, and that solutions to either must take account of this interconnectedness. At the same time, it is important to heed the extraordinary capacity of power (and its institutions) to appropriate any critical approach, modify its content and convert it into a new instrument for reproduction of the existing order. The same thing applies to the language used to talk about justice²¹².

7.4 Developing Sustainable and Just Alternatives

Every year the world's political leaders, advisers and media gather for another United Nations Climate Conference of the Parties (COP). But despite the global threat, governments allow carbon emissions to rise and the crisis to escalate. Corporate power has hijacked the talks and promotes further profit-making 'false solutions'. The Paris COP (COP21) in December 2015 received much attention, but the political leaders failed to deliver the cuts necessary to ensure survival. In this respect, COP22, held in Morocco in November 2016, was no different.

So, how can we plan for a just transition towards renewable energies and sustainable ways of producing our food and other essentials when our natural resources are being plundered by multinationals and our land and water taken over by agribusiness and other destructive industries?

7.4.1 Reframing the Issues and Winning the Argument

Wherever I went during my visits to countries in the MENA region, when I shared my thoughts about the causes of the environmental and climate injustice or advanced a sketch of a structural critique and diagnosis, the question that always arose was: what is or are the solution(s)?

I think this is a legitimate question, worth grappling with, especially since the ecological crisis is becoming more urgent by the day and problems (environmental and social) facing communities are worsening and not being adequately addressed. However, answering it is not straightforward and raises complexities at many levels. If we believe that the global ecological crisis is a consequence of the crisis of Western

212) Ciple et al. (2015)

civilisation, the crisis of capitalism and productivism, the crisis of neoliberalism and the crisis of democracy, then any solutions we propose need to involve thinking about and imagining a new world where our relationships with nature and with each other are reconfigured so exploitation of both nature and people will be brought to an end.

There is no such thing as a precisely prescribed set of solutions to our predicament or a detailed plan that could be applied step by step. We need to break with the hegemonic liberal conception of addressing our problems this way, a conception championed by international institutions such as the World Bank, IMF and governmental development agencies that promote an unjust status quo by putting forward endless techno-fixes.

What is crucial is to work towards accurate diagnosis and analysis, which locates the oppressed at the centre. Such analyses must challenge dominant discourses emitted by the oppressors and ruling classes. Reframing discussions to reveal and abandon the lies and deceptions hidden in liberal language such as 'good governance', 'transparency' and 'international cooperation' is of paramount importance. Such sanitised language has colonised our thinking, our discussions and debates to the point of depoliticising the various crises in order that self-proclaimed neoliberal experts become the only people prescribing solutions. And it's only logical to expect that these solutions will exclude people from decision-making in ways that not only allow the culprits to escape retribution for past environmental and social crimes, but even provide them licence to profit from the consequences through 'disaster capitalism'²¹³.

It is crucial to talk about such issues through the lens of 'justice' rather than 'security', which tends to empower repressive state apparatus and to maintain a militaristic system that justifies violence and war in order to guarantee access to markets and natural resources. This reframing should address questions of race, class, colonial history and ongoing neo-colonial relations between imperialist centres and peripheries. And it needs to expand its scope beyond socio-economic and political rights to include the recognition of nature's rights.

²¹³) Klein (2008)

This construction of such anti-colonial and anti-capitalist discourses will allow us to start asking appropriate questions that link different struggles (climate justice, environment justice, food sovereignty, trade justice, anti-racism, anti-militarism, anti-war, anti-austerity...) that are intersectional and interconnected. The issues they address are all expressions of a common underlying logic of accumulating greater wealth in the hands of the few while dispossessing the majority of what is theirs. They represent various aspects of resistance to a system that lacks respect for humans and nature. The struggles need to converge to create space and vision for a liberating alternative.

In short, the problem is systemic, so the response to it also needs to be systemic.

