

# Chapter 1

## Middle Eastern and North African Economies After the “Arab Spring”



**Abstract** The chapter introduces the subject of the book and defines the research questions.

**Keywords** Arab Spring · Arab social contract · Arab economies

Since the so-called Arab Spring<sup>1</sup> in 2011, political, economic, and social development in the Arab economies in the Middle East and North Africa has caught

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<sup>1</sup>The expression “Arab Spring” coined by mass media is unfortunate because it is misleading in a number of ways. First, the nature of political movements towards the end of the first decade of the twenty-first century and at the beginning of the next decade was not solely and simply “Arab.” On the one hand, Moghadam and Decker (2014: 73–74) convincingly argue that the “Green protests” in 2009 in Iran were forerunners of the later protests in Arab countries and had a demonstration effect for protesters there. On the other hand, protests in countries such as Tunisia, Egypt, Yemen, Libya, Syria, and Morocco were embedded in their own national contexts. Some common problems and underlying causes do exist across many Arab nations, and the importance of a shared Arab public sphere and “regional demonstration effects” (Lynch 2014: 390) should not be underestimated. Neither should the relevance of specific national political and economic contexts be neglected. To emphasize the heterogeneity of revolutionary phenomena in different Arab nations, it would be far more appropriate to use the term “Arab revolutions.” The second major reason why the term “spring” is misleading is because it implies a cyclicity which does apparently not exist. Given the vastly different outcomes of revolutions (e.g., when comparing Tunisia and Egypt) and tragic courses in some countries (notably in Syria, Yemen, and Libya), the uniform idea of a “spring” which is necessarily followed by summer is a misnomer. On the other hand, the term “spring” is reminiscent of the “Prague Spring” of 1968. Apart from the fact that this reminiscence is Eurocentric, the term denies the different contexts of both sets of events and thus suggests a similarity that did not exist. As is argued in the following sections, the Arab revolutions were based on a complex mixture of social, economic, institutional, and political reasons (e.g., Moghadam and Decker 2014: 74). The narrative implicit to the adaptation of the word “spring” from the “Prague Spring” focuses primarily on a struggle for democracy against autocracy and thus masks the complexity of underlying reasons for the Arab revolutions. Despite being a most inappropriate term, “Arab Spring” has unfortunately become a household name. Therefore it is close to inevitable to use it even in scientific discourse. Consequently, whenever used in this book, the term is put in quotation marks to emphasize its highly problematic nature.

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Throughout the book, US spelling is used, except for names of organizations or in direct quotes where original British spelling was kept.

worldwide attention. While the impact of the political upheavals since 2010/2011 has led to far-reaching political and security-related implications, the economic dimension of the evolutions and revolutions in Arab countries is often represented in a simplistic and superficial manner. Youth unemployment is seen as a major cause of the “Arab Spring,” and providing employment opportunities for youth (especially young men) is supposed to solve the prevalent social and security-related problems. Such a popular analysis necessarily ignores the complexity of the multifaceted reasons for demonstrations and protests both in the Arab world as such and in each idiosyncratic case of the countries where they occurred. Further, a too simplistic analysis misses the complex reality of socio-economic regulation in Arab economies. Youth unemployment is a symptom of deeper structural deficiencies in the economic fabric of an economy, and often it is not the only symptom. Other symptoms might be less visible but not less serious. A thorough analysis of these structural deficiencies and their socio-institutional causes is necessary to understand how public discontent could rise to the levels it reached in 2010/2011 and eventually to formulate well-informed strategies to solve structural problems instead of proposing piecemeal, isolated, and one-size-fits-all policy measures.

Indeed, Amin et al. (2012: 1) stress that unemployment was actually decreasing before the revolutions, obviously calling into question monocausal economic explanations. Still, there was an economic dimension to the popular discontent that led up to the protests. Apart from symptoms of structural problems such as high and persistent unemployment, cronyism instead of inclusion and half-hearted and non-inclusive market reforms in the 1990s may well have had their effect on the populations’ perceptions of their long-term economic prospects (Amin et al. 2012: 1–4).

