CHAPTER 2

Neoliberal Transformation and the Uprisings in Tunisia and Egypt

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By the lights of the international financial institutions, Tunisia and Egypt were the celebrated success stories of the "Washington Consensus," or neoliberal reform, in the Arab Mediterranean and participated fully in the worldwide economic boom of the 2000–2008 period. Neoliberalism promised to shrink government and promote private enterprise as the engine of growth and new job creation. While fewer resources were provided to public investment and services like health and education, private investment did not fully compensate, even as most benefits of growth, liberalization, and privatization were concentrated in the hands of a class of crony capitalists led by the ruling families. Throughout the 2000s, the underside of neoliberal growth became more glaring, including capital flight, the limited contributions of foreign direct investment (FDI) and open trade to domestic development, growing regional disparities, multidimensional poverty, multidimensional inequality, and malfunctions of the labor market.

Social movements grew in opposition to this neoliberal polity and economy among both the middle and working classes. When the economic crisis of 2008–2010 caused a slowdown in economic growth and aggravated unemployment and poverty, the opposition movements grew stronger and more interconnected. To hold power, the ruling elite intensified electoral fraud and the often-brutal repression

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of opposition movements. The final insult was the maneuvering by the ruling families to convert their presidential systems to dynastic rule. By the end of 2010, these forces converged into a perfect storm that led to the overthrow of presidents Ben Ali and Mubarak.

The IFIs' Approach through 2010: Neoliberal Reform

Egypt and Tunisia were vaunted stars of neoliberal reform in the Arab world from the 1990s through 2010. They were praised for the policy changes they undertook under the guidance of the International Monetary Fund and the World Bank (the international financial institutions, or IFIs), aid agencies such as USAID, and the European Union's Mediterranean Partnership Agreements. Following standard "Washington Consensus" advice, IMF-supervised stabilization programs supported monetary policy that reined in the money supply, raised interest rates toward international market levels, and curbed inflation. Structural adjustment programs supervised by the World Bank and other Western agencies supported shrinking of the financial, regulatory, and productive roles of the state in the economy, reduction of public spending, liberalization of international trade and investment, and privatization of publicly owned enterprises and public services. With little concern for political autocracy and repression, the IFIs heaped praise on the acceleration of privatization in the 2000s, the growth of exports, especially manufactured exports, overall economic growth, and a sharp rise in foreign direct investment, as seen for example in IMF consultation reports from the last boom year before the financial crisis struck (IMF 2007a: 3; IMF 2007b: 3).[1] Figures 2.1a and 2.1b illustrate the rates of real aggregate and per capita GDP growth, and Figures 2.2a and 2.2b illustrate the sources of foreign exchange revenues and growing shares of exports and FDI through 2008. Figures 2.3a and 2.3b indicate that Egypt and Tunisia were paying down external debt and reducing their debt service burdens, and their current accounts were either in surplus or had small deficits through 2009, as shown in Figure 2.4.

While the IFIs took credit for these macroeconomic successes, the agencies, as well as many academics, continued to admonish the governments of Tunisia and Egypt for not doing enough to pursue

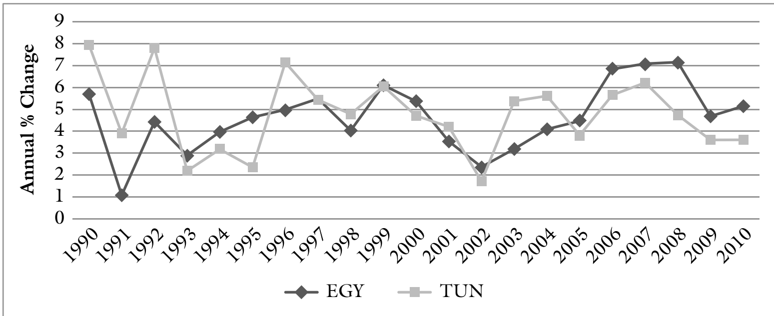

Figure 2.1a Real GDP Growth, Egypt & Tunisia, 1990–2010
Source: World Development Indicators, accessed 8/28/14.

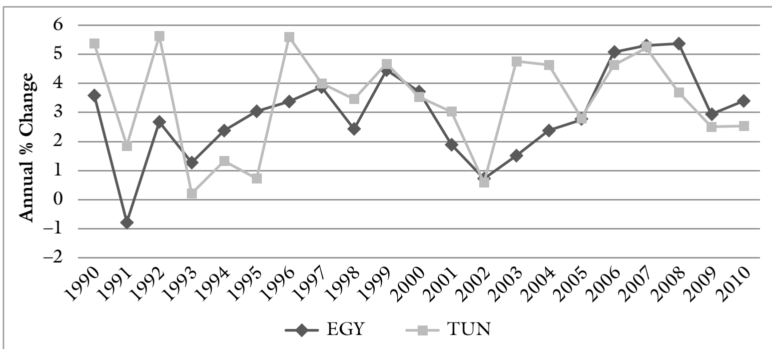

Figure 2.1b Real GDP Growth per Capita, Egypt & Tunisia, 1990–2010
Source: World Development Indicators, accessed 8/28/14.

economic liberalization, to provide transparency and accountability in regulation and taxation, to reduce corruption, and to remove obstacles for establishing and expanding business, whether by domestic or foreign capital. The IFIs attributed these weaknesses to defects of internal policy on the parts of the Tunisian and Egyptian governments, treating some features as benighted holdovers from the statist era—such as relatively more secure employment and compression of wages in the public sector, guaranteed pensions, and ongoing subsidies for foodstuffs and energy—and treating other features as foot-dragging on “reform”; for example, not reducing remaining barriers to trade and foreign investment fast enough, or not removing state influence and

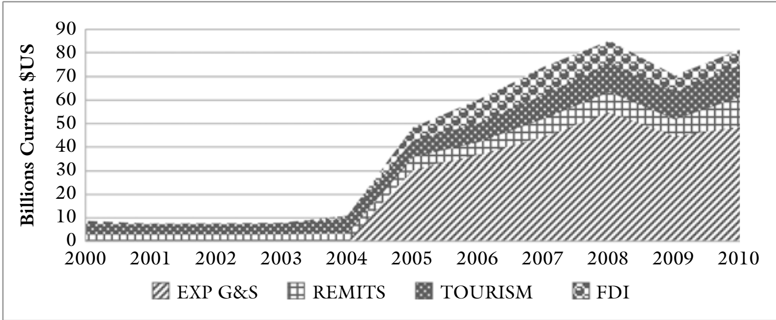

Figure 2.2a Sources Foreign Revenue, Egypt, 2000–2010
Source: World Development Indicators, 4/10/14.

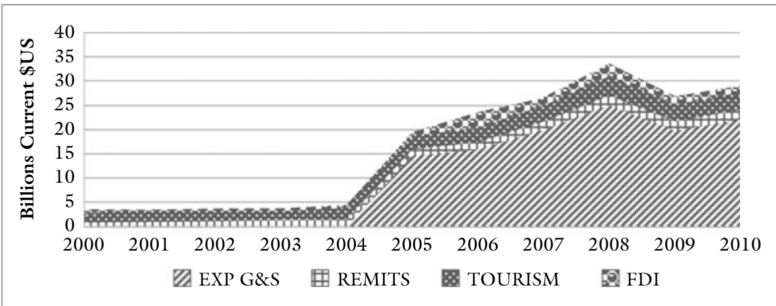

Figure 2.2b Sources Foreign Revenue, Tunisia, 2000–2010
Source: World Development Indicators, 4/10/14.

regulation from the financial sector and too slowly privatizing production of infrastructure and other public goods like education, healthcare, utilities, and energy (IMF 2007a: 3; IMF 2007b: 3).

IMF consultation reports from 2010 evaluated the impact of the global crisis and recession, despite the irony that what the agency had long viewed as insufficient efforts to shrink the role of the government had turned out to be beneficial to the Egyptian and Tunisian economies. In the face of recession, these governments pursued stimulatory fiscal and monetary policies, which had cushioned the blows, given the relative insulation of their domestic markets and banking sector from the international system. The crisis was imposed by exogenous shocks, including sharp declines in the demand for exports and inflows of foreign direct investment and, to a lesser and briefer extent,

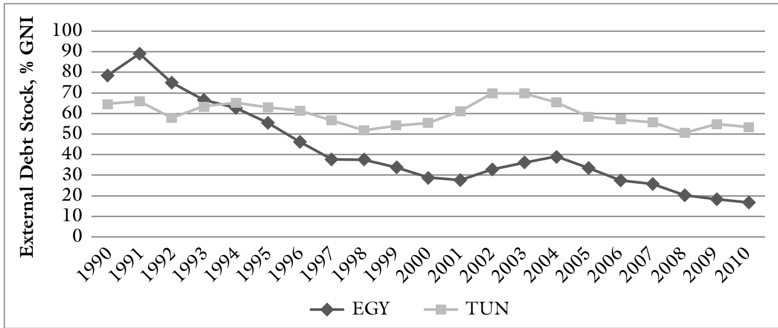

Figure 2.3a External Debt % GNI, Egypt & Tunisia, 1990–2010
Source: World Development Indicators, accessed 8/28/14.

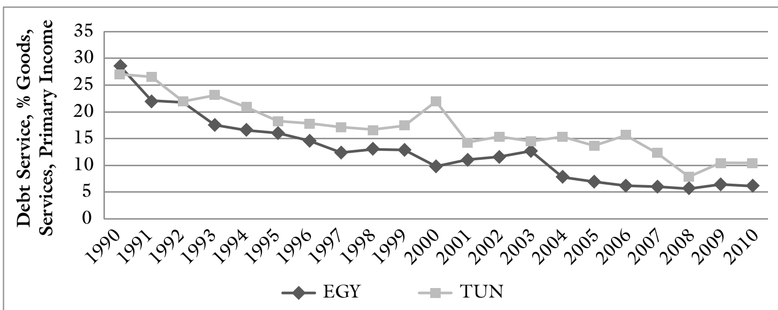

Figure 2.3b Debt Service, % Exports Goods, Services, & Primary Income, Egypt & Tunisia, 1990–2010
Source: World Development Indicators, accessed 8/28/14.

in tourism receipts and remittances (see Figures 2.2a and 2.2b). Yet these 2010 reports went on to recommend more of the same reforms as in 2007, as though the previous two decades of reducing barriers to foreign trade and investment were not relevant to understanding the impact of the shocks (IMF 2010a: 3; IMF 2010b: 3).

International financial institutions and Western development agencies did not take responsibility for the negative socio-economic features of neoliberal transformation or acknowledge the negative political features of these autocracies until the spring of 2011. They left violations of civil and political liberties and human rights to be treated separately and addressed, if at all, by NGOs and United Nations agencies. While

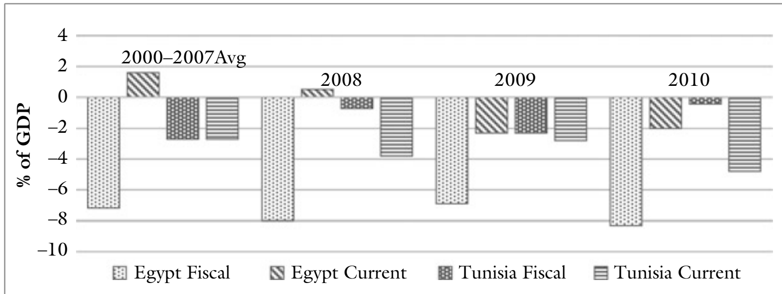

Figure 2.4 Fiscal & Current Account Balances, Egypt & Tunisia, 2000–2010
Source: IMF, Regional Economic Outlook: Middle East and Central Asia, November 2013: 53.

such problems were written up in annual US State Department and EU human rights surveys (e.g., US Department of State 2009), these regimes were considered dependable allies of Western Europe and the United States, leading the latter simply to admonish them with words, as they did with their Gulf monarchy allies, without imposing economic sanctions or military penalties like they did on non-favored regimes in Iran, Iraq, Libya, and Syria.

