

RETHINKING INTERNATIONAL DEVELOPMENT SERIES

**DEVELOPMENT  
CHALLENGES  
AND  
SOLUTIONS  
AFTER THE  
ARAB SPRING**

Edited by Ali Kadri



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# Development Challenges and Solutions after the Arab Spring

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# Abbreviations

ACT	Arab Countries in Transition
AFED	Arab Forum for Environment and Development
AHDR	Arab Human Development Report
AMF	Arab Monetary Fund
AW	Arab World
BRICS	Brazil, Russia, India, China and South Africa
BSO	Bank of Syria and Overseas
CBE	Central Bank of Egypt
CBJ	Central Bank of Jordan
CBT	Central Bank of Tunisia
CGD	Commission on Growth and Development
DIFC	Dubai International Financial Centre
ECB	European Central Bank
EGP	Egyptian Pound
EIU	Economist Intelligence Unit
ERF	Economic Research Forum
ESCWA	Economic and Social Commission for Western Asia
ESPA	Ecosystems Services for Poverty Alleviation
EU	European Union
FAO	Food and Agricultural Organization
FDI	Foreign Direct Investment
FDR	Franklin D. Roosevelt
FJP	Freedom and Justice Party
FLN	Front de Libération Nationale
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GINI	Growing Inequalities' Impacts
GoE	Government of Egypt
GWOT	Global War on Terrorism
HDI	Human Development Index
IAIGC	Inter-Arab Investment Guarantee Corporation
ICU	International Clearing Union
IFAD	International Fund for Agricultural Development
IFI	International Financial Institutions

IFPRI	International Food Policy Research Institute
IG	Inclusive Growth
IMF	International Monetary Fund
ISI	Import Substitution Industrialisation
ISIS	Islamic State of Iraq and Syria
ITO	International Trade Organization
JOD	Jordanian Dinar
LCHR	Land Centre for Human Rights
LDC	Least Developed Countries
MALR	Ministry of Agriculture and Land Reclamation (Egypt)
MB	Muslim Brotherhood
MDG	Millennium Development Goals
MEI	Middle East Institute
MENA	Middle East and North Africa
NBER	National Bureau of Economic Research
NDP	Net Domestic Product
NEER	Nominal Effective Exchange Rate
NGO	Non-Governmental Organisations
NIS	New Israeli Shekel
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
oPt	Occupied Palestinian Territory
PA	Palestinian Authority
PCBS	Palestinian Central Bureau of Statistics
PPS	Pro-Poor Economic Development Strategies
QE	Quantitative Easing
QIZ	Qualified Industrial Zone
SCPSS	Syrian Centre for Political and Strategic Studies
SIPRI	Stockholm International Peace Research Institute
TND	Tunisian Dinar
UAB	Union of Arab Banks
UAE	United Arab Emirates
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund

UNIDO	United Nations Industrial Development Organization
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
USAID	United States Agency for International Development
WBGS	West Bank and Gaza Strip
WDI	World Development Indicators
WFA	World Financial Authority
WFP	United Nations World Food Programme
WTO	World Trade Organization

# Introduction: Arab Development via the Channels of War and Oil

*Ali Kadri*

Since the extraordinary events of early 2011, living conditions for the majority of the working population in the Arab World (hereinafter AW) have not changed for the better, and indeed, may have worsened. During the writing of this introduction in early 2015, food prices remain at their highest since 2008, the standards for resource allocation are the same, and several wars ravage the region. Changes in allocation and redistribution arrangements would require a restructuring of social formations. The Muslim Brotherhood (MB), when elected, have not enacted new policies or introduced reforms that will lead to prosperity. Their message is the same as that of their neoliberal predecessors: without undergoing short-term austerity, there will be no prosperity in the long term. The Egyptian military, that captured power by putsch in July 2013 from the MB, lifted subsidies on essentials which the Mubarak regime had never dared do. Only labour-biasing institutions that favour labour underwrite the rights of the working population to their fair share of national income. Unlike the invisible hand of the free market, which never allocates resources efficiently because it is really the hand of capital, the not-so invisible hand of a state that embodies the rights of labour has to be assigned the role of resource allocation. To date, in neither Egypt nor in Tunisia has there been any macro reform indicating a change in the structure of redistribution of wealth. Income inequalities will continue to gape wide open, trade and capital account policies are freer than before and indirect taxation policies have not been replaced by progressive income and capital gains taxation. Apart from the countries that have slid into war, in terms of macroeconomic and social policies, Arab countries behave in the same way as they did before 2011.