7.4.2 Alternative Developments or Alternatives to Development?

Development in its current forms in the Maghreb, and in the MENA region more generally, is not viable in the long term. Dependencies on exports of raw materials and imported technology are ongoing, impoverishment and unemployment remain as serious challenges, and environmental degradation is worsening.

The destruction of our planet is accelerating, justified by our obsession with economic growth and aided by market logics that seek to maximise profits, even in the most remote corners of the world. However, as Miriam Lang argues, the dominant collective imaginary neither takes into account the physical limits of the planet (its capacity to absorb pollution and waste), nor, «the inevitable finitude of natural resources available to capitalism.» This imaginary, she continues, «offers us more expansion, more growth as well as increasingly sophisticated technological solutions, in face of natural disasters and the energetic crisis²¹⁴.»

It is therefore incumbent on us, and more specifically on the radical and revolutionary left, to elaborate new visions that go beyond resistance to the current predatory offensive of capitalism to question directly this underlying imaginary, an imaginary that obliges us to adopt lifestyles

214) Lang (2013)

based on overconsumption and become inserted into globalisation in a subordinate position. This dominant imaginary is called 'development'.

The 'development' paradigm is deeply entrenched in MENA countries (as in many other regions of the world), where people still consider themselves 'backward', 'less developed and advanced' and needing to catch up with the 'advanced' and industrialised West. However, discordant voices have recently emerged, belonging to the 'Decolonial' current that aims to deconstruct Western notions of 'development', 'civilisation', 'progress' and 'modernity'²¹⁵. These notions are seen as imposed concepts based on a unilinear idea of history that divides the world into 'developed' and 'under-developed', 'advanced' and 'less advanced', 'modern' (read Western) and 'backward' (read non-Western). They are concepts that claim to be universal and issue injunctions to the excluded and dispossessed to follow a pre-determined path in order to enter an imperial and colonial globalisation led by the 'advanced' countries, thus legitimising their own subordination. Eurocentric in nature, these concepts assert their self-claimed superiority by excluding and delegitimising other forms of knowledge, other ways of life and other civilisations' contributions²¹⁶.

7.4.2.1 Development as a New North-South Relationship

Following World War II, the discourse of development has gradually displaced older colonial relations as the dominant framework of North-South relationship. What were previously Western economic policies towards the colonies have been repackaged as 'international cooperation' and 'development'²¹⁷. According to Colombian anthropologist Arturo Escobar, 'development' is a set of arrangements of power and knowledge that reorganised the world through an enormous corpus of narratives, theories, strategies and practices and thus legitimised the international division of labour along capitalist lines, in other words the continuation of imperialism as neo-colonialism. For Escobar, 'good governance', 'partnership', and 'ownership' within the aid discourse, «give expression to the deep-seated will to civilise». Consequently, unless we have an analysis of the complex history of several hundred years of discrimination,

²¹⁵ Khiari (2016); Dakhliia (2016)

²¹⁶ Lang (2013)

²¹⁷ Lang (2003); Gudynas (2003)

«development projects often end up reproducing old power/knowledge asymmetries²¹⁸.» Manji and O’Coill concur when they argue that under this discourse, «it was no longer that Africans were ‘uncivilised’. Instead, they were ‘underdeveloped’. Either way, the ‘civilised’ or ‘developed’ European has a role to play in ‘civilising’ or ‘developing’ Africa.» For them, the real problem with development discourse is that it was framed not in terms of emancipation and justice but rather, «with the vocabulary of charity, technical expertise, neutrality and a deep paternalism²¹⁹.»

Therefore, the discourse of ‘development’, through the ways it shaped how reality is imagined and acted upon, was used as a regime of representation to dominate the other (or to continue to do so). As argued by Escobar, a study of development as discourse is akin to Edward Said’s study of the discourses of Orientalism²²⁰.