The IFIs treated inequality and poverty in the countryside as indigenous problems unto themselves—unconnected to the neoliberal agenda—to be addressed separately through programs promoting access to microfinance, vocational training, and "modernization" of agriculture. The IFIs came to view unemployment as an increasingly incorrigible problem in the 2000s but did not consider it to be an aspect of neoliberal policies or outcomes, for example as a demand-side problem due to the nature of FDI or domestic investment. Rather, they attributed unemployment to labor market rigidities and an educational system that awarded credentials to the growing legions of high school and college graduates allegedly without providing them with the skills appropriate to the needs of private sector employers. Other socio-economic problems were ignored, such as the blossoming of a wealthy and powerful capitalist class deeply connected to the highest levels of the state and the regime, capital flight, a dearth of domestic investment, the risks of overdependence on foreign direct investment and external markets, and the uneven distribution of the benefits of growth and the costs of crisis among regions and social groups.

Blossoming of a Wealthy, Powerful Capitalist Class in a Corrupt State

A privileged business elite had grown to operate behind protective barriers in the interstices of the state-led economy in Egypt and Tunisia in the post-independence era. During the neoliberal era, subsets of both public sector managers and the elite merged into a new capitalist class that benefited from the opening to foreign trade and investment and the privatization of state enterprises as part of neoliberal economic reform.[2]

In Egypt, the Infitah of the 1970s and 1980s had allowed more space for these capitalists to expand, some to become successful exporters, others importers or agents of foreign firms, but most remained oriented toward the domestic economy and were well integrated with the network of bureaucrats and public enterprise directors who ran the core of the economy. When privatization got under way in the 1990s, these two groups together, sometimes in competition and sometimes in cooperation, were well positioned to become the new owners, a pod of Nile "whales" that turned public monopolies into private monopolies or oligopolies. The leaders of this newly emboldened capitalist class were identifiable by name, and their positions, business associations, and relationships to the top echelons of the Mubarak regime were known (Rutherford 2008: 204–211; Sfakianakis 2004; Mitchell 2002: 282–284).[3] Two infamous examples of privileged transactions without competitive bidding were the purchase of public lands for an elite housing complex by Minister of Parliament Talaat Mustafa, with free state provision of needed infrastructure (roads, sewer system, utilities), and the award of the first mobile phone license to Naguib Sawiris, part of whose fortune had already come from government construction contracts.

Gamal Mubarak, Husni Mubarak's son and heir apparent, was a leader of the National Democratic Party (NDP) and a strong advocate of further liberalization and privatization of the economy. From the mid-1990s, the regime had come to favor those members of the business elite who were "younger, often more outward and export-oriented entrepreneurs . . . more capable of contributing to growth and employment" and brought market-oriented reformer Ahmed Nazif to serve as prime minister in 2004 (Rutherford 2008:

218–224). The regime then took care in selecting the industries and services for private sector participation—telecom, roads, ports and airports, power plants, cement, automobile assembly (in conjunction with foreign capital), and land reclamation and development, as well as agencies importing for the public sector—and managing the competition for these plums so as to reward some and deny others (Wurzel 2004: 124–125). However, the 2000 and 2005 parliamentary elections indicated that the private capitalist class was growing more autonomous while the NDP's control was weakening (Soliman 2011: 145–147).[4]

Some analysts rationalized these arrangements on the argument that obstacles to growth could be overcome by an at least temporary alliance of top policymakers and important investors, because probusiness reforms at the national level were insufficient in and of themselves to break the "binding constraints" on investment and growth, for example in constructing the communications and Internet technology sector in Egypt from scratch (Abdel-Latif and Schmitz 2011; 2010). If formal legal and financial institutions were weak, corruption and informal insider relationships could make up for this deficit in the short run and stimulate private investment, albeit at the risk of undermining confidence and investment in the long run (Ghecham 2010). A third analyst of corporate governance in Egypt found that the increasing concentration of ownership in privatized firms over time, especially if foreign investors were involved, improved firm performance, as measured by returns to assets or equity, and advised against SOEs being sold to their employees or kept under even partial control of the state (Omran 2009).

While the rationale for such arguments conformed to the ends targeted by neoliberal policies, the means contravened neoliberalism's ideological commitment to the level playing field, ease of entry into industries, and free competition. In practice, competition was shaped and constrained by public policy, leading to concentration of economic power. Stock market capitalization in Egypt rose from 35.6 to 105 percent of GDP from 2000 to 2007, but the share of the formal private sector in GDP actually decreased from 70.7 to 62.3 percent, and the number of companies listed and traded on the stock exchange fell by about 50 percent (American Chamber of Commerce

in Egypt 2008). Egyptian companies' participation in international mergers and acquisitions peaked in 2008, with $16 million in sales but just $4.6 million in purchases (UNCTAD 2011). Listings on the Cairo and Alexandria stock exchanges continued to decline during the financial crisis and recession, from 435 firms in 2007 to 212 in 2010 (Dhaman 2011a, 2010, 2009: Table 10).

A parallel scenario played itself out in Tunisia over these decades, but, unlike Egypt, the protected domestic bourgeoisie was less a carryover from the colonial era and more a creation of independent state-led development under Bourguiba. Liberalization took place mostly in the form of export enclaves, where foreign capital reigned and a privileged part of domestic capital was allowed to come on board as junior partners. When the *mise-à-niveau* (industrial upgrading) program was introduced in the 1990s, a partially successful project much praised by the IFIs, the regime used cronyism and its own judgment in deciding which firms could participate and what kind of assistance they could obtain (Hibou 2006: 189–190, 194–196). The domestic capitalist class was not as well organized as in Egypt and could not command the kind of attention and respect that the export sector enjoyed (Cammett 2007: chapters 3 and 5). To the extent that the Tunisian model worked to promote investment, growth, and employment, it was based on an East Asian state-led pattern, overlaid with a belated, gradual, and controlled set of neoliberal reforms (Harrigan and El-Said 2010).

Before the uprising began in late 2010, astute scholars predicted that the internal contradictions of Tunisia's particular form of authoritarian neoliberalism would lead to political resistance (Harrigan and El-Said 2010: 21–22; Hibou 2006). The achievements of the *mise-à-niveau* program were significant but constrained by external factors, such as the abolition of the Multifibre Accords in 2006, and by growing resentment toward the regime's patrimonialism and "lack of accountability to public scrutiny and political challenge" (Murphy 2006: 536). By the late 2000s, the formal system had become dysfunctional and alienating for many domestic investors (BTI 2012: 29–32, 39). Many firms chose to operate in the informal sector instead, where they were less likely to have their property and contract arrangements undermined and where they did not have to pay exorbitant bribes

or arbitrarily imposed taxes (Delavallade 2008). Whereas the formal sector had grown relative to the informal sector from 1980 to 1995, when the latter was 12 percent of GDP, the trend was reversed from 1995 to 2009, with the informal sector growing to 29 percent (Abid and Ben Salha 2013: 202).

Popular resentment also formed around concentration of economic power through "corruption and the monopolization of wealth by 'clans' close to Ben Ali" (Hibou 2006: 197). As of 2010, the Ben Ali family controlled one-third of the Tunisian economy, including key sectors of banking, telecom, import-export, autos, agriculture and food distribution, petroleum, tourism, and real estate. Tunisian protesters became enraged at the great wealth and lavish lifestyle of President Ben Ali's second wife, Leila Trabelsi, and her extended family, most notably their son-in-law, the billionaire businessman Mohamed Sakher El-Materi. WikiLeaks published a cable online that caused great public outrage, in which the US ambassador described a dinner at the president's "beachfront compound decorated with Roman artifacts; ice cream and frozen yoghurt flown in from St. Tropez, France; a Bangladeshi butler and South African nanny; and a pet tiger in a cage."[5]

In both Egypt and Tunisia, the public was distressed over the lack of accountability and lack of transparency of the regimes. In Egypt, revenues from the Suez Canal went into a separate budget controlled by the president's office, while the military's massive budget and economic empire were totally beyond scrutiny. In Tunisia, a National Solidarity Fund ("26-26") had been founded by Ben Ali in 1993, ostensibly as a rural development program for public goods like electricity, roads, and health clinics, to be funded out of the state budget plus "contributions" from the public, including civil servants, farmers, business owners, and trade unions. However, the public perceived the funds to be distributed in an unfair, clientelist manner, the work done to be shoddy, when done at all, and the fund's income and spending unaccounted for and reputedly pocketed by the Ben Ali clan (Kallander 2011).[6] Instead of solving economic problems, liberalization seemed to have led to powerful and corrupt crony capitalist states that failed to stimulate formal-sector domestic investment, facilitated capital flight, and incurred "odious debt" at the expense of the citizenry at large.

Investment

A study of growth trends in Egypt from 1973 to 2002, broken into three sub-periods, 1973–1980, 1981–1990, and 1991–2002, found that the contributions of capital investment and total factor productivity growth (TFP) to overall growth were highest in the 1970s. In the 1980s, the capital investment rate declined and TFP was negative, causing the overall rate of economic growth to decline. In the 1991–2002 period (after the SAP was introduced), TFP growth was restored to a positive level but capital investment continued to be low, causing output growth to remain low. The author expressed the hope that, as promised by the IFI advisers, the new round of liberalizing reforms after 2004 would induce a higher level of investment and thus boost growth again (Kamaly 2006).

As indicated in Figure 2.5, average annual gross fixed capital formation (GFCF) decreased slightly as a percentage of GDP in both Egypt and Tunisia from the 1990s to the 2000s. Whereas the private share of GFCF increased in both cases, it was not enough to compensate for the steep fall in public investment. This implies a drag on further growth and development, as productive public investment in infrastructure and human development is essential to underpin, and is generally complementary to, private investment in developing countries (UNCTAD 2014: 19–23). Since productivity, as measured by GDP per employed person, rose faster in the 2000s boom than previously, as shown in Figure 2.6, aggregate income must have

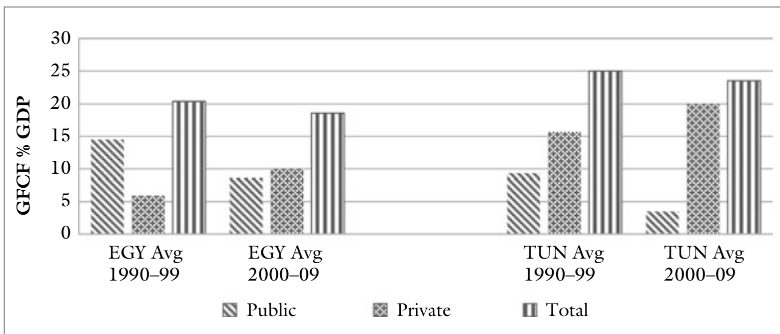

Figure 2.5 Gross Fixed Capital Formation, % GDP, Egypt & Tunisia, 1990–2009
Source: World Development Indicators, accessed 8/26/14.

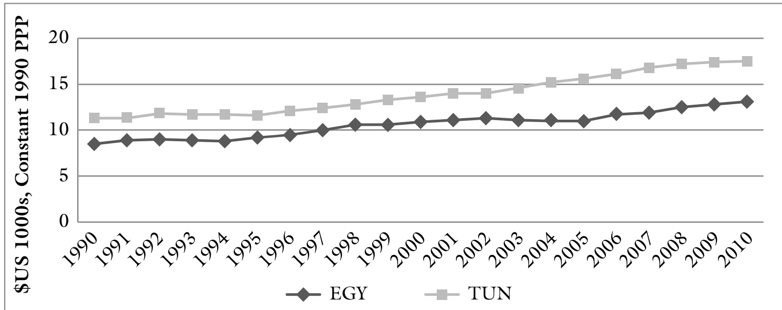

Figure 2.6 GDP per Employed Person, Egypt & Tunisia, 1990–2010
Source: World Development Indicators, accessed 8/26/14.

grown in proportion, leading to the question of how it was distributed and used.