There are no signs in the ongoing development discourse that neoliberal social and economic policies are on the way to being

## 2 Introduction

revamped. Structural change requires revolutionary class-restructuring change. The dominant Islamic parties do not remotely resemble a revolutionary vanguard. Their alternative social model relies on changes in the moral code of conduct of dominant Islamic parties within the same, if not freer, market rules. One finds oneself rather forced to argue the banality that, in a freer profit-driven resource-allocation context, in which capital controls the policies of redistribution, divine laws such as thou shalt not steal stoop to the morbidity of indigence. One is also relegated to defending the existence of worldly truth as opposed to divine truth, as if one was Averroes living in the twelfth century and having to argue with obscurants that worldly science exists and has its own laws independent of religion (see *The Philosophy and Theology of Averroes (1160): Tractata translated from the Arabic*, trans. Mohammad Jamil-ur-Rehman, Baroda, 1921). Such is the depth of humanist-cum-socialist ideological defeat. There is not a single mainstream media channel which would not reply to someone advocating more government intervention in the social sphere with the cliché: ‘Has that not been tried in the Soviet Union and failed?’ The effect of football culture on modes of thought conflates continuous social processes with one-time win-lose sports events. Real historical time is fantasised into successive stages, as in teleological phases separated only in the mind from each other, the last of which is pie in the sky. Although spectators leave the stadium at the end of the game, populations do not pack and leave after socio-political transitions. The transfers tapped from poor educational opportunities, worse health, lower life expectancy and less working-class leisure time and so on, which take effect after free market reforms, are transfers of value from the working classes that do not end when the game ends.

As the rules of the game change in a neoliberal context, favouring freer resource flows with the outside world, investors from insecure national contexts seek expanding and safer returns abroad. In the Arab markets, the steadily declining labour share from national income, the tightening of demand and the insecurity plaguing all the countries of the region make it impossible (albeit with the certainty of speaking of averages) for investors to put their moral obligations to God or the poor before the safety of their assets. The free market framework is doubly incapable in insecure countries, integrated via the war and raw material channels with the global economy, to realign the allocation of resources with social ends.

Ideologically, modern Islamist doctrine places obligations before rights. The poor have divinity to blame for their situation. With the



ideological pendulum oscillating between liberalism and Islamism, the Salafist (the most radical of the Islamic groups who intend to impose upon modern society a model drawn from a fanaticised Islamic history that did not exist) would be next in line when the reigning regimes or doctrinally moderate Islamic forces inevitably lose the development test. If in power, ultra-Islamists would enact extreme modes of repression upon the labour process, ordained by select sacred texts, most visible of which is the alienation of women from the political and economic process. Their economic doctrine celebrates mercantilism bereft of industrial development as tantamount to economic progress. Their social perspective is an 'Islamic' version of a libertarian open market in which the role of the state would be limited to the exercise of divinely ordained violence, and practically nothing else, for all else is left to the purview of God. Given this state of affairs, to stay clear of the open market paradigm and use policies in such a way to reallocate lost resources and rights back to ordinary working people would require not only going against the petrified merchant ruling classes, which have already acquired religious legitimacy for their policy of 'let us grab national assets cheap and sell them in dollars', but also against much of the neoliberal ideological frame that grips the mind of the global community.

## 1. Ideological crisis and war

The Arab uprisings occurred in an era of crisis in humanist philosophy and its ideological progeny – social democracy. Since then, there was rarely a mention in development discussions about social policies that would regulate the profit-making dynamics and edge us closer to rights-based development. In any case, by 1990, the neoliberal avalanche had already shattered what little remained of the utopia of egalitarianism. With change being a compromise between the real and the ideal (as the ideal dropped to the level of satisfying voracious profit making), the ceiling for change satisfying social, as opposed to private, ends became relegated to charity work. Were it not for the rigidity of more equitable distribution inherited from the Chinese communist model, income inequality would have recorded even a sharper rise across the globe.

The AW does not fall outside the global map, and rising inequality has come to characterise its economic process under neoliberalism. However, in addition to neoliberal erosion, the AW has teetered on the brink as a result of several defeats in war. The AW is integrated with

the global economic order via the intertwined oil and war channel. The immiseration of its population through war and neoliberal policy weakened the popular hold over national resources, revalorised assets to the terms of the conquering imperialist forces, and resituated the imperialist balance of forces globally. So, the plight of Arab working classes is doubly cumbersome to undertake: it is simultaneously a question of national security and of decent living standards. During World War I, Lenin placed the question of bread and peace over all other issues and blamed the imperialist war, the war between the biggest and richest waged for world domination, the division of the spoils, for the plunder of small and weak nations; this horrible, criminal war has ruined all countries and exhausted all peoples (Lenin 1918). The debilitation of the AW by war and poverty leaves much room for comparison between then and now.