7.4.2.2 Sustainable Development

Development has come to be equated with economic growth, with the two terms often used interchangeably²²¹. By the 1960s and 1970s, ‘development’ had received serious challenges and critiques from both the Global South and critical intellectuals in the North²²², raising concerns about its failed promises to eradicate poverty and hunger and the environmental destruction it causes through unbridled extraction of finite natural resources. In the 1970s and 1980s, a new concept emerged to address these challenges: ‘Sustainable Development’. This new notion, sanctified in the Rio Earth Summit of 1992, proposed to reconcile the economic (growth), social (reduction of poverty) and ecological imperatives (protection of the environment). Thus, by acquiring the label ‘sustainable’, ‘development’ has been saved and perpetual economic growth given a new lease of life²²³. However, ‘sustainable development’ is an oxymoron: a self-contradiction. It amounts to saying that perpetual growth can be environmentally sustainable, which, given the physical limits of our planet, is impossible.

Development needs to be dematerialised by substantially reducing

218) Escobar (2012)

219) Manji & O’Coill (2002)

220) Escobar (2012).

221) Gudynas (2013)

222) For example, Samir Amin, Andre Gunder Frank, Arturo Escobar, Gilbert Rist, Gustavo Esteva

223) Coombes & Haeringer (2014)

consumption of materials and energy and gearing our economies towards satisfying human needs²²⁴. Alternatives should not equate development with economic growth. With the climate crisis threatening to wreck havoc on a planetary scale, it becomes necessary to limit extractivism considerably, especially exploitation of hydrocarbons. Therefore we need to start thinking about post-extractivist development models and transitions.

The work of committed South American intellectuals like Eduardo Gudynas, Maristella Svampa, Alberto Accosta, Miriam Lang and others in this area is very enlightening, and should be reflected upon in the MENA region. Post-extractivism needs to be understood as a transition that will involve several steps. I summarise them here, and recommend the work of Eduardo Gudynas for more details²²⁵.

Initially, we need to go from 'predatory extractivism' (the current form) to a 'reasonable extractivism' that is closely regulated and in which social and environmental norms are rigorously respected. This 'reasonable extractivism' needs to internalise its impacts, by including all its socio-environmental costs in the price for which it sells natural resources in international markets. This first step will hopefully put an end to the social and environmental ills caused by large extractive companies, allow important decreases in dependence on exports and give states more room for both regulation and certain fiscal reforms (tax on multinationals). The second step consists of moving towards 'indispensable' or 'basic' extractivism where the only extractive projects carried out are those necessary to satisfy national and regional needs. In the case of Algeria, campaigners, intellectuals and community leaders must heed the emblematic slogan 'Leave the oil in the ground', which originated in the Niger Delta where decades of struggles against oil companies like Shell strengthened the determination of communities to fight for an end to extraction of harmful fossil fuels. This campaign made links with anti-extraction struggles in South America, such as those in Ecuador's oil-rich rainforests²²⁶.

224) Gudynas (2013)

225) Gudynas (2013)

226) Bassey (2012)

Some people will consider these ideas childish, unrealistic and even crazy. Some will claim they are not economically viable. But Gudynas offers simple remedies. The reduction in the volume of the exports will be partly offset by higher unit prices for exported products. The state will realise considerable savings, as it will not pay the environmental and social damages of extractivism. Imposition of progressive taxation will ensure the state stops subsidising extractivism. Finally, economic diversification will mean more jobs are created in other sectors.

It virtually goes with saying that contraction of the extractivist sector must be accompanied by diversification of the economy, with particular focus on agriculture, farming, industry and services. Moreover these dramatic changes cannot happen only at the level of a single country, but need to be coordinated regionally to avoid economic starvation resulting from boycotts by international buyers. In that respect, regional integration - in an autonomous way, not subordinated to capitalist globalisation - is necessary²²⁷.

The only impediment is the nature of political systems in the region, where authoritarian and corrupt elites impose their rule and are complicit in the organised looting of their nations. The struggle for environmental and climate justice and for just transitions towards post-extractivist development models will therefore be, fundamentally, one for democracy.