Capital Flight

While the need to rustle up investment from both domestic and foreign sources in order to promote growth was officially a top priority of policymakers for the Egyptian and Tunisian economies, significant amounts of potentially investible capital were being spirited out of these countries every year.[7] Egypt's cumulative inflow of FDI from 2000 through 2008 was $41.8 billion, while its cumulative illicit financial outflow as $57.21 billion. That is an average of $4.59 billion per year in FDI inflow versus $6.36 billion in illicit outflow, a net average outflow of $1.77 billion. Tunisia had a somewhat better, net positive, balance between the flows, with a cumulative inflow of FDI for 2000–2008 of $11.78 billion, an average of $1.31 billion per year, versus a cumulative illicit outflow of $8.7 billion, an average of $0.97 billion per year (Dhaman 2011a; Kar and Curcio 2011: 40–41, Table 3, 52–53, Table 7).

In general, illicit outflows of capital reduce domestic investment and undermine real economic development, worsening unemployment, inequality, and poverty. Less obviously but equally important, unrecorded inflows that are stashed secretly in a country cannot be taxed for public revenue or used as collateral to back development projects when governments issue bonds or borrow abroad (Kar and Curcio 2011:

1, 5). Illicit financial flows reflect two critical downsides to liberalization: rising income inequality, which provides incentives not to report income in order to avoid taxes, and expansion of open trade relative to GDP, which facilitates misquoting of prices to hide profits.[8]

Other, complementary, research estimated the value of flown capital from North African countries for the whole of the 1970 to 2010 period, measured in billions of constant 2010 dollars. The total came to $59.7 billion for Egypt and $38.9 billion for Tunisia, equivalent to 27 percent of Egypt's 2010 GDP and 88 percent of Tunisia's. Assuming that flown capital could have earned an interest rate equal to the return on United States Treasury bills, the authors estimated that the compounded loss over those forty years would come to $110.1 billion for Egypt and $45.2 billion for Tunisia, compared to a 2010 debt stock of $34.8 billion for Egypt and $21.6 billion for Tunisia (Ndikumana and Boyce 2012). Had those funds been used for domestic investment, there would have been higher GDP growth and no need to borrow abroad, and even the possibility of earning interest rather than paying it out on the international capital markets.

Debt and Odious Debt

When the IFIs advised deeper budget cuts and more opening to international capital in response to the crisis of 2008–2010, popular resistance arose against not only austerity but also the implied loss of economic integrity and the concomitant and apparently permanent indebtedness that the Egyptian and Tunisian governments incurred in their relationships with the IFIs. Popular criticism of international indebtedness from the "50 Years Is Enough" campaign and the "Dakar Declaration for the Total Unconditional Cancellation of African and Third World Debt" in 2000[9] resonated loudly among activists in Tunisia and Egypt. They argued for opening their governments' books to public scrutiny and for the cancellation of the "odious" portion of the debt incurred for the purchase of unneeded military or "security" equipment or for the personal enrichment of the regime and its cronies.[10] This demand was a centerpiece of the World Social Forum when it convened in Tunisia in March 2013.[11] Cancellation of this part of the debt would reduce the interest costs that eat up a significant part of the annual budget in each country and so shrink fiscal

and current account deficits (see above Figures 2.3b and 2.4). Activists also argued for converting the non-odious debt to aid for development projects in deprived regions, and for recovering the assets stashed abroad by the rulers and their cronies.

Integration with the World Market through FDI and Trade Liberalization

Foreign direct investment in Egypt and Tunisia had some positive features while it lasted, but it was often of questionable developmental value and too focused on energy production and export, as well as

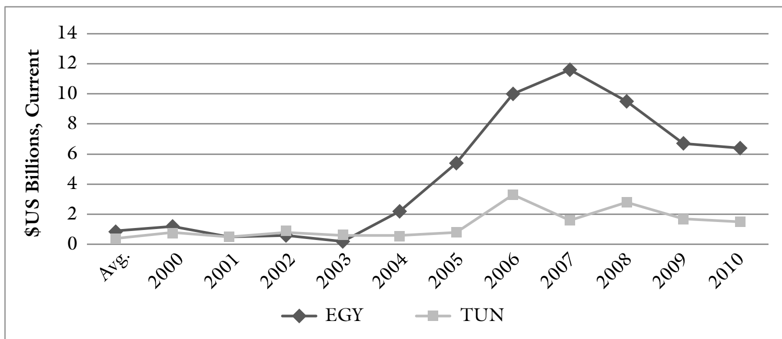

Figure 2.7a FDI Inflow, US$ Billions, Egypt & Tunisia, 1991–2010

Source: DHAMAN 2011: "Inward FDI Flows, 1970–2011, $US Mns, Current, and as % of Gross Fixed Capital Formation."

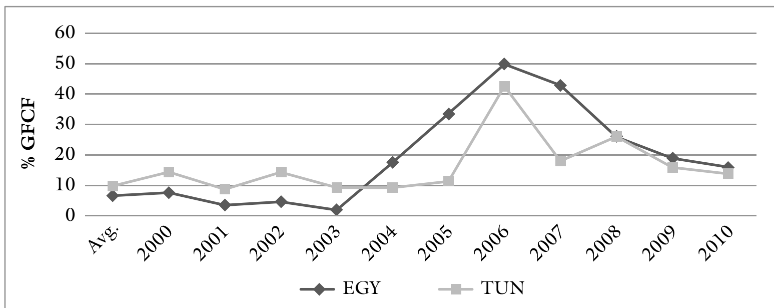

Figure 2.7b FDI Inflows, % Gross Fixed Capital Formation, Egypt & Tunisia, 1991–2010

Source: DHAMAN 2011: "Inward FDI Flows, 1970–2011, $US Mns, Current, and as % of Gross Fixed Capital Formation."

leaving these economies susceptible to externally induced crises (Pfeifer 2012a: 15–24). During the peak years of 2005–2007, FDI averaged an unprecedented 15 percent of GDP in Egypt and 13 percent in Tunisia. However, the wave of FDI was short-lived. As indicated in Figure 2.7a, Egypt experienced a dazzling rise in FDI from $237 million in 2003 to a peak of $11.6 billion in 2007, and a stunning drop by 45 percent from 2007 to 2010. FDI inflow to Tunisia reached a peak at $3.3 billion in 2006, then fell by a total of 54 percent from 2006 to 2010 (Dhaman 2011a: Table 7; Dhaman 2011b).

One main argument for liberalization of FDI was that it would help raise total private investment to compensate for the desired decline in public investment. As seen in Figure 2.7b, FDI did grow as a share of investment, but as we saw in Figure 2.5 above, that did not increase total investment. Much of the inflow was for takeovers of existing enterprises. More than half of Egypt's inflows of non-hydrocarbon FDI in 2007–2008 went into financial and other services, like the takeover of an Egyptian private bank by a Kuwaiti bank. Two Dubai firms, including the deeply indebted Dubai Group Holding company, committed over $3 billion to purchase a 35 percent interest in Tunisie Telecom in 2006, accounting for 68 percent of total FDI from all sources to Tunisia in that year (UNCTAD 2012: 6–7), but provided no investment in new productive capacity and liquidated its share in 2011 in order to repay its creditors elsewhere.

A second argument for more FDI was that it would lead to the formation of new small and medium-sized enterprises (SMEs) that would generate jobs. Most of Gulf-sourced investment favored mega-projects in real estate such as hotels, tourist resorts, and luxury shopping malls, and fully or partially privatized public works, such as ports, airports, and utilities. These projects created temporary jobs in construction but, except for tourism, few permanent jobs. In Egypt, a third of the 2007–2008 non-hydrocarbon flows went to manufacturing, mostly existing capital-intensive plants such as fertilizers and chemicals, 9 percent went to real estate and construction, and just 4 percent to the labor-intensive tourism, agriculture, and ICT sectors (Mohieldin 2008: 40–41).

Even where FDI put resources into labor-intensive manufacturing for export, the quality of jobs and impact on the domestic economy were questionable. In Tunisia, most new jobs created in the late 1990s

and 2000s were low technology, low skilled, and low paying (Achy 2011: 10–11). FDI tended to favor coastal locations for production of exports to be shipped back to the investor countries (Karray and Driss 2009), generated few forward and backward linkages with the domestic economy (Achy 2011: 15–16), and, in addition, pitted Morocco and Tunisia against each other rather than encouraging integration (Nicet-Chenaf and Rougier 2009). Where there was a positive effect of European FDI on technology transfer and TFP growth in Tunisia, it was confined mainly to the export sectors, neither spilling over into domestic intra-industry linkage nor stimulating local research and development, a "weakness in absorptive capacity" attributed to the decline in resources allocated to education in Tunisia and to "political choices" that "imply a fall of the quality of the formation of manpower" (Samet and Chaabane 2010: paragraphs 34–38). As Figure 2.8 shows, value added in manufacturing averaged a slightly lower percentage of GDP in the 2000s than it had in the 1990s.

A third argument in favor of FDI was that it would diversify the host economies, but FDI to the energy sector in the Mediterranean remained important throughout the 2000s. "Energy security" for Europe was defined as diversifying sources of imports and transit routes away from dependence on Russia. To the consternation of its domestic critics, Mubarak's regime provided "attractive fiscal terms" for hydrocarbon exploration and production, becoming "a leading supplier of natural gas to the Mediterranean basin" in the 1990s and 2000s (Bahgat 2009). Some 29 international oil and gas companies were operating

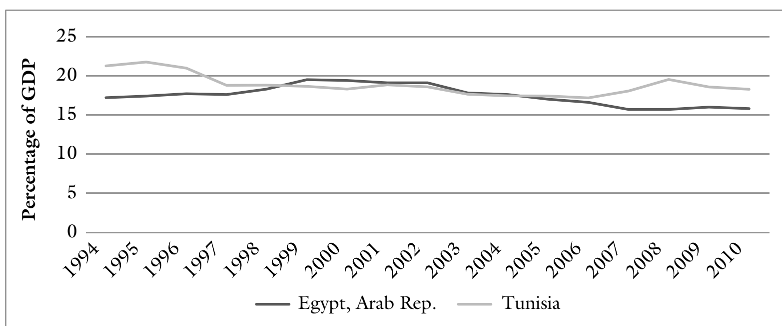

Figure 2.8 Manufacturing Value Added % GDP, Egypt & Tunisia, 1994–2010
Source: World Development Indicators, accessed 8/26/14.

in Egypt in 2008, focused on upstream exploration and production of oil and gas, transported via the Suez Canal, the SUMED pipeline, and the natural gas grid, to downstream activities like oil refining and gas liquefaction, as well as distribution to both the domestic and export markets (Fattouh and Darbouche 2010: 1119–1121, 1124–1125). As shown in Figures 2.9a and 2.9b, fuel exports averaged about 10 percent of Tunisia's merchandise exports from 1994 to 2010, and 40 percent of Egypt's (rising to more than half from 2005 to 2007). This process continued through the crisis years. European investors accounted for 70 to 90 percent of FDI to Tunisia in from 2008 to 2010, with energy absorbing 54 to 62 percent of total FDI. The hydrocarbon sector in Egypt absorbed from 27 to 66 percent of FDI over the 2006 to 2010 years. Among non-Arab sources of FDI, 59 percent came from Europe,

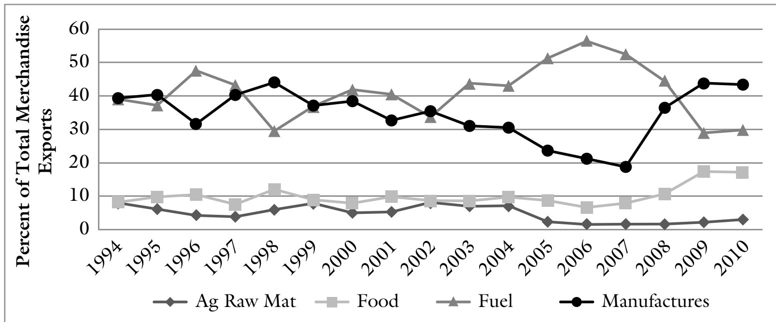

Figure 2.9a Shares Merchandise Exports, Egypt, 1994–2010
Source: World Development Indicators, accessed 8/26/14.