Despite steadily high growth rates between 2002 and 2011 (the onset of the Arab Spring uprising) driven by higher oil prices, a more than commensurate rise in the degree of income maldistribution voided the broader welfare benefits of growth. Whereas, in the short-lived period of state-led development in the 1960s and 1970s, the income of working people grew faster than the incomes of the wealthier class, since 1980, the income of the richer classes has grown at such a rate that it has undercut the incomes of the working poor. The neoliberal and post-Arab Spring policies continue to restructure the income pie in favour of capital. Despite the clarity of evidence behind the unhealthy shifting of income shares – the growth in the income of the working classes became negative – the classes in charge of development failed to act and arrest the damaging process. The problem is primarily social, with economic manifestations. The class *qua* social relationship that guides the misallocation of resources as such would be strengthened by virtue of politically and economically disempowering Arab working classes, along with their states. We need here to recall that the mode of integration of Arab economies with the global economies is not one where the sales manufactured goods tie them together: it is the sale of raw material and degree of wars in a strategic region. These, in turn, require the revocation of two human rights: the right to development and the right to security, including security of person, acquired via sovereign states. These are more than just the salient industrial incapacitation rationale for underdevelopment.

Regimentation of the labour process and a disciplining of the labour force are all too pervasive in any class-structured order. The modern Islamisation of political life through the inculcation of submissiveness

by the infusion of Wahhabi-like doctrine (which does not resemble much past Islamic practice) into working-class consciousness signals an unprecedented degree of alienating labour from real living conditions. Short of physical annihilation, the very idea of limiting jobs for women or restricting women from work altogether, especially when the prospects of full employment are untenable under war and neoliberalism, gets rid of a whole section of the population from the employment problem scene. It is an obscuring made-to-measure ideology against the permanent unemployment woes of the times. It is not only that the standards of living may further decline, with class opposition from below fading or being labelled blasphemy, but the ideological ferment itself is also relegated to mystical precepts, by which reality is to be understood. The already faulty heuristic assumptions of the formal paradigm is on the way to be supplanted by an even faultier myth of modern Islamist faith, which would in turn set back thought as well as real progress.

Ideology, even the type with remote linkages to reality, always bears upon real conditions. The rift between what working people experience in the drudgery of work, unemployment or social degradation, and the practical ideas that are required for them to commandeer the circuit of capital and raise their standards of living, widens. Modern Salafist ideology is an extreme case of mythological interpretations binding working-class imagination. The reality of the class struggle morphs into a battle of good versus evil, fought between saints and gods, with no bearing on the rights of labour, as distinct from ruling versus ruled social classes (Sorel 1908, 1999). As more working people attribute the material causes of their living conditions to heavenly design, a steep disarticulation between being and knowing crowns the ideological victory of capital over labour. It may be difficult to de-alienate the working class from the rule of consumerism and the reign of corporate capital; it is yet more difficult to extricate a working class from its distorted reflection of life processes when deities themselves become capital.

Unemployment has become an intractable problem in the AW. The shift in the orientation of the ruling classes from industry to commerce under the pernicious neoliberal criterion for job creation created more poverty-jobs than it did decent jobs. In the absence of social welfare nets, all must work for a wage, no matter how low wages sink. Unemployment cannot be measured by the number of hours worked in a week, rather, it can be measured by the minimum subsistence income level earned in poverty employment conditions. With more than 50 per cent of the population subsisting at less than two dollars a day, real

unemployment is at around half of the workforce as well. Trade openness and cheaply imported goods have overshadowed the rise of modern Arab industry – save resource extraction or industry involving petrochemical plants. Add to that the retreat of the state from the area of public investment and welfare provision, and huge numbers of working people became idle or turned to low productivity informal sector employment as the industry shrank. Idleness or poverty-employment implicates more than just the underutilisation of the human resource. Understandably, through the growing interdivision of labour, the huge mass of poverty-wage employed pressure wages downwards. However, in a region where war itself is big business, the engagement of the poorer strata in identity-springing conflicts, which are geopolitically funded, is a form of employment that cheapens human lives and, by implication, labour worldwide.

Obscurantist ideology not only assuages the hopelessness of being unemployed or employed at poverty wages, it redeploys labour in a process of value self-destruction via wars or civil wars. The value being destroyed here is the real human being; the potential ability to labour, which is being put to rest alongside the labourer. It is not the counterfactual macro policy that is promising pie in the sky at some future date that social science needs to explain, it is the actuality of wars and the premature deaths of people from famine and disease in Sudan, Libya, Yemen, Somalia, Iraq, Syria and Palestine which require explanation. The huge masses of the hungry, injured and dying in the wars of the Middle East, or as a result of imperialist policy in the guise of neoliberalism, are real people whose ability to labour is a commodity undergoing a process of realisation via self-destruction. Soldiers engaged in wars across the AW earn their keep from war financing provided by imperialist powers vying for control of the region. With the process of social reproduction dependent on war funding, the consciousness of the masses develops in line with the material channels that feed the war effort. In turn, sectional forms of identity and ultra-nationalist policies reinforce the continuum that is war.