7.5 Conclusion: Sovereignty and Decolonisation

We need a radical break with the capitalist vision of development, a profound rupture with market mechanisms that enclose nature and a decoupling from predatory extractivism. For our sake and that of our countries, we need to abandon the illusion that we are able to reproduce the economic growth model of industrialised countries. In order to avoid climate chaos, we must endeavour to recapture the commons from corporations and to decommodify nature, spaces and relationships: in other words, to decolonise nature.

²²⁷ Gudynas (2013)

In this vein, it is paramount to continue the tasks of decolonisation and delinkage from the imperialist-capitalist system (see Samir Amin's work on delinking)²²⁸ in order to restore our suppressed humanity.

Through resistance to colonial and capitalist logics of appropriation and extraction, new imaginaries and counter-hegemonic alternatives will be born.

The Caribbean-Algerian Frantz Fanon, a towering intellect and radical thinker, wrote in the conclusion to his powerful book *The Wretched of the Earth*:

«Come, then, comrades, the European game has finally ended; we must find something different. We today can do everything, so long as we do not imitate Europe, so long as we are not obsessed by the desire to catch up with Europe.... we must turn over a new leaf, we must work out new concepts, and try to set afoot a new man²²⁹.»

²²⁸) Amin (1990, 2013)

²²⁹) Fanon (1967)

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About the Authors

Samer Abboud is Associate Professor in Historical and Political Studies at Arcadia University in Canada. He completed his doctorate in Arab and Islamic Studies at the University of Exeter (UK) in 2007, based on research on marketisation in Syria. His research on political economy, violence, and conflict and reconstruction in the Middle East (Syria and Lebanon) has led to numerous publications in peer-reviewed journals and academic collections, including co-authorship (with Benjamin Muller) of the book *Rethinking Hizballah: Authority, Legitimacy, Violence* (Ashgate, 2012). His popular book *Syria* has been widely acclaimed, and featured on the Washington Post's list of recommended reads for summer 2016.

Gilbert Achcar grew up in Lebanon, researched and taught in Beirut, Paris and Berlin, and is currently Professor of Development Studies and International Relations at SOAS, University of London. His many books include: *The Clash of Barbarisms: The Making of the New World Disorder* (2002, 2006), *Perilous Power: The Middle East and U.S. Foreign Policy*, co-authored with Noam Chomsky (2007, 2008), *The Arabs and the Holocaust: The Arab-Israeli War of Narratives* (2010), *Marxism, Orientalism, Cosmopolitanism* (2013), *The People Want: A Radical Exploration of the Arab Uprising* (2013) and most recently *Morbid Symptoms: Relapse in the Arab Uprising* (2016).

Reem Abdelhaliem is a professional economist with substantial experience in economic research, with a particular focus on issues of sustainable development, poverty eradication strategies, public budget management and labour rights. Reem holds a Ph.D. in Economics from the Faculty of Economics and Political Sciences at Cairo University, where she currently lectures on 'Rights-based Budgeting'. Reem worked as a senior economist and manager of 'Base of the Pyramid' innovation in several Egyptian NGOs and Corporate Social Responsibility departments in multinational corporations between 2007 and 2013. She was Senior Economist with responsibility for poverty eradication and economic

justice research in The Egyptian Initiative for Personal Rights from 2014 to 2015. She was also Project Manager responsible for planning in a 'Justice Project' within the Tadamun Initiative, a research collaboration with the American University in Washington, from May 2015 until May 2016.