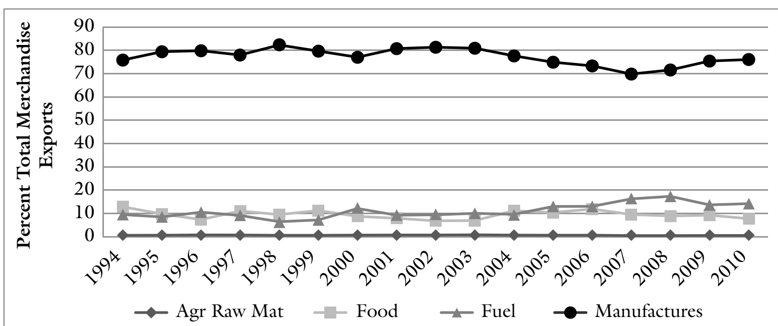

Figure 2.9b Shares Merchandise Exports, Tunisia, 1994–2010
Source: World Development Indicators, accessed 8/26/14.

with the UK alone supplying 38 percentage points, and the United States another 23 percent (Dhaman 2011b).

As indicated in Figures 2.10a and 2.10b, Egypt and Tunisia showed significant growth in exports to the world overall and to Europe in particular from 1995 to 2006, following the establishment of the Euro-Mediterranean Partnership (EMP) and joining the World Trade

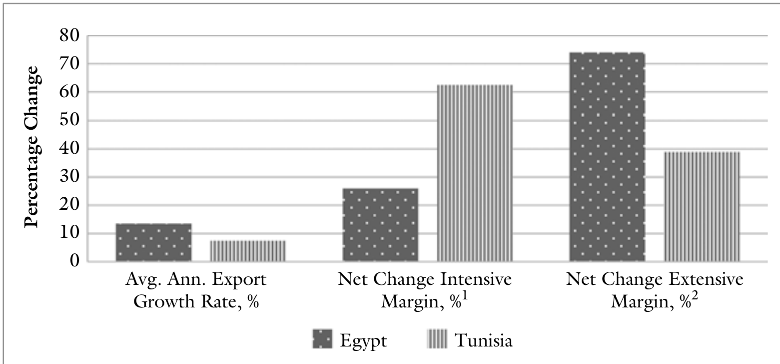

Figure 2.10a Exports to World, Egypt & Tunisia, 1995–2006

Note: 1. Change in intensive margin is of increase or decrease of existing products to existing markets. 2. Change in extensive margin is increase or decrease of new or existing products to new markets.
Source: Extracts from calculations by Brenton and Walkenhorst 2010, Tables 1 and 3, based on UN Comtrade data.

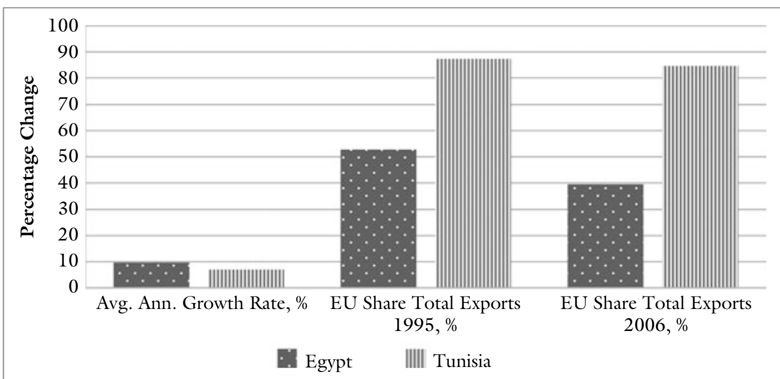

Figure 2.10b Exports to EU, Egypt & Tunisia, 1995–2006

Source: Extracts from calculations by Brenton and Walkenhorst 2010, Table 2, based on UN Contrade data.

Organization (WTO). However, their share of world and EU exports remained very small, as aggregate international trade had grown rapidly in that era. Their penetration of overseas markets in which their exports were competitive improved slightly, with Egypt's index rising from 6.56 percent in 1995 to 11.3 percent in 2006, and Tunisia's rising from 4.42 percent to 7.72 percent, in contrast to Turkey, for example, which went from 13.53 percent to 27.07 percent in the same time period. Egypt and Tunisia were also weaker than Turkey in penetrating their own neighboring markets in the southern and eastern Mediterranean (Brenton and Walkenhorst 2010: 582–583, Tables 4 and 5).

A study of trends over the period from 1998 to 2007 found that the EMP had indeed increased both FDI to and trade with Egypt but had had little impact on the structure of production or overall level of investment and no impact on employment. The authors concluded that "a dynamic nexus between exports, domestic investment and income growth that would allow Egypt to rapidly narrow the income gap with its developed EMP partners thus remains to be established" (Saleh and Abouelkheir 2013). A study of the impact of the EMP on Tunisia for the 1975–2009 period found that both FDI and trade openness had helped promote growth, but that the distribution of benefits depended on the quality of human capital and financial development, in the case of FDI, and on the level of diversification and sophistication of exports, in the case of trade (Hassan and Anis 2012). A second study of Tunisia for the 1984–2011 period found that growth and openness increased inequality in income distribution, albeit mitigated by human capital and financial development, but that higher inequality then became a drag on further growth (Wahiba and Weriemmi 2014).

Where positive impacts were found from the Euro-Mediterranean Partnership (EMP) on the exports of Egypt and Tunisia from 1995 to 2008, including "sophisticated manufacturing products . . . [such as] machinery and transport equipment," they were attributed to Europe's having changed the "rules of origin" regulation to "have allowed the integration of better quality/less expensive intermediate goods [from Europe] in production in North African countries, consequently enhancing the demand for these goods in European markets" (Bernassi et al. 2011: 256). Meanwhile, Tunisia had become stunningly dependent on the EU, which accounted for 73 percent of FDI, 76

percent of exports, 83 percent of tourism revenues, and 90 percent of remittances in 2008 (Achy 2010: 11).

The IFIs attributed the slow growth of jobs to the need for even more neoliberal "reforms," more liberalization of labor markets, more trade, more exports, and more FDI. However, it was the dearth of domestic investment and dependence on exports and FDI that transmitted the West's economic crisis to Egypt and Tunisia from 2008 to 2010, exacerbating the problems of uneven regional development, poverty, inequality, and precarious employment that were the heritage of the neoliberal regime.

Uneven Development: The "Two Egypts" and the "Two Tunisias"

The problems of uneven development accompanying neoliberal programs were officially recognized when the UNDP inaugurated its annual Human Development Report in 1990, as a complement, if not a competitor, to the IFIs' publications. The approach was based on "growing evidence that did not support . . . the 'trickle down' power of market forces to spread economic benefits and end poverty" and the "human costs of Structural Adjustment Programmes."[12] The UNDP's Arab Human Development Reports, inaugurated in 2002,[13] addressed "development challenges for the Arab region," including a volume published after the 2008 crisis and just before the uprisings. These "challenges" included the quality of institutions and governance, development investment and investment in human capital, employment and unemployment, income and wealth inequality, poverty, and the impact of external trade and financial liberalization (UNDP 2009).

As a former head of the Arab Planning Institute put it at an international development conference in Cairo in 2003, globalization may lead to growth without development, so "policymakers need to forge a domestic growth strategy, relying on domestic investors and domestic institutions" to resolve conflicts arising from increased integration with the world economy (Ali 2005: 60). As the 2000s wore on, independent researchers increasingly found that neoliberal stars Egypt and Tunisia did not have a coherent "domestic growth strategy" and that inequitable dispersion of the benefits and costs of growth were

leading to new developmental dilemmas. The following examples of that research weave the story of the underside of neoliberalism.

The Built Environment in Egypt

With 80 percent of Egypt's population living in cities—in the mid-2000s, about 13 million in Cairo alone—there was growing scarcity of affordable housing and urban services. Because the reformed, liberalized state was no longer supplying adequate infrastructure or building public housing, the weakly regulated residential real estate market bifurcated into two sectors: luxury developments (with a surplus of 10.5 million units held mainly as investments) versus informal construction of three- or four-story apartment buildings lacking in sanitary facilities and sound foundations (Denis 2008: 32–35). One catastrophic result was the collapse of a cliff at the edge of the Muqattam Hills district that buried many homes and their occupants in September 2008.

A critique of the Cairo 2050 urban development plan, adopted by the Mubarak regime with the support of international capital and the enthusiastic endorsement of Egyptian real estate moguls, argued that allegedly "modern" cities like London, Singapore, and Dubai were unrealistic and highly damaging models for replacing Cairo's densely populated and largely informal residential areas. While enriching the already-privileged developers, the plan would displace inhabitants and destroy neighborhoods that had developed organically to serve the interwoven threads of residence, work, education, transportation, and community that make life viable for poor and lower middle-class citizens. Citizens resisted fiercely and demanded that government instead provide much-needed services to these existing communities and construct affordable housing with full services for new communities in now underutilized desert parcels, as was done with proven success for Ismailia starting in the 1970s (Tarbush 2012).

A review of three decades of World Bank development projects in both urban and rural areas of Egypt found that little had changed in the way that these communities functioned. While the Bank had designated over 80 percent of its $3.9 billion portfolio for built-environment projects as of 2010, including affordable housing, electricity generation, sanitation, solid waste management, household natural gas

connections, and transportation, the primary beneficiaries were private companies and wealthier individuals, while poorer communities benefited little. In one infamous example, the traditional self-organized private-sector *zabbaleen* system of solid waste collection and management for Cairo, Alexandria, and Giza was replaced in the late 1990s with long-term contracts awarded to multinational firms. The firms added collection fees to residents' electricity bills to enforce timely payment, but they provided services that most residents found much less satisfactory than the old system (Bank Information Center 2013).

The "false image of a stable, prosperous and progressive Egypt propagated by the state" and in World Bank reports was set in sharp contrast to surveys of ordinary people and direct interviews conducted in two poor communities, the Cairo slum of Manshiet Nasser and rural villages in the Upper Egyptian governorate of Menia. Based on fieldwork conducted from 2006 to 2008, the researcher documented the ground-level experience of local inhabitants with inadequate education (e.g., illiteracy of up to 30 percent and a falling school enrollment ratio), failing healthcare provision, growing unemployment and poverty, and disillusionment with an incompetent and disengaged state bureaucracy, corruption, and electoral fraud (Ibrahim 2011).

Location of Investment and Public Services in Tunisia

Industrial employment grew fastest in Tunisia from 2000 to 2005 in those coastal regions that already had a competitive environment, a diversity of economic activities, modern public infrastructure and social services, and an urban culture with higher levels of human development. Foreign capital preferred to locate in these regions, namely around Tunis, Sousse, Monastir, and Sfax, where they could specialize efficiently in products to be sent back to their home countries. Thus did FDI entrench regional developmental disparities, and while government programs had made some difference in vocational training, infrastructure investment, and fiscal incentives in other regions, it was not enough to correct the imbalance with the coastal regions (Karray and Driss 2009; Kriaa et al. 2011). Unemployment in urban and coastal regions was about 7 percent in 2008, but it was 30 percent in Sidi Bouzid, home of citizen Mohammed Bouazizi, whose suicide set off the uprising.