The present book does not have the ambition to put forward an all-encompassing explanation of the underlying reasons for the “Arab Spring.” Rather, the book starts with the assumption that the underlying reasons for the political upheavals in Arab countries are based on a mixture of exogenous and endogenous reasons. Endogenous reasons include economic aspects or demographic aspects with economic indications such as unemployment and the so-called youth bulge in Arab countries with young and growing populations (Dhillon and Yousef 2009: 2; Moghadam and Decker 2014: 73–74). Yet, the set of economic aspects of the revolutions and evolutions in Arab countries since 2010/2011 are much more complex and multifaceted, not to speak of wider social and political aspects (Cammatt 2014: 161, 170–171). This book sets out to discuss the major economic aspects and regards the economic dimension of the “Arab Spring” as a part of the socio-economic history of Arab economies since their independence. From this perspective, the Arab revolutions can be seen as a major regulation crisis that calls for finding a new, consistent, and sustainable regulation regime that allows for solving the major underlying structural problems of Arab economies and their symptoms.

The regulation approaches known from economic sociology and geography such as the regulation school, national systems of innovation, varieties of capitalism, and social systems of production are useful tools to develop a framework to understand the specifics of socio-economic regulation in Arab economies and to apply the framework to propose pathways towards a more consistent and sustainable new

regulation regime. A fifth, newer theory proposed by Acemoğlu and Robinson (2012) deals with the interplay of extractive and inclusive institutions and complements the framework.

The present book makes an attempt to propose such an integrated regulation framework to be used in Arab economies as a tool for analyzing how regulation used to work according to the notion of the “Arab social contract” known from the literature in Middle Eastern political economy, for understanding why and how this old regulation regime collapsed, and for elaborating pathways towards a more efficient, consistent, and sustainable regulation regime. As a policy design tool, the framework suggests a comprehensive package of economic policy interventions for core Arab economies.

Such a regulation perspective puts the focus not only on questions of static efficiency but equally on whether a regulation regime allows for achieving sufficiently high levels of dynamic efficiency to cope with economic and social challenges at hand. To do so, a regulation framework has to consider the dynamics of Schumpeterian creative destruction in a given regulation regime because they are drivers of structural change and thus industrialization. Conditions, prevalence, and outcomes of entrepreneurship and innovation are determinants of the efficiency and sustainability of a regulation regime. This is why the present book discusses both the old Arab social contract and a possible new regulation regime for core Arab economies through the lens of entrepreneurship, innovation, and the degree of creative destruction it enables. Corresponding to the socio-economic perspective of regulation approaches, creative destruction is not a strictly economic phenomenon but equally a social and political one. Successful Schumpeterian entrepreneurs are not only economic or technological agents of change but form a social class with political ambitions. The relevance of a politically independent and confident entrepreneurial class is thus an important socio-economic feature of an efficient and sustainable regulation regime, as was emphasized by Acemoğlu and Robinson (2012). Regulation regimes differ in the degree to which they allow for the emergence of such a politically independent and confident entrepreneurial class. The present book assesses the degree of independent entrepreneurial initiative possible under the economic, political, and social conditions of the Arab social contract and discusses the role such an independent entrepreneurial class could play in a renewed regulation regime.

Research for the present book was guided by the motivation of bringing together two bodies of literature which, somewhat surprisingly, have not experienced much contact yet. On the one hand, socio-economic regulation approaches from economic sociology or geography and development economics form the theoretical base for the arguments presented and for the consolidated regulation approach proposed. On the other hand, the regulation framework is applied as a lens to understand and elaborate possible policy interventions to solve structural economic problems prevalent in core Arab economies which have for long been analyzed by Middle Eastern political economy. Curiously, while the notion of the “Arab social contract” known from Middle Eastern political economy and its collapse is basically a description of a concrete regulation regime and its crisis, these regulation approaches and Middle