## **2. The necessity of alternative social ideology**

There are two defining features of the post-Arab Spring era: (1) the further ebbing of socialist ideology that would unite working people around common goals, putting their class interests above the divisiveness of identity politics and (2) the firmer ideological hold of the merchant class on the state. The latter implies that the private sector

and its undertakings would continue to siphon resources from the social or public sphere and put less back in than what they have taken out. National resources will be pawned at fire-sale prices and transferred abroad via the open capital account policy set-up and the dollar money form. As such, the value circuit would once more buttress the objective grounds for uprisings, poverty, misery and so on, and would also set the social formation on a path of implosion. The recirculation of assets and resources in the economy, which are key to system stability, suffer from yet more seepage. The subjective grounds for social implosion have to do with the ideological or repressive hold of capital upon state and society. The rudimentary point I am making here is that the rule of putting back into society a little more than one takes out of it, is what is missing from the debate on post-Arab Spring development.

Prior to the uprisings, the gap that came to exist between the national economy (the nationally lowly priced or non-moneyed subsistence economy) and the private spheres (the internationally integrated dollarised economy) after 30 years of liberalisation has become unbridgeable. It is not only income levels that have gaped apart, but also wealth profiles. In 2010, a London-based Arab newspaper (*al-Quds*)<sup>1</sup> reported that Egypt's wealth maldistribution had become as acute as it was under King Farooq, with 2 per cent of the population owning 98 per cent of the wealth. By 2011, the hold of the ruling class and its ideology loosened, making way for the revolts. At the time of writing (more than four years after the uprisings), in the countries that have so far managed to escape collapse and war, their social and economic agenda exceeded their predecessors: Al-Sissi, Egypt's president, removed subsidies on certain essential items and fuels in anticipation of a deal with the International Monetary Fund (IMF). The same resource valves that allowed the siphoning of the national product stayed as open as before, if not more so.

In Egypt, the cash flows from the Gulf had to continue to bolster the national currency after the uprising, as outflows depleted central bank reserves; otherwise the national currency would collapse and wreak untold damage on the working class in terms of rising inflation. In spite of this drainage, not a single thought has been given to emulating the successful Malaysian capital controls exercised during the Asian financial crisis of 1997–1998. The policy accent on capital account openness and unconditional free market and private sector-led development remained. These are the same policies that had delivered the disaster prior to the uprising. Egypt is a peculiar case of income inequality stripping the welfare benefits of growth. The country has experienced nearly

5 per cent of real yearly average growth for over three decades, but, by 2009, one out of three children suffered from malnutrition.<sup>2</sup>

In the Arab developing context, because so little has been put back into enhancing the living standards of working people and stabilising society, more private-sector-favouring policies would drain more resources and further predispose the social formation to failure. The sources of growth in Arab disjointed economies (private actors sapping the social wealth) are not to be found in conventional policies of interest rate consolidation or exchange-rate pegs. The interest rate is already administered by central banks to avert the outflow of the national currency, given the high-risk premium at home, and the exchange rate would not promote exports for there is precious little to export other than oil. The movement of the exchange rate is less and less decided by competitiveness or dependence on foreign savings, and more and more by international powers in relation to security stabilisation policies. The AW, and especially the Gulf, are significantly geostrategic and overdetermined by imperialist political positioning. Not only in terms of exchange or interests rates, but across the spectrum of macro variables, there are no choices available within the range of mainstream macroeconomic policies for countries that have been debilitated by wars and neoliberal disarticulation, and that lack the sovereignty to lock in national resources for development. The cycle of value usurpation/immiseration erodes autonomy and facilitates imperialist hegemony over the region.

Reified (as in 'thingified' and having an agency of their own) mainstream macroeconomic analysis sheds little light on the workings of economic transfer mechanisms. Macro prices – wages, interests and exchange rates – are generated by class and power structures, and much social value is snatched away by the forcible dislocation of working people or by conditions of hunger and war. Today, fiscal or financial intermediation between the public and private spheres in the forms of redistributive taxation and recirculation of rents/profits within the national economy are calibrated to reinforce the subjugation of Arab working classes in relation to the strategic objectives of imperialist powers. The tax base of the state still depends on indirect taxation and less on progressive taxation. The private sector, through monetary contraction, increasingly withdraws national currency from circulation, dollarises national assets and redirects them abroad. The conversion of nationally priced assets into dollar assets occurs first as a result of the context of openness and neoliberalism and, secondly, as individual investment choice. The terms of asset transfers and exchange are

decided upon by a balance of forces that is continually shifting against the interests of the working classes.

A priori, war-losing and fragmenting Arab states are subjected to the power of the ruling class alliance, composed of imperialists and their subordinate partner, the local compradorial class. The choices of development policy are made in accordance with the power of imperialism within the ruling circles. Although this case can be generalised to many of the Third World security-weakened states, the AW is different because it is a highly strategic region, and so the disempowerment of the working population and their states revalorise global powers and assets more than the run-of-the-mill trade in commodities. In the main, what is being traded with the region is oil control, war implicating global security and strategic positioning, not so much the lowly priced items such as chewing gum, rice, sugar and their likes. Hegemony over the region entails a strengthening of an imperial power whose drive is not to be found in the political values of democratisation, but in real economic valorisation, devalorisation and, more concretely, the destruction of living value in war. The death of the working Arab: the realisation of military and human commodity in the market of war and his or her premature end as a living entity, is an essential component of the dynamics of global accumulation.