As one journalist summed it up, investment in infrastructure had been concentrated in the coastal and Sahel regions from the time of French colonialism. Bourguiba and Ben Ali added tourism and manufacturing and devoted 65 percent of public spending to these regions. In consequence, public services, such as road building and maintenance, trash collection, and access to Internet and mobile phone services were all less available in the hinterland. The interior governorates had twice the national rates of illiteracy and unemployment, and half as many medical facilities as the coast, requiring the residents of Sidi Bouzid, for example, to travel 140 kilometers to Sfax for medical treatment (Joyce 2013).

Gafsa, a phosphate mining district in the south where the enterprise had been privatized and investment languished, had an unemployment rate of 40 percent in 2008, with one-fourth of families in poverty (Usher 2011). This was the region where labor strikes took place in 2008, garnering wide and militant support from other labor organizations, including middle-class professionals in education and healthcare, and in other regions. The actions went on for months and were brutally suppressed by the government, but they galvanized the movement that would feed into the uprising of 2010–2011.

Maternal Healthcare

Both Tunisia and Egypt had put resources into improving the health of their populations over the 1980–2010 period, as evidenced by national-level data on increases in the human development index (HDI) overall and health indicators in particular. Egypt's HDI value rose from 0.452 in 1980 to 0.644 in 2010, and Tunisia's rose from 0.45 to 0.698. Egypt's life expectancy at birth (LEB) rose from 62.1 years to 73.0 over the same period, while Tunisia's rose from 62.1 to 74.3 (UNDP 2011a). These national rates, however, obscured significant disparities among regions and between classes in access to health services, especially for women and children.

In Egypt in 2008, a pregnant rural woman was about half as likely as an urban woman to receive prenatal care or to have an assisted delivery, and she was more than three times as likely to give birth at home. In addition, the degree of such deficits was clearly and negatively correlated to socio-economic status. In Tunisia, access to assisted

deliveries for pregnant women improved significantly in all regions over the 1994–2006 period, but greater Tunis and the northeast and center-east regions showed the biggest change. By 2006 less than 1 percent of deliveries were unassisted in Tunis, down from 11 percent in 1994, while they were still 29 and 22 percent, respectively, in the least-favored regions of Kasserine and Sidi Bouzid (Boutayeb and Helmert 2011: 6–7).

Inappropriate and Ineffective Policy toward Agriculture

In the 1990s and 2000s, neither overall economic growth nor agricultural sector growth alone reduced poverty in the Arab World (Ali 2005; Kheir-el-Din and El-Laithy 2006), as most of the benefits went to wealthier, land-endowed households. The majority of low-income households in rural Egypt and Tunisia had little access to land and earned most of their money income from wage labor and nonagricultural activities. Furthermore, the share of public expenditure on agriculture had declined from 2000 to 2007, decreasing by 2.5 percent per year in Tunisia and 6.1 percent in Egypt, to just 1.5 percent of total public spending in Tunisia and 0.8 percent in Egypt in 2007 (Breisinger et al. 2012: 20–24). What was missing in Egypt in the mid-2000s to correct this imbalance, beyond increased investment and extension services to agriculture, was to "build assets for the poor and support demand for these assets," to improve provision and targeting of social services and education, to raise agricultural producer prices and the wages of unskilled workers, and to provide transfers to poor families to "reduce their risk" (Kheir-el-Din and Al-Laithy 2006: 23–28).

Research on agriculture in Tunisia in the 2000s, even when the researchers were sympathetic to the potential of liberalization to improve rural livelihoods, found negative impacts. The World Bank's program to reform and liberalize agriculture exacerbated existing inequalities, by increasing concentration of land ownership in rich farmers' hands, privatizing cooperatives under control of rich farmers, and promoting agriculture for export, even though the EU did not liberalize its imports of agricultural goods (Gana 2012; World Bank 2013). One analyst projected that Tunisian agricultural exporters would benefit from increased trade with Europe when Europe reduced its domestic agricultural support policies, but poorer agricultural

households in Tunisia would be hurt because of low competitiveness in international markets and national policies that depressed producer prices (Chemingui 2011). As of 2005, agriculture in Tunisia accounted for 13 percent of GDP and 16 percent of the labor force, and it had generated 25 percent of new jobs from 1997 to 2001, but it was given short shrift in the national Five-Year Plan for 2007–2016, with little attention to its needs for water, energy, and extension and financial services (Chebbi 2010).

Multidimensional Poverty

Poverty, in both income and human development terms and in its regional variations, was a subject of intensive study and debate in Egypt from the 1980s to 2000, including issues of access to productive resources, education, healthcare, and decent employment (Ikram 2006). As per capita GDP rose by 2.6 percent per year from 1999/2000 to 2004/05, per capita expenditures fell by 1.4 percent, a pattern that may have been linked to unfavorable shifts in income distribution, insufficient mobility from low value-added jobs (e.g., in agriculture) to higher value-added jobs (e.g., in manufacturing), and low sectoral productivity growth (Kheir-El-Din and El-Laithy 2006: 8–9, 16, 27–28). However, what really shocked researchers looking at trends in the 2000s was that poverty rose even though growth accelerated and other macro indicators were positive, and it worsened in Upper Egypt in general and among the rural agricultural population in particular. The proportion of the population below the national poverty line rose from 16.7 percent in 2000 to 19.6 percent in 2005 to 21.6 percent in 2009.[14] The growth of that population was accompanied by a large vulnerable population just above the poverty line that would be quickly and negatively affected by any decrease in growth, rise in unemployment, or increase in the prices of necessities.

Other factors affecting the rise in poverty in Egypt in the 2000s were ineffective targeting of aid to low-income groups and faulty calculations of the poverty line, and thus of who was eligible for assistance. Based on direct fieldwork in seven poor governorates in 2009 in both Upper and Lower Egypt, including some urban regions, one researcher found, first, that the food subsidy program was “fairly inefficient” in targeting the lower-income groups, especially in rural areas,

and second, that the social assistance program was not adequate to cover the minimum necessary basket of commodities for the lowest-income groups. Furthermore, neither program was well targeted on the governorate level (Korayem 2013). Another project based on direct fieldwork in Cairo indicated that the poverty line was under-estimated in urban areas, yielding artificially lower official rates than rural areas, because the actual costs of necessities faced by the majority of the urban population that lived in informal neighborhoods were significantly higher than the prices included in the consumption package that defined the national poverty line (Sabry 2010).

Late in the game, the World Bank began to recognize the problem of chronic poverty in Egypt. Before the uprising, a bank study acknowledged the limited accomplishments of the anti-poverty Social Development Fund that it had introduced in Egypt in 1991 along with the Economic Reform and Structural Adjustment Program, or ERSAP (Abou-Ali et al. 2009). In the immediate aftermath of the uprising, Bank researchers found "persistent internal poverty dynamics," that "31 million (around 40%) were poor or near poor" in 2008/2009, and that "between 2004/2005 and 2008/2009, extreme poverty and absolute poverty actually increased" (World Bank 2011).

Standard international measures of poverty, even when broken down by urban/rural or regional categories, failed to provide an accurate picture where national-level data were unreliable or misrepresented and did not reflect inequitable access to social services or vulnerability to shocks like unemployment and food price inflation.[15] World Bank-published data tended to repeat national poverty rate reports uncritically; for example, a 2005 publication about Tunisia's "successful socioeconomic development" stated in its executive summary,

> Rapid economic growth made possible a remarkable improvement in social indicators and a decline in the poverty rate from 40 percent in 1970 to 4 percent in 2000; the remaining poverty is predominately rural. But if the vulnerable population just above the poverty line is included, the percentage of the poor would increase by another 6 percentage points to over 10 percent. Addressing vulnerability and rural poverty remains a priority. (Hassan 2005: 1–2)

When World Development Indicators were adjusted after the uprising to take account of misrepresentation by the Ben Ali regime, the

poverty headcount ratio at the national poverty line was revised to 32.4 percent in 2000, 23.3 percent in 2005, and 15.5 percent in 2010, not including the vulnerable population just above the poverty line.[16] Tunisia's national poverty rate still seemed to have fallen over the decade, but the actual rate was much higher in 2010 than the original figure cited for the year 2000, and the "vulnerability and rural poverty" problems had not been solved by relatively high overall growth or public policy in the 2000s.

The correlation between regional underdevelopment and poverty in Tunisia was clear by 2010, before manipulation of poverty lines and rates was exposed. In 2005, the region of Greater Tunis and other more privileged regions were recorded as having poverty rates of less than 2 percent, while Kasserine, Sidi Bouzid, and Kairouan were given rates of just under 12 percent. After the recalculations of 2011, the relative rankings of regions changed only slightly, with Greater Tunis and other coastal regions estimated at rates of less than 10 percent and Kasserine, Sidi Bouzid, and Kairouan stunningly high at over 32 percent (Béchir 2011: 6; Béchir and Sghaier 2013: 7).

In parallel, the reconceptualization of "poverty" as a complex, multidimensional problem beyond just money income was part of the UNDP-led project to meet the Millennium Development Goals (MDGs). This approach helped to explain the wide variance in rates among regions and the persistence of poverty and "vulnerability" of the "near poor" in the face of overall economic growth (for Tunisia, Hamdene and Benhassen 2012; for Egypt, Berenger 2010). For example, a supplementary indicator of poverty is child malnutrition, which reflects many nonmonetary variables as well as money income, such as access to healthcare, sanitation, and other social services. Stunted growth in children less than five years old (as measured by height relative to age) was 9 percent in Tunisia as a whole in 2006, but it was 12.7 percent in the rural areas, and in Egypt as a whole it was 30.7 percent in 2008 and 31.7 percent in the rural areas. The good news was that stunting had decreased in both countries from the late 1990s, at a faster rate in Tunisia than in Egypt and at a faster rate in the rural areas than in the urban. However, these declines were much slower than growth in either per capita GDP or per capita value-added in agriculture, thus exacerbating inequality (Breisinger at al. 2012: 15–18).

Multidimensional Inequality

In the 2000s, researchers tried to address the questions of a possible increase in inequality in the Arab region, how effectively to capture and interpret the relevant data, and how to address the issue with appropriate public policy. Consumption expenditure was considered to be a more reliable indicator of the standard of living than income, because it was easier to measure from household survey data and it avoided the problem that in most Middle East countries, upper-level incomes were difficult to gauge. In general, researchers agreed that the Arab region had had a moderate and stable degree of consumption inequality compared to other regions, with Egypt toward the lower end and Tunisia toward the upper end of the Arab range, due to the redistribution effects of public and private institutions (Ali 2009). However, the quality, accessibility, and comparability of available data were questionable, and research on the impact of liberalization and privatization was quite limited and inconclusive (Bibi and Nabli 2009). Figures 2.11a and 2.11b, from World Bank data, indicate that there was even a decline in consumption inequality in the 2000s.

The UNDP offered two other ways of examining inequality. It pointed to the "large and increasing difference between household expenditure reported by surveys and national accounts." The ratio of the former to the latter in the 1990s was 0.46 for Egypt and 0.71 for Tunisia. In the 2000s, the ratios had fallen to 0.39 for Egypt and 0.66 for Tunisia, apparently indicating that household "consumption surveys were missing the big spenders" (UNDP 2011b: 26–27. Another approach was to adjust for inequality in the various components that make up the human development index, yielding an "Inequality-Adjusted HDI" (the IHDI). For Egypt, the classically measured HDI value for 2010 was 0.644, but the IHDI was 0.489, with the biggest component of the 24 percent loss coming from inequality in education. Tunisia's HDI value in 2010 was 0.698, while its IHDI was 0.523, with the largest component of the 25 percent loss coming again from educational inequality (UNDP 2011a).