Eastern political economy have not yet been combined, at least to my knowledge. Regulation approaches have rarely been applied to core Arab economies. For instance, the varieties of capitalism (VoC) approach so far focused mainly on industrialized countries,<sup>2</sup> while Acemoğlu and Robinson’s (2012) arguments are directed to a large extent towards Latin American economies. Considering both the considerable and pressing structural economic problems in core Arab economies and the closeness of the Arab world to Europe, understanding regulation in these economies and providing a theory-based lens for developing comprehensive socio-economic and institution-sensitive policies (Benner 2017; Glückler and Lenz 2016) are thus highly relevant.

Defining the spatial subject of the book confronts some problems. In the literature, the term Middle East and North Africa (MENA) is often used to describe the total of Arab countries. While there is no commonly accepted definition of which countries with an Arabic-speaking majority and/or a Muslim majority are included under the MENA term (e.g., is Mauritania included? Sudan? Djibouti? Somalia?), the Middle East undoubtedly includes core countries without an Arabic-speaking majority (in any case, Turkey and Iran) and one country without an Arabic-speaking majority and without a Muslim majority (Israel). This is why the term MENA is not suitable to define the focus of this book which is put on Arab economies with their distinctive political economies distinct from those of Turkey (Eder 2014), Iran (Bouroujerdi 2014), and Israel (Ben Shitrit 2014). The focus of the book excludes countries at the fringes of the Arab world such as Mauritania, Sudan, Somalia, or Djibouti and those undergoing civil wars that make an analysis of their economic status highly specific (Syria, Libya, Yemen). These cases certainly merit scholarly attention but will need to consider each country’s very peculiar situation (e.g., Gobat and Kostial 2016). Furthermore, the West Bank and Gaza are not covered by the focus of this book because of their special situation and status. The book does focus on resource-poor “core Arab economies” including Morocco, Tunisia, Egypt, Jordan, and, with some reservations, Lebanon. Resource-rich Arab economies such as Algeria and the GCC member states might share some socio-economic characteristics with these core Arab economies but are confronted with a distinct set of challenges and opportunities.

Under the umbrella of such a broad regulation perspective, the present book strives to develop answers to the following five research questions:

1. How does regulation between economic action and institutional context work in Arab economies, notably in relation to drivers of private-sector growth such as entrepreneurship?
2. Which new modes of regulation could help Arab countries in addressing structural economic and social difficulties by facilitating private-sector-led growth?
3. What role can entrepreneurship play in such new modes of regulation?

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<sup>2</sup>One of the rare attempts to characterize an Arab VoC is made by Hertog (2016) which is presented in Chap. 3.

4. Which implications does the current transitional context in Arab economies hold for regulation, including opportunities implicit in the current regulation crisis?
5. What types of policies are needed to put such new modes of regulation in place?

The book’s core aim is to propose a framework model for socio-economic regulation in Arab economies that can be used to describe the institutional context (Glückler and Bathelt 2017) in an Arab economy or possibly in one of its regions and to predict the consistency of policy recommendations with the institutional context and thus, from an institutional point of view, their prospects for success.

While the conceptual part of the book focuses on core Arab economies as such, the regulation framework proposed will be applied to the particular cases of Tunisia and Jordan. Both countries share the fundamental structural problems evident across core Arab economies but at the same time represent interesting cases due to their specific similarities and differences. While both countries are similar in size, resource-poor, and labor-abundant and have achieved relative success in industrialization, tourism, and the transition towards a more knowledge-based economy, political change since 2010/2011 was revolutionary in Tunisia but evolutionary in Jordan. Tunisia’s republican political tradition since independence was marked by a short period of Arab socialism and a subsequent long-term opening (*infithah*) to the world economy, while Jordan’s conservative monarchical system has permanently left a significant degree of freedom to private entrepreneurial initiative. Tunisia’s economy is strongly oriented towards the European Union (EU), and its population is culturally close to European countries such as France and Italy, not least because of the large Tunisian diaspora in Europe. Jordan, in contrast, is embedded in the geopolitical dynamics of the Middle East marked by the Israeli-Palestinian conflict and its consequences including the large share of Jordanian citizens of Palestinian origin, the “cold” Israel-Jordan peace, the labor migration to GCC countries, the precarious political and security situation of Iraq, and the civil war in Syria and the presence of large numbers of Syrian refugees in Jordan. Both the common features and the differences between Tunisia and Jordan allow for refining the regulation framework in these two exemplary cases.