Under neoliberalism, Arab countries have functioned as if they are made up of two societies-cum-economies which coexist over the same territory but exhibit few linkages to each other: one is nationally determined, with an underlining base of the minimal subsistence of working people and the other is extra-national, linked to the global financial centres. To have arrived at this social schism, Arab states not only introduced a process of liberalisation, beginning roughly in 1980, but have also been restructured in such a way that the wealth of society be concentrated in the hands of the ruling class, be valorised in the dollar and be supported with national reserves drawn from the value stripped from the working class. The supply-side argument of neoliberal policy posits that the wealthier class can save more and redeploy higher savings into investment, generating a virtuous circle of development. But the Arab ruling classes are ironically powerful as a result of several national defeats, in which socialist ideology itself was demolished. They rewrote the terms of integration into the global economy in their favour, and reproduced working-class immiseration as a way to weaken national security. The downward spiralling process thus ensures the disarming of the working population, not only in terms of military and ideological disarming, but also in terms of wrecking developmental outcomes that

reconstitute human development. The AW is one of few places where, in several countries, life expectancy, living standards, literacy, professional and cultural capabilities have been frequently reduced.

### **3. Purpose and structure of this effort**

Negating the existing order without constructing a viable policy alternative sets back society, at least in the sense that people believe that positive change is an illusion and so become despondent. The book is concerned with opening up a route to alternative policy debate. The first issue that one confronts in war-stricken or despotic societies is what purpose it would serve to address the details of the interface between macro policy and outcome, as in floating or pegged rates, presumptive income tax or indirect taxation on consumption and so on, before assessing the social forces that void the agency of labour. Of particular relevance is labour's ideological force, which has taken a back seat to all sorts of sectional and sectarian identities that splinter labour as a cohesive political force and an agent of history. Reactionary identity politics, however, are not constant across time. Even cursory knowledge of Arab history would show that identity-based divisions peak and recede with the strength of imperialist hegemony over the region. Identity divisions are not particular to the AW, in view of the crisis of socialist ideology, they are to be found everywhere in this post-Soviet epoch. However, in the AW, the ideological crisis is especially acute as imperialist-sponsored tribal or sectarian wars tear society asunder. Moreover, the Arab Spring's inability to transition into something better reinforced the resignation that springs on the back of failed revolts. But one thing is clear, the development and restructuring of Arab society in favour of labour would undermine US hegemony over the region. As such, the miscarriage of the Arab Spring became the success of capital and, especially, US-led capital.

No effort is being spared to ideologically disarm the Arab working classes. Inculcating the masses with anti-socialist dogma and funding Islamist movements whose civil society organisations operate in the space vacated by state-sponsored welfare services, impair democracy, defined as the realisation of the working class in the state. The most wretched of the Arab working strata find, in the higher purchasing power of the Gulf dollars, reprieve from hunger-like conditions. Volume-wise, the petro-dollars that fuel obscurantism represent a pittance of the massive oil funds. Spatially, one can imagine the millions of needy Arabs for whom the Jihadist-laced dollars manipulate



their consciousness into areas that counter their own interests as a community and generate anti-development.

Where the uprisings have led to the sort of democracies in which the bulk of the population votes to choose their political leaders, the voting context itself, framed in a sectional constitutional setting, produces sectional outcomes. Because of the sectional medium of representation enshrined in the constitution, and the way social product devolves through sectional channels or, de facto, by the power of divisive ideology, people's social bonds to civil society organisations and sects outweigh those to the state. The context of the voting process is engineered to weaken and sever the realisation of citizenry in the state, and to strengthen and place subordinate forms of social organisations, like sects, above the state. Voting-booth democracy, in which the really disenfranchised vote for regional factions, tribes or sects, function as anti-labour mechanisms. Materially, they devolve moneyed value to sections of the working class favoured by their sectarian or tribal power within the state. This is a blatant case of social and legal inequality before the state. The ruling classes in Egypt and Tunisia have not changed in their substance after elections, or in terms of their control over state power and forms of ownership, despite the changing electoral cycle of Islamist-cum-secularist governments.