Popular perception of rising inequality was an important contributor to the uprisings, fed perhaps by more visible factors like growing regional disparities, chronic poverty, rising unemployment and informal work, rising prices for food, inequitable access to education and healthcare, and growing awareness of these social disparities through electronic

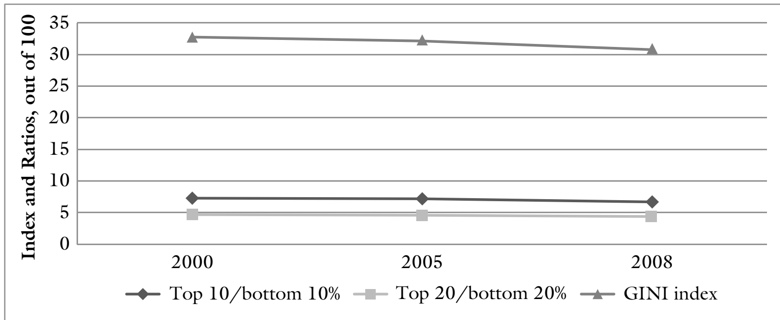

Figure 2.11a Egypt Income Distribution, 2000–2008 (measured by consumption spending)
Source: World Development Indicators, accessed 8/26/2014.

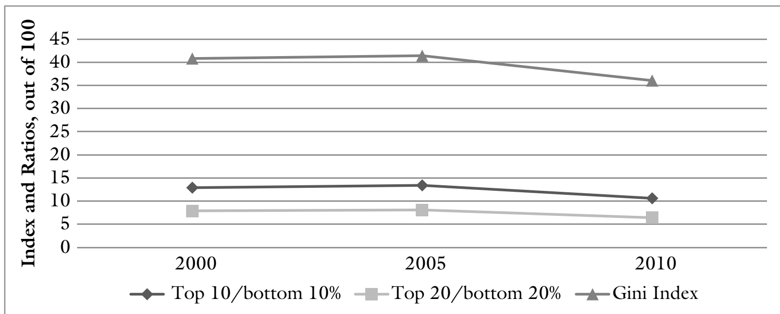

Figure 2.11b Tunisia Income Distribution, 2000–2010 (measured by consumption spending)
Source: World Development Indicators, accessed 8/26/2014.

media. In Egypt in 2010, the general literacy rate was just over 71 percent, with males at 83 percent and females at only 59 percent, but there were more than twenty million Internet users (who must be literate), ranking the country twenty-first in the world, and 55 million cell phone users, which was nineteenth in the world (Reske 2011). Despite Tunisia's vaunted reputation for having surged ahead in education, including of girls, in the Arab World, the big changes in expected years of schooling were achieved in the 1980s with a total addition of 2.2 years, and the 1990s with a total addition of 2.9 years, but slowed in the 2000s to add just 1.3 years. As of 2010, the mean years of schooling of adults was 6.5, barely above the elementary level (UNDP 2011a), even as the college-educated population grew more visible and more troubled.

Other dimensions of inequality were examined by micro-level studies, such as the inequities of life in the informal and poor neighborhoods of Cairo described above (Tarbush 2012; Sabry 2010). A survey of street vendors, probably the most visible sector of the informal economy, in five governorates in Egypt in 2009 found that 35 percent were illiterate and 30 percent were just literate or had only primary education, that 79 percent had daily sales of 200 LE (about $33.00) or less, and that they worked under constant threat of confiscation or intimidation or demands for bribes from the police and other officials (FEDA 2009). A study of bank data in 2010 examined the distribution of credit to various levels and types of business and the impact that had had on growth, inequality, and youth employment. On one extreme, lending to politically connected businesses was shown to contribute nothing to economic growth but to increase both inequality and youth unemployment. On the other extreme, lending to SMEs promoted growth and reduced both inequality and youth unemployment, with trade-association-linked businesses and state-owned enterprises falling somewhere in the middle. The sectors that showed the greatest potential for growth and employment were industry, agriculture, tourism, and construction, but these had all received disproportionately small shares of bank credit (Abdel-Baki 2012).

Shifting Wage Structures

A study of the relationship between earnings inequality from 1988 to 2006 in Egypt and inequality of opportunity, meaning variables such as parents' location, occupation, and education, found "levels of inequality of opportunity were fairly stable while earnings differentials widened markedly," meaning that other factors must have become more important in increasing wage differentials. The author suggested that these other factors might be the "transition to a more market-oriented economy" and the slower "expansion of intermediate and higher education" after 1988 (Hassine 2011). Another study of wage differentials in Egypt found that in 2006, 75 percent of manufacturing jobs were unskilled, but that disparities in wages could be explained by location (rural versus urban) and gender (women were 13 percent of the manufacturing labor force) as well as by skill level. The author argued that trade liberalization could benefit all manufacturing workers in

industries in which Egypt had a comparative advantage, but that these benefits would be realized only with innovation to raise productivity and competitiveness to international standards (Zaki 2011).

Data gathered by Hashem (2010) for Egypt indicated that real wage growth in the public sector appeared to be significantly higher and more stable than in the private sector over the whole period from 1995 to 2007. However, the average rate of increase in the public sector fell about in half in the 2000s as compared to the 1990s, and the rate of increase in the private sector, which was at least positive on average in the 1990s (albeit volatile), was negative on average in the 2000s. This provides fodder for the IFIs' argument that the public sector is overly protective of its workers and that the labor market needs to be further liberalized. However, the fact that real wage growth in the private sector was a net negative over the 2000 to 2007 period implies that forcing more workers into the private sector would put even more downward pressure on wages. Another study on wage trends and differentials in Egypt over the neoliberal era found that real wages fell from 1988 to 1998 and the wage scale became more compressed, that real wages rose from 1998 to 2006 but the wage scale became more unequal, and that real wages fell again from 2006 to 2009 even as the wage scale continued to become more unequal (Said 2012). ILO data confirm that average real wages economy-wide grew by a total of 16 percent from 1999 to 2007, but also that productivity rose by 20 percent in the same years,[17] which implies that the benefits of growth were going disproportionately to employers.

Analyses of the labor market in Tunisia during economic liberalization addressed similar issues. A study of the 1999 nationwide survey of households affirmed that the market was segmented into privileged ("protégé") and nonprivileged sectors. In 1999, 82 percent of the labor force, and over 96 percent of the female labor force, was still employed in the formal sector. The nonprivileged (informal-sector) workers were more likely to be rural, less educated, less skilled, in temporary or part-time or seasonal employment, and paid by the hour or the day or not at all, but they were also paid significantly less even when all other factors were held equal (Sboui 2006). Another researcher found wage compression in the early liberalization period, from 1972 to 1985, as the real minimum wage rose, but then relative stability in the wage structure from 1985 to 2002, while the real minimum wage

fell back and then stabilized at about 150 percent of its 1972 level. She concludes that trade liberalization, via a reduction in the effective rate of protection, influenced the trend by shifting the composition of demand for different types of labor (Ghazali 2009).

Another study of wage distributional shifts in Tunisia from the 1983–1995 period to the 1995–2009 period (pre- and post-trade liberalization)[18] found that there were wide differences across sectors: the average annual real wage for the economy as a whole was 24 percent greater in the second period as compared to the first, but 97 percent higher in agriculture, 36 percent in non-manufacturing industry, 9 percent in services, and only 4 percent in manufacturing (Ben Salha 2012: 21–29, 36, Table 2), a difference that he attributes to liberalization's shifts in the demand for labor. Another consideration is that, as of the mid-2000s, the social contract was still in place, by which the trade union federation (UGTT), the employers' association, and the government negotiated wages. Agricultural wages had risen more than in other sectors because of that process over the previous decade.[19] Furthermore, the "bargain" decreed that the real minimum wage was to increase annually to match productivity growth, buttressing the whole wage scale and the economy-wide average real wage did increase by a total of 31 percent over the twenty-six years from 1983 to 2009 (Ben Salha 2012: 15–16). However, as shown in Figure 2.6 above, GDP per employed person (productivity) had increased by twice that amount in fewer years, a total of 67 percent, from 1990 to 2009,[20] implying that workers' bargaining power was eroding and the fruits of rising productivity were going mostly to employers, similar to what we saw above for Egypt.

Shifting Occupational Structures

In Egypt, the total formal labor force participation rate increased from 47.2 percent in 1998 to 52.4 percent in 2006. The male rate rose to 78.5 percent, fed by both young males entering the labor force for the first time, many of them trained in technical schools instead of traditional high schools, and a rising retirement age for older male workers as social security coverage shrank and life expectancy rose. Women's labor force participation rate in 2006 was 26.9 percent, drained by attrition of mostly college-educated women from the shrinking public

sector, but fed by growth of jobs in textiles and paid labor in rural areas as family subsistence production decreased. The female share of textile jobs rose from 15 to 30 percent in these years (Assaad 2007: 4–7, 9–11, 39), but the pay was very low, $180 per month for better-paid workers in 2007, as compared to the UN poverty line of $224 for a family of 3.7 persons (Agbarieh-Zahalka 2008: 6–8). The process of privatization had driven the public sector's share of employment down from 39 percent in 1998 to 30 percent in 2006, and the official unemployment rate declined from 11.7 percent to 8.3 percent. Some of that decline was absorbed as employment in the formal private sector rose to 10 percent, while the informal sector absorbed many of the displaced public workers plus 75 percent of new labor market entrants over those eight years, coming to account for 61 percent of total employment in 2006 (Assaad 2007: 1–2, 12–13).

In Tunisia, the total number of jobs increased by 62 percent from 1989 to 2007, with the smallest increase in agriculture (18 percent), the largest increase in services (97 percent), and an increase of 57 percent in industry, but job growth plunged after that. The importance of education in this shifting occupational structure showed that the strategy of so many young people to stay in school, and perhaps get government jobs, was based on positive precedent. On one hand, the proportion of jobs for those workers with no schooling dropped from 33 to 13 percent, and for those with primary education from 39 to 37 percent. On the other hand, the proportion of jobs for those with high school degrees rose from 24 to 36 percent, and for those with university degrees from 5 to 19 percent (Ben Salha 2012: 36). While the government sector had added almost twenty thousand jobs per year from 1998 to 2006 (accounting for about 22 percent of employment),[21] it created fewer than ten thousand per year from 2007 to 2010 (Achy 2011: 9).

Changes in Labor Law

In Tunisia, the bulk of jobs created by liberalization of FDI in enclave manufacturing was for low-skilled and low-paid workers, many of them female. While the reformed labor law of 1996 retained some protections from arbitrary firing for permanent contract workers, requiring advance notification to and authorization by tripartite committees of

employers, workers, and government officials, the new law eased the terms of hiring and allowed employers to expand their use of temporary ("fixed term") contracts. The conversion to temporary contracts was swift and strong. In 2001, 15 percent of the employed labor force held temporary contracts (Ben Jelili and Goaied 2010), but by 2010, more than half of all employees were on temporary contract, and they earned 25 to 40 percent less than their permanent-contract coworkers (Achy 2011: 10–11).

In Egypt, a new labor law in 2003 expanded employers' rights to hire and fire with fewer restrictions, but labor was not allowed to reap the benefits from the other side of the law's "bargain," still denied the right to organize, to strike, and to elect its own independent leaders. Furthermore, privatization of public enterprises reduced the size of the public-enterprise labor force by 50 percent. The consequences were the undermining of working conditions, wages, and job security, along with the growth of the informal sector, as the private sector did not expand employment for workers expelled from public enterprises. The much-heralded fall in the unemployment rate in 2000–2008 was mainly due to growth of the informal sector. These changes were major sources of grievance for organized labor, which mounted many job actions led by local militants.