Despite the book’s approach of looking at nation-states as the primary scale for regulation, the aspects covered are to a large degree spatially sensitive on subnational levels. Processes of economic growth, innovation, and entrepreneurship are locally or regionally embedded and cannot be considered independently from their institutional context (Glückler and Bathelt 2017) which is to a significant degree local and regional. This is evident first on the empirical level by the spatial dimension of structural problems such as (youth) unemployment which is even more severe in peripheral regions in countries such as Tunisia and second on the policy level by the spatial nature of coping strategies such as regional incubators (such as the Tunisian *cyberparcs*), technology parks and regional cluster initiatives (such as those under the Tunisian *pôles de compétitivité* or *complexes industriels et technologiques* schemes), or special economic zones (such as Jordan’s Aqaba Special Economic Zone). Thus, the regional dimension is a cross-cutting aspect in this book. The book therefore takes a multi-scalar perspective which includes a regional-

level view and addresses the subnational spatial dimension of empirical realities and policy approaches wherever appropriate.

Methodologically, research for this book is primarily theoretical in nature. The core of the research tasks was combining the abundant literature of Middle Eastern political economy with regulation approaches found in economic sociology, economic geography, and development economics which were consolidated into a unified conceptual framework. This generic theoretical framework is further refined and applied to specific national contexts in case studies on Tunisia and Jordan. Further, the theoretical considerations built deductively on the conceptual framework are enriched with empirical research through triangulation interviews with stakeholders and experts from both countries. However, this work is not primarily an empirical study. The conceptual thoughts developed are based on theoretical and empirical arguments found in the literature, giving this book the character of a meta-study. More elaborate in-depth empirical research testing and applying the theoretical framework proposed here could further contribute to understanding socio-economic regulation in core Arab economies.

The book is structured as follows: Chap. 2 presents major structural difficulties present in core Arab economies on the basis of a detailed review of the literature on Middle Eastern political economy. Chapter 3 introduces regulation approaches known from economic sociology and geography as well as development economics and proposes a consolidated framework for regulation for core Arab economies. In so doing while putting a particular cross-cutting focus on entrepreneurship, innovation, and creative destruction, Chap. 3 attempts to answer the first research question (How does regulation between economic action and institutional context work in Arab economies, notably in relation to drivers of private-sector growth such as entrepreneurship?). Since the breakup of the old Arab social contract is understood as a regulation crisis, Chap. 3 goes on to sketch the transition towards a new regulation regime and discusses how such a future regulation regime in core Arab economies may look like under the assumptions that such a regime be more efficient and sustainable in the long run. The chapter proposes a policy package to address the present structural economic problems in core Arab economies in a comprehensive, socio-economic, and institution-sensitive perspective, thus trying to answer the second, third, and fourth research questions (Which new modes of regulation could help Arab countries in addressing structural economic and social difficulties by facilitating private-sector-led growth? What role can entrepreneurship play in such new modes of regulation? Which implications does the current transitional context in Arab economies hold for regulation, including opportunities of the current regulation crisis?). Chapter 4 applies and refines the regulation framework proposed to the cases of Tunisia and Jordan. Finally, Chap. 5 draws conclusions for policy, based on the comprehensive and institution-sensitive policy mix elaborated in Chap. 3 and on the insights from the Tunisian and Jordan case studies, thus suggesting answers to the fifth research question (What types of policies are needed to put such new modes of regulation in place?).

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