Not that the idea of splitting the working class with the aim of reducing its labour income share is different from the strategy followed in other countries, but the rhythm of capital's metabolic consumption of man and nature in the AW and Africa differs from the rest of the world. Where "democracy" does not sufficiently undervalue assets and dehumanise labour, which in turn add value to imperialist spoils, war is either engineered or undertaken by US-led imperialism to fully accomplish this. I am not forgetting permanent war is primarily an outcome of crisis of accumulation in the centre. But I am focusing on the relationship between imperialism and value extraction from the periphery, which is also not a direct one. Because of interrelatedness and power relations, invading Iraq, for instance, delivers financial rents through global channels, more so than directly out of the sale of Iraq's oil. Issuing trillions to finance the war and upgrading the US's global technological edge in the international division of labour are the financial and sociological reasons for war, over and above money-value extraction from the periphery. In such an organic order, US-led imperialism as the violent manifestation of capital (the relationship) reinforces itself by continuously reasserting the balance of power in its favour. Formulaically, the aggressiveness of imperialism digs the canals that intermediate the

money-valued flows to empire by the degree of hegemony it exerts over strategic regions. Integration by violence invokes a separate approach to the problem of development in the AW. As will be seen throughout this volume, the common denominator in the policy stance necessitates heavy state involvement in welfare or redistribution in order to bolster working people's living security.

This book seeks to reopen the discussion on the issue of Arab development, namely from a heterodox perspective. It covers various aspects of macro and political economy of the AW. It also includes several case studies on issues of rural development and gender equality. The chapters in this book were presented at the annual Middle East Institute (MEI) conference at the National University of Singapore, in May 2014. The purpose was to question why neoliberalism had entailed losses in democratisation, jobs, health, education and other bread-and-butter issues for the Arab working classes. It also queries how war contributes to the dynamics of Arab underdevelopment without the sort of post-war Marshall Reconstruction plans that re-engage resources. If war is to be seen as a form of primitive accumulation, the AW has undergone dislocation/destruction without the re-engagement of resources. The working classes receive capitalism without the progress of capitalism.

This book is composed of 11 chapters in total. The contributors are experts who have researched and practised development policy in the AW. Part I, on the Arab political economy, includes four chapters. The conference keynote speaker was Professor Samir Amin – his expanded talk about conditions in Egypt, its history, its rise under Nasser and collapse under Sadat and Mubarak, up until the post-uprising sequence (Chapter 1), is chronicled with an eye on the development process. Professor Amin speaks of the continuity of lumpen or hollow development in Egypt under the neoliberal agenda, and sees no difference in the policies of President Al-Sissi from those of Morsi, his predecessor. He stresses that it is in the interest of the US to maintain Egypt as a weakened comprador state. Professor Amin offers an assessment of cronyism and a set of policies derived from the work of activists on the ground that could, in their practicality, enhance the conditions of working people.

Professor Fadle Naqib, in the economics of the Arab Spring, provides a provocative approach questioning the usefulness of the uprising and providing radical macro policies rooted in a Keynesian framework to give a fresh perspective on the debate. In Chapter 3, Professor Samir Makdisi identifies the role of socioeconomic factors in the recent Arab uprisings as part of a wider, interactive array of factors that have been helping to promote political change over three decades. The analysis,

set against the received theoretical context, discusses the background of persistent autocracy in the region and the elements that helped sustain it. On an upbeat note, the chapter concludes with some observations on the prospects for the consolidation of potential transitions to democratic governance. In the final chapter of this section, Professor Alfredo Saad-Filho argues that alternatives to neoliberalism can be developed through prioritising distributional goals in national economic policymaking. The desirable outcomes associated with a democratic development strategy for the Arab region can be achieved in most countries through the combination of rapid, sustainable and employment-intensive growth, and the distribution of income and assets, especially if they are supported by greater regional integration.

Part II addresses two particular macroeconomic policy measures: (1) the impact of monetary and trade policies on distribution and social stability and (2) the relation of trade policy to development. In a deep, though theoretical and empirical, contribution, Dr Yasuhisa Yamamoto probes the issue of monetary regimes and socioeconomic stability. The chapter examines the pegged monetary regimes of selected Arab countries, namely Egypt, Jordan and Tunisia, and assesses to what extent the 'stability' of Arab monetary regimes leads to socioeconomic destabilisation. The chapter concludes with suggestions as to how the composition of a monetary regime could more effectively lead to socioeconomic stability. Dr Shaun Ferguson in his chapter on trade and industrial development posits that a benchmark for understanding economic self-determination for an open economy can be found in the Keynes Plan, following World War II, which sets as its ultimate aim full employment based on the arrangement of a compatible trade regime. Without an international commitment to economic integration by trading blocs and protectionism, full employment is not achievable. Policy-wise, constraints to domestic demand are taken up to provide a useful lens for thinking about humanising domestic economic policies.