Unemployment and Other Precarious Relationships to the Labor Market

Figures 2.12a and 2.12b show the pattern of total and youth unemployment in Egypt and Tunisia over the whole of the neoliberal period from 1990 to 2010. While the rates are chronically high as compared to other regions of the world, they were declining from 2005 to 2008 in Egypt and from 1999 to 2008 in Tunisia, reflecting increased demand during the boom years. Of particular concern in the 2000s were rising rates of unemployment among university graduates, even as primary- and secondary-school rates were steady or falling, as shown in Figures 2.13a and 2.13b. Data were not available for Egypt before 2008, but the tertiary-educated share of total unemployment rose from 32 percent in 2008 to 40 percent in 2010. The data for Tunisia go back to 1994, when tertiary-educated unemployment was just 2 percent of the total unemployed, rising to 9 percent in 2004, on

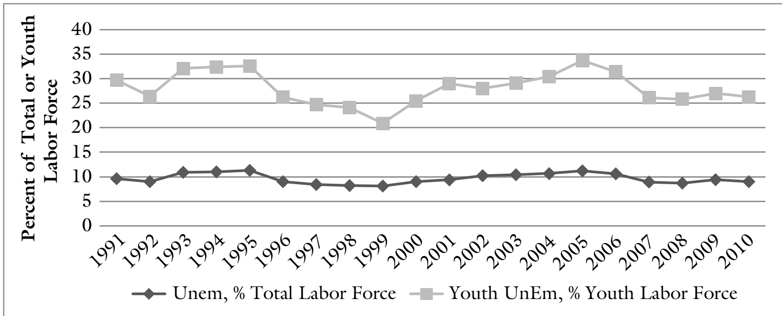

Figure 2.12a Egypt, Unemployment, Total & Youth, 1991–2010
Source: World Development Indicators, accessed 8/26/14.

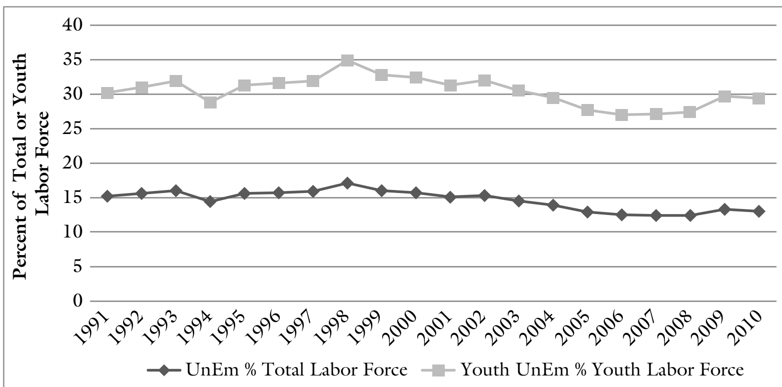

Figure 2.12b Tunisia, Unemployment, Total & Youth, 1991–2010
Source: World Development Indicators, accessed 8/26/14.

up to 26 percent in 2008 and 32 percent in 2010. Despite the fact that the proportion of new jobs created had risen for university graduates (as we saw above), the numbers entering the labor force still outpaced the rate of job creation.

Figure 2.14 shows unemployment rates for Egypt and Tunisia in 2010, both total and when dissected by age and gender. It is clear that youth rates are double the total rates, a pattern that is common around the world but more severe in the Arab region than elsewhere. UNDP/ILO researchers estimated that the employment elasticity of real GDP growth was 0.45 for Egypt and 0.32 for Tunisia over the period from 2000 to 2006 (UNDP 2009: Vol. 1: 33).[22] The rate of sustained GDP

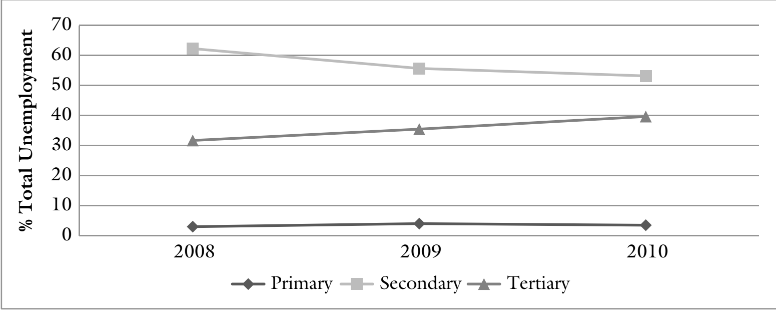

Figure 2.13a Egypt, % Total Unemployed, by Education Level
Source: World Development Indicators, accessed 8/28/14.

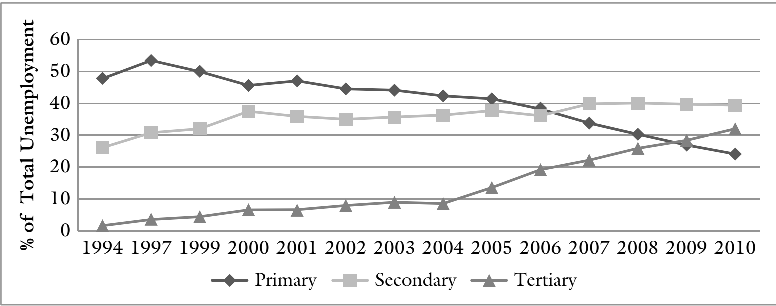

Figure 2.13b Tunisia, % Total Unemployed, by Education Level
Source: World Development Indicators, accessed 8/28/14.

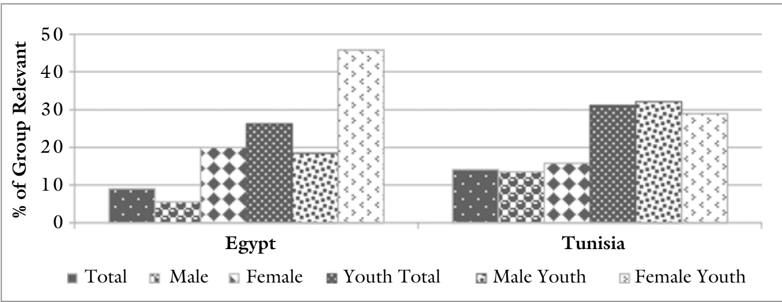

Figure 2.14 Unemployment, Egypt & Tunisia, by Age & Gender, 2010
Source: ILO 2012: 141, Table A11.

growth needed just to keep the unemployment rate from rising would have to increase to 7.1 percent for Egypt and 10 percent for Tunisia from 2010 to 2020, until the pace of entry into the labor market by young people slowed down as the demographic hump was passed. In order to absorb new entrants and bring down unemployment to a "frictional" 3 percent, Egypt would need to create a total of 9.4 million new jobs over ten years, while Tunisia would need to create one million.[23]

The problem of high rates of unemployment in Egypt and Tunisia, and elsewhere in the Arab region, especially among the young and educated, was analyzed extensively in agency reports and by independent economists. Three main themes ran through explanations of this phenomenon. One theme emphasized overly protected workers and inflexible labor markets, a heritage of the state-capitalist era, and the willingness of youth, especially high school and college graduates, to queue for jobs in the still-protected but shrinking public sector in the 1990s and 2000s. A second theme stressed the nature of the educational system and its purported failure to prepare workers for the jobs available in the private sector. IFI-sponsored analyses tended to stress these first two themes, which put the onus of inadequacy on the supply side of the labor market (e.g., World Bank 2004). A third theme also examined the demand side of the labor market and the nature of the growth and investment over the period 1990–2010 (e.g., UNDP 2009; ILO 2012). To the extent that the IFIs addressed the demand side, it was in the form of support for SMEs and the call for more FDI as the main job creators. Other agencies and scholars incorporated programs to support SMEs and attract FDI into larger planning strategies to effect changes in the nature of public as well as private investment to promote the demand for labor directly, including active labor market policies (e.g., Kheir-el-Din and El-Laithy 2006; Kaboub 2006).[24]

Vulnerable Employment

High rates of unemployment in the formal economy were logically related to the phenomena of vulnerable employment, self-employment, and informal employment.[25] The 2009 survey of street vendors in Egypt, described above, illustrated the breadth and depth of

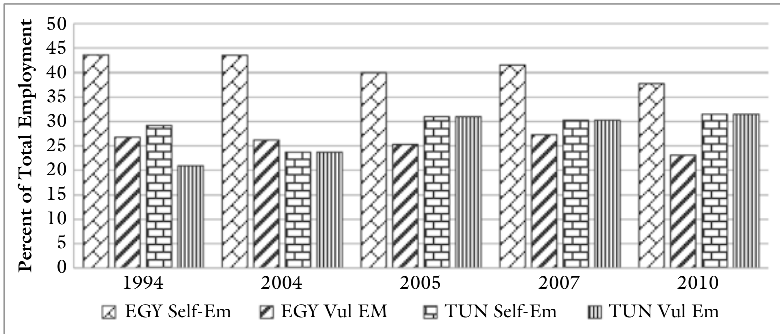

Figure 2.15 Self- and Vulnerable Employment, Egypt & Tunisia, 1994–2010
Source: World Development Indicators, accessed 8/26/14.

this vulnerability. The work of Delavallade, also mentioned above, explained some of the motivation for enterprises, especially the smaller, less-powerful ones, to operate in the "shadow economy." In an analysis of informal economic activity in the MENA region, Egypt and Tunisia were found to have large informal sectors by every measure: respectively, 36 and 39 percent of GDP, 28 and 25 percent self-employed as a proportion of total employment, and 45 and 50 percent of the labor force not contributing to social security (Gatti et al. 2011: 8, Figure 3). Figure 2.15 shows the levels of self-employment and vulnerable employment from 1994 to 2010. Given likely overlap between the two categories, it appears that between one-third and two-thirds of the labor force was not in any form of secure employment.

Migration

According to consular statistics, the stock of Egyptian migrants abroad in 2009 was 6.5 million, about seven-tenths of 1 percent of the population, of whom 74 percent were in other Arab countries. The stock of Tunisians abroad was 1.1 million, about 10.6 percent of the population, of whom 83 percent were in Europe (55 percent in France). The Tunisian emigrant population had grown at the stunning rate of 6.2 percent per year from 2001 to 2009, as compared to a population growth rate of 1.1 percent, and they were increasingly university educated—23 percent of migrants in 2009 as compared to 8.6 percent

in 1999 (Migration Policy Centre 2013). Among Egyptian migrants, 54 percent had at least a high school degree, as compared to 30 percent of non-migrants, and about half had higher-status occupations in the professional, technical, and managerial fields, while fewer than 10 percent were low-skilled manual laborers (Nassar 2008: 16–17, Table 15).

Émigré workers provided benefits to the economy of their home country both by sending remittances to help support their families and when they returned with a greater accumulation of both human capital and investible savings (Nassar 2008: 8–10, 18; Binci 2012). Figures 2.16a and 2.16b show that remittances in dollar terms surged in the 2000s, and that in 2010 they were 5.7 percent of Egypt's GDP

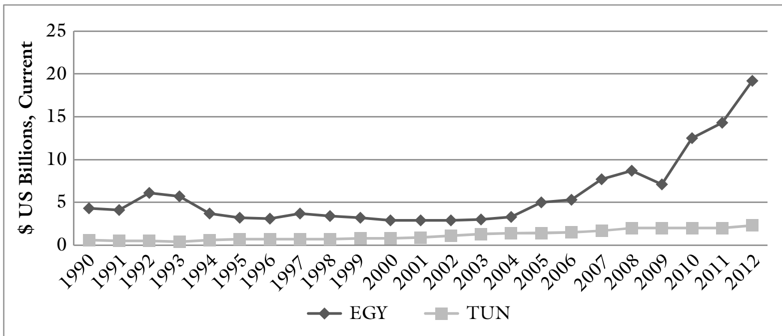

Figure 2.16a Remittances, Egypt & Tunisia, 1990–2012, US$ Billions
Source: World Development Indicators, accessed 8/26/14.