Naser Abdelkarim is Professor of Finance and Accounting in the Graduate school at the Arab American University in Palestine. He earned a Ph.D. in Financial Economics from Southern Illinois University at Carbondale, USA in 1992, and has since worked and taught at many Palestinian Universities. He directed the Accounting Department and Masters in Business Administration Programme at An-Najah National University in Nablus from 1992 to 2001 and served as Professor of Financial Accounting and Head of the Accounting Department at Birzeit University between 2002 and 2013. Dr. Abdelkarim is also a consultant for several national and international institutions, including UNDP, ESCWA, ILO, EUC-Jerusalem, GIZ, FES, the Palestine Monetary Authority and Palestine Investment Fund. He has published dozens of research articles, on development, economic and fiscal policy, corporate governance and financial markets, in peer-reviewed journals.

Hamza Hamouchene is a London-based Algerian activist, writer, researcher, and founder member of the Algeria Solidarity Campaign and Environmental Justice North Africa. He has previously worked for Global Justice Now and Platform London on issues of climate, environmental, food and trade justice. He currently works for War on Want as Senior Programme Officer for North Africa and West Asia. His writing has appeared in The Guardian, Counterpunch, New Internationalist, Middle East Eye, Jadaliyya, Pambazuka, openDemocracy and The Huffington Post.

Abdelhak Kamal is Associate Professor of Economics in the Faculty of Economics at the University of Hassan the 1st, Settat, Morocco, and Research Associate at the Centre for Social Economic and Managerial Studies (CESEM) of the HEM Business School (Hautes Etudes de Management). He holds a Ph.D. in Economics from Toulon University

and previously worked as a teaching assistant at the Faculty of Applied Economics in Aix Marseille University. His research focuses on the measurement and analysis of spatial inequalities and their effects at different stages of development in developing countries, based on monetary and multidimensional approaches. He also has experience in evaluation of public policy.

Salam Said currently works as Scientific Coordinator for the project 'For Socially Just Development in MENA', based in Tunis and funded by the Friedrich Ebert Stiftung. She holds a Ph.D. in International Economic Relations from the University of Bremen. Since 2009 she has lectured and researched on Arab economies, Arab regional economic integration, political economy of the Middle East, and socio-economic development in Syria at various German universities and other academic institutions.

List of Acronyms

ANND	- Arab Network of Non-Governmental Organisations for Development
COP	- Conference of the Parties
DCFTA	- Deep and Comprehensive Free Trade Area
EGP	- Egyptian Pounds
EMDC	- Economically More Developed Country
EMADC	- Emerging Market and Developing Country
EMP	- Euro-Mediterranean Partnership
EU	- European Union
FTA	- Free Trade Agreement
GAFTA	- Greater Arab Free Trade Area
GATS	- General Agreement on Trade in Services
GCC	- Gulf Cooperation Council
GCF	- Gross Capital Formation
GDP	- Gross Domestic Product
GIZ	- Gesellschaft für Internationale Zusammenarbeit
GoNGO	- Governmental Non-Governmental Organisation
GRB	- Gender Responsive Budgeting
HDI	- Human Development Index
HIO	- Public Health Insurance Organisation (Egypt)
IFI	- International Financial Institution
ILO	- International Labour Organisation
IMF	- International Monetary Fund
MEFTA	- US-Middle East Free Trade Area
MoSA	- Ministry of Social Affairs
NAFTA	- North American Free Trade Agreement
NEET	- Not in education employment or training
NGO	- Non-Governmental Organisation
PMV	- Plan Maroc Vert (Green Morocco Plan)
PPP	- Public-Private Partnership
QIZ	- Qualifying Industrial Zones
R&D	- Research and Development
SAP	- Structural Adjustment Programme
SDC	- Social Development Centre
SME	- Small and Medium Sized Enterprise
UN	- United Nations
USA	- United States of America
USAID	- United States Agency for International Development
USD	- United States Dollar
USRT	- United States Trade Representative
VAT	- Value Added Tax
WB	- World Bank
WFP	- World Food Programme
WTO	- World Trade Organisation



من أجل تنمية أكثر عدالة
For **Socially Just** Development

“It should be obvious indeed that the only route out of the crisis plaguing the Arab region is through implementation of new economic and social policies, radically different from those the region has witnessed to date.”

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