In Part III, addressing the agrarian and food security question, Professor Rami Zurayk probes the Arab Spring from an agrarian lens. It is obvious that the neglect of agriculture and rising food insecurity remain prominent characteristics of Arab development. Professor Zurayk focuses on the various dimensions of the resource curse associated with oil rent, including geopolitical inferences, and reviews the food security, land and water status of the region. Professor Zurayk warns that, by approaching the agrarian question using the same set of neoliberal fixes as their predecessors, post-uprising governments will bring their countries one step closer to an agrarian disaster. In Chapter 8, in the case of

Egypt, Professor Ray Bush explores the debate about food security and situates it in the context of recent political turmoil. He discusses recent farmer political organisations and mobilisations, and whether they have impacted on rural viability during a period of intense and continuous political upheaval. Putting farmers at the core of a rural development rather than a misleadingly titled 'food security' debate leads to a broader understanding of class and politics with regard to Egypt's development possibilities.

Part IV includes two case studies of development in the occupied Palestinian West Bank, and conflict-ridden Syria. In addressing the political economy of Palestinian women's labour participation, Professor Samia Al-Botmeh from Birzeit University finds that the economics of occupation forms a formidable impediment to the empowerment of women in society. She constructs a clear and concise picture of female labour force participation trends over time, and identifies the principal supply- and demand-side factors that shaped these trends. Dr Linda Matar and I, from the National University of Singapore, examine investment performance in Syria from a historical angle, tracing its stages of development under different macro regimes. The last batch of neoliberal measures taken by the Syrian government, a decade prior to the uprising, did not inspire productive investment. With the internationalisation of conflict in Syria, it is unlikely that conditions will improve in the near future. Future policies should be envisioned in such a way that lessens the ability of the political powers represented in the present warring factions to gain resources, in order to cement the national front against outside intervention.

In the concluding chapter to this collection, I attempt to shed light on two issues that require separate attention: (1) Arab disintegration and (2) the right to development. In spite of the potential benefits to integrating complementary Arab markets, nearly half of Arab countries are at war with each other or within themselves. War itself is a principal impediment to the realisation of the right to development. The international community, which is signatory to the right to development<sup>3</sup>, is obliged to act, and should curb the imperialist appetite for war and oil in this suffering region.

## Notes

1. See <http://www.alquds.co.uk/> (accessed 21 January 2010).
2. *MRZine* (2009) 'Egypt: Nearly a Third of Children Malnourished', 8 November. Available at <http://mrzine.monthlyreview.org/2009/irin081109.html> (accessed 11 March 2012).

3. Most nations have ratified the International Covenant on Civil and Political Rights (ICCPR), International Covenant on Economic, Social and Cultural Rights (ICESCR), and the Universal Declaration of Human Rights (UDHR). The ICCPR, ICESCR, and UDHR are collectively known as the International Bill of Human Rights.

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**Part I**

**Political Economy**

# 1

## Egypt: Failed Emergence, Conniving Capitalism, Fall of the Muslim Brothers – A Possible Popular Alternative

*Samir Amin*

### 1. Failed emergence of Egypt

Egypt was the first country of those in the periphery of globalised capitalism that tried to emerge. Even at the start of the nineteenth century, well before Japan and China, the Viceroy Mohammed Ali had conceived and undertaken a programme of renovation for Egypt and its near neighbours in the Arab Mashreq (Mashreq means East, in other words, eastern North Africa and the Levant). That vigorous experiment took up two-thirds of the nineteenth century and only belatedly ran out of breath in the 1870s, during the second half of the reign of the Khedive Ismail. The analysis of its failure cannot ignore the violence of the foreign aggression by Great Britain, the foremost power of industrial capitalism during that period. Twice – in the naval campaign of 1840 and then by taking control of the Khedive's finances during the 1870s, and then finally by military occupation in 1882 – Great Britain contributed to blocking the emergence of Egypt. Certainly, the Egyptian project was subject to the limitations of its time, since it manifestly envisaged emergence within and through capitalism, unlike Egypt's second attempt at emergence – which we will discuss from the next paragraph on. That project's own social contradictions, like its underlying political, cultural and ideological presuppositions, were undoubtedly responsible, at least in part, for its failure. The fact remains that, without imperialist aggression, those contradictions would probably have been overcome, as they were in Japan. Beaten, emergent Egypt was forced to undergo nearly 40 years (1880–1920) as a servile periphery,

whose institutions were refashioned in service to that period's model of capitalist/imperialist accumulation. That imposed retrogression damaged not only its productive system, but also the country's political and social institutions. It operated systematically to reinforce all the reactionary and medievalist cultural and ideological conceptions that had been useful for keeping the country in its subordinate position.

The Egyptian nation – its people, its elites – never accepted that position. This stubborn refusal in turn gave rise to a second wave of movements, which unfolded during the next half-century (1919–1967). Indeed, I see that period as a continuous series of struggles and major forward movements. It had a triple objective: democracy, national independence and social progress. These three objectives, however limited and sometimes confused their formulations, were inseparable from the other. In this reading, the chapter (1955–1967) of Nasserist systematisation is nothing but the final chapter of that long series of advancing struggles, which began with the revolution of 1919–1920.