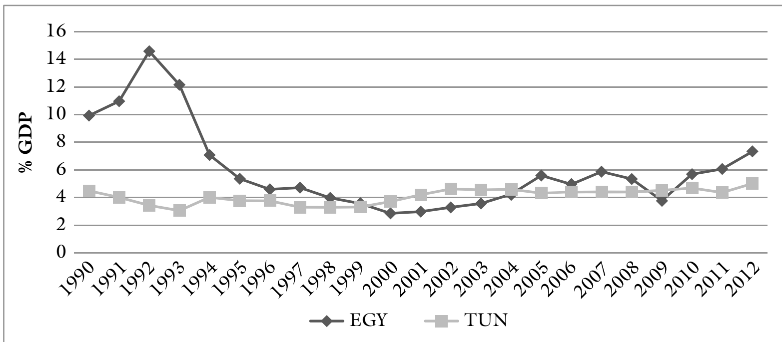

Figure 2.16b Remittances, Egypt & Tunisia, 1990–2012, % GDP
Source: World Development Indicators, accessed 8/26/14.

and 4.7 percent of Tunisia's GDP. However, since the financial crisis of 2008, both the Gulf Arab countries and Europe have strained to reduce immigration from North Africa, and the prolonged crisis in Libya has driven Egyptian and Tunisian workers home from there. This made legal emigration more difficult and seems to have led to increased illegal, and often dangerous, efforts to migrate to Europe anyway (Boubakri 2013), a tragic outcome given the benefits of migration to both host and home countries and the growth of precarious employment at home.

Resistance to Neoliberal Political and Economic Transformation

The elitism of the neoliberal program was reflected not only in the growing power of the capitalist class, uneven development, and inequality, but also in the denial of political and civil rights, the deterioration of labor rights, and the institutionalized and violent repression of dissent. Mounting resentment grew in the decade before the 2008 financial crisis, as middle-class civic groups and the rank and file of the labor movement protested their treatment under the neoliberal arrangements in various forms of resistance.[26] The crisis and recession of 2008–2010 showed clearly that the negative aspects of neoliberal transformation could no longer be denied. That both uprisings essentially began in 2008 with labor actions was no coincidence. The spread of massive textile strikes in Egypt to many other sectors and the growth of nationwide support for the Gafsa mineworkers brought middle-class and working-class movements into parallel streams flowing in the same direction and set the stage for the uprisings.

Educated youth, increasingly faced with unemployment or informal employment and pressure to migrate, were sophisticated about world standards of citizenship and political freedom, organized protests on campus, and linked into political networks through new media. Older middle-class activists, some veterans of banned nationalist or leftist parties, kept resurrecting repressed civil society organizations to raise new challenges to their governments. Electoral fraud led to almost complete elimination of any opposition in parliament. In Egypt in 2010, ballot-box stuffing was caught on video and publicized on YouTube. In the 2000s, Ben Ali's regime sequentially repressed

the pioneering Tunisian League of Human Rights, the Association of Tunisian Judges, and the Union of Tunisian Journalists. In Egypt, demonstrations in support of the second Palestinian intifada in 2000–2001 led to larger demonstrations against the United States-led war in Iraq in 2003, followed by the emergence of the Kifaya movement with its manifesto in 2004 demanding the end of the state of emergency and condemning the regime as the guardian of US interests. In both countries, citizens were outraged by Mubarak's and Ben Ali's intention to turn their rule into family dynasties, the heirs being a son and a son-in-law who were notorious members of the state/business elite.

At the same time, labor unrest burst out in new forms, in particular in response to privatization of state enterprises and "reform of the labor market," a process that deprived workers of their traditional job security without yielding the promised freedom to organize, collectively bargain, and strike. In Egypt most of this resistance was organized by local militants, over the strong objections of the regime-dominated Egyptian Trade Union Federation. Over 1.7 million protestors participated in almost two thousand different strikes, political gatherings, sit-ins, and demonstrations between 2004 and 2008, giving rise to the April 6 movement in 2008, which supported labor's demonstrations and strikes with nationwide Internet communication. Although the protests focused directly on economic issues, like being paid back wages and overdue bonuses, they articulated resistance against the consequences of liberalization and privatization, including the privileges accorded employers in the new labor law, the forced retirement of public sector workers with inadequate pensions, and the handover to foreign capital of core production facilities. This movement established the demand for a national minimum wage adequate to support a family, tackled issues of freedom of speech, assembly, and association, and created a "culture of protest" in Egypt that facilitated the public's acceptance of the anti-regime January 25 movement. However, the national ETUF leadership never wavered in its support of the regime.

In Tunisia, the national trade union federation (UGTT) leadership was also allied with the regime but had a history of autonomy from and conflict with Ben Ali. Union leaders had at times been jailed or exiled for their opposition. In contrast to Egypt, the UGTT had the power to negotiate with the government and employers and periodically raise

the minimum wage. The UGTT leadership did not support the miners' strike in Gafsa in 2008, which went on for months despite violent repression. However, that strike was a prelude to the uprising, because it garnered widespread support from professional unions of teachers and healthcare and postal workers that spread across the country. In December 2010, the self-immolation of Mohamed Bouazizi became focally important because it led to massive general strikes, not yet with UGTT approval, and helped to define the struggle against the regime in political as well as economic terms. By the end of December 2010, it had garnered popular support for the uprising in all major urban areas. In mid-January 2011, a few days before Ben Ali's ousting and in contrast to the ETUF in Egypt, the UGTT leadership threw the organization's weight behind the uprising, which helped to seal its success.

The uprisings and the ouster of Ben Ali and Mubarak were made possible by the coalescence of these two parallel streams representing working-class and middle-class interests. However, there were two critical elements missing in this coalescence. One was an overarching agreement for how to shape new political institutions that would guarantee civil and human rights. The second was a framework for an economic agenda to replace neoliberalism with a more equitable and sustainable development program. Without these, the uprisings likely would be followed by political turmoil and weak economic growth that would make it more difficult to negotiate new institutions to fill in the missing elements and that would leave an economic power vacuum that the IFIs were only too eager to fill.

Notes

1. Similar praise came from the World Bank, again with little or no reference to the political regime. Such studies include *Tunisia: Understanding Successful Socioeconomic Development* (Hassan 2005), *Intègration Mondiale de la Tunisie: Une Nouvelle Gènèration de Rèformes pour Booster la Croissance et l'Emploi* (World Bank 2008), *Doing Business in the Arab World 2009*, which mentions Egypt favorably several times and includes its property registration reform as a case study (World Bank 2008: 47–49), and *Doing Business in Egypt 2008* (World Bank and International Finance Corporation 2007). Similar evaluations and recommendations also came from Europe (for example, Kauffman and Wegner 2007) and from the inter-Arab investment promotion agency (Dhaman 2007).

2. See Pfeifer (2012b) for a discussion of the process and impact of neoliberal reform and privatization in Egypt, and Posusney (2003) for a discussion of privatization and organized labor in Egypt, Tunisia, and other Arab countries.
3. For exact data on the types and degree of privatization in Egypt and Tunisia and other Mediterranean countries prior to the global financial crisis (but not on the capitalists themselves), see Kauffman and Wegner (2007).
4. An example of this tension arose in 2002. In response to IFI pressure to open its markets further to foreign capital and trade and to respect intellectual property rights, Egypt passed a law protecting foreign patent holders, with the exception that it could license local production of generics that were essential to health. After Pfizer Corporation won approval to establish a factory to produce Viagra in Egypt, local manufacturers were able to pressure the Ministry of Health to grant an "exception" for them to produce it too, in the interests of protecting the health of poor people. Pfizer halted construction and withdrew entirely from the Egyptian market (Bird and Cahoy 2008: 225–226).
5. http://www.bbc.co.uk/news/world-africa-12302659.
6. A Gallup poll of one thousand Tunisian adults in 2009–2010 found rising levels of dissatisfaction with deteriorating education, healthcare, and other public services, corruption, and weakening prospects for employment and affordable housing (John Thorne, "Pre-Revolution Tunisians Were Growing Gloomier, Poll Shows," *The National*, June 27, 2011). http://www.thenational.ae/news/world/africa/pre-revolution-tunisians-were-growing-gloomier-poll-shows.
7. For oil exporters, IFF are based on deductions by strategically placed persons from hydrocarbon revenues, while for more diversified economies, IFF are achieved through trade mispricing (exports priced lower than actual and imports priced higher, to hide legitimate profits from taxation) or through underpricing reported imports to obscure smuggling (Kar and Curcio 2011: vii–viii, 6–7).
8. A study published by the GFI in 2010 (*Drivers and Dynamics of Illicit Financial Flows from India: 1948–2008*) "found that macroeconomic conditions as reflected in central government budget deficits and inflation policy did not appear to drive such outflows of [illicit] capital. Instead the GFI study found that while economic reform can be largely credited for driving faster economic growth, growth itself has not been inclusive and income distribution has become more skewed. The resulting proliferation of high net worth individuals drove illicit flows in the absence of an improvement in public and corporate governance. Moreover, another

by-product of reform—namely trade liberalization—spurred an expansion of the traded sector relative to GDP. The resulting trade openness provided more opportunities for related and unrelated parties to misprice trade and shift billions of dollars in illicit capital from the country" (Kar and Curcio 2011: 32).

9. http://www.thirdworldtraveler.com/50Years_Enough/50Years_Enough.html; http://www.thirdworldtraveler.com/50Years_Enough/Dakar_Declaration.html.
10. http://www.jadaliyya.com/pages/index/2979/we-will-not-pay-the-debts-of-tyranny (accessed June 22, 2013); http://humanrightshouse.org/Articles/17846.html (accessed November 10, 2013); http://www.thetunistimes.com/2013/11/campaign-to-cancel-the-odious-debt-of-tunisia-and-egypt-99653/ (accessed November 12, 2013).
11. http://www.fsm2013.org/en.
12. http://hdr.undp.org/en/humandev/origins.
13. http://arabstates.undp.org/content/rbas/en/home/library/huma_development/arab-human-development-report-2003-building-a-knowledge-society.html.
14. World Development Indicators, accessed August 26, 2014.
15. For a positive review of Tunisia's accomplishments under Ben Ali, see Chemingui and Sánchez (2011).
16. The methodology is explained by Béchir and Sghaier (2013: 4–8).
17. ILO Online Indicators, accessed March 15, 2013.
18. The data came from the Tunisian Institute of Competitiveness and Quantitative Studies.
19. http://www.africanmanager.com/site_eng/detail_article.php?art_id=13802.
20. World Development Indicators, accessed September 10, 2014.
21. https://www.imf.org/external/np/vc/2012/061312.html.
22. The employment elasticity of growth is the percentage increase in employment that correlates with a one-percentage-point increase in growth. For Egypt, this is less than one-half of 1 percent, and for Tunisia, about one-third of 1 percent.
23. Egyptian Center for Economic Studies and IMF, Jan 23, 2011.
24. For detailed application of this analysis to Tunisia, see Stampini and Verdier-Choucane (2011) and Haous et al. (2012). For analysis of Egypt, in comparative perspective, see Bilgin and Kilicarslan (2008).
25. The complexity in Egypt is documented and analyzed, with recommendations for ALMPs, by Abdel Mowla (2011).
26. Sources for coverage of these movements over the 2000s and how they coalesced into the uprisings are Ayeb (2011), Beinin (2014, 2011, and

2008), Beinin and Vairel (2011), Langohr (2014), Pfeifer (2012b), Posusney (2007), and McMurray and Ufheil-Sommers (2013), Part I on Tunisia and Part II on Egypt.

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