The first moment of that half-century of rising emancipation struggles in Egypt had put its emphasis, with the formation of the Wafd (a nationalist political party) in 1919, on political modernisation through adoption (in 1923) of a bourgeois form of constitutional democracy (limited monarchy) and on the reconquest of independence. The form of democracy envisaged allowed progressive secularisation, if not secularism in the radical sense of that term – whose symbol was the flag linking cross and crescent (a flag that reappeared in the demonstrations of January and February 2011). 'Normal' elections then allowed, without the least problem, not merely for Copts (native Egyptian Christians) to be elected by Muslim majorities, but for those very Copts to hold high positions in the state. The British put their full power, supported actively by a reactionary bloc comprised of the monarchy, the great landlords and the rich peasants, into undoing the democratic progress made by Egypt under Wafdist leadership. In the 1930s, the dictatorship of Sedki Pasha, which abolished the democratic 1923 constitution, clashed with the student movement then spearheading the democratic anti-imperialist struggles. It was not by chance that, to counter this threat, the British Embassy and the Royal Palace actively supported the formation in 1927 of the MB, inspired by 'Islamist' thought in its most backward 'Salafist' version of Wahhabism as formulated by Rachid Reda – the most reactionary version (anti-democratic and against social progress) of the new-born 'political Islam'. The conquest of Ethiopia undertaken by Mussolini, with world war looming, forced London to make some concessions to the democratic forces. In 1936, the Wafd, having learned



its lesson, was allowed to return to power, and a new Anglo-Egyptian treaty was signed. World War II necessarily constituted a sort of parenthesis. But a rising tide of struggles resumed as soon as 21 February 1946, with the formation of the 'worker-student bloc', reinforced in its radicalisation by the entry on stage of the communists and of the working-class movement. Once again, the Egyptian reactionaries, supported by London, responded with violence and, to this end, mobilised the MB behind a second dictatorship by Sedki Pasha – without, however, being able to silence the protest movement. Elections had to be held in 1950 and the Wafd returned to power. Its repudiation of the 1936 Treaty and the inception of guerrilla actions in the Suez Canal Zone were defeated only by setting fire to Cairo (January 1952), an operation in which the MB was heavily involved.

A first coup d'état, in 1952, by the Free Officers (leaders of the 1952 coup), and, above all, a second coup in 1954 by which Nasser took control, was taken by some to crown the continual flow of struggles and by others to put it to an end. Rejecting the view of the Egyptian awakening as advanced above, Nasserism put forth an ideological discourse that wiped out the whole history of the years from 1919 to 1952 in order to push the start of the Egyptian Revolution to July 1952. At that time, many among the communists had denounced this discourse and analysed the coups d'état of 1952 and 1954 as aimed at putting an end to the radicalisation of the democratic movement. They were not wrong, since Nasserism took the shape of an anti-imperialist project only after the Bandung Conference of April 1955. Nasserism then contributed all it had to give: a resolutely anti-imperialist international posture (in association with the pan-Arab and pan-African movements) and some progressive (but not socialist) social reforms. The whole thing was done from above, not only without democracy (the popular masses being denied any right to organise by and for themselves), but even by abolishing any form of political life. This was an invitation to political Islam to fill the vacuum thus created. In only ten short years (1955–1965), the Nasserist project used up its progressive potential. Its exhaustion offered imperialism, henceforward led by the United States, the chance to break the movement by mobilising, to that end, its regional military instrument: Israel. The 1967 defeat of Egypt marked the end of the tide that had flowed for a half-century. Its reflux was initiated by Nasser himself, who chose the path of concessions to the right, the *infitah* or opening (an opening to capitalist globalisation of course), rather than the radicalisation called for by, among others, the student movement (which held the stage briefly in 1970, shortly before and then after the death

of Nasser). His successor, Sadat, intensified and extended the rightward turn and integrated the MB into his new autocratic system. Mubarak continued along the same path.

Under Nasser, Egypt had set up an economic and social system that, though subject to criticism, was at least coherent. Nasser wagered on industrialisation as the way out of the colonial international specialisation which was confining the country to the role of cotton exporter. His system maintained a division of incomes that favoured the expanding middle classes without impoverishing the popular masses. Sadat and Mubarak dismantled the Egyptian productive system, putting in its place a completely incoherent system based exclusively on the profitability of firms, most of which were mere subcontractors for the imperialist monopolies. Supposed high rates of economic growth, much praised for 30 years by the World Bank, were completely meaningless. Egyptian growth was extremely vulnerable. Moreover, such growth was accompanied by an incredible rise in inequality and by unemployment afflicting the majority of the country's youth. This was an explosive situation. It exploded.

During the Bandung and Non-Aligned period (1955–1970), the Arab countries were in the forefront of the struggles of the peoples, the nations and the states of the South for a better future and a less unequal global system. Algeria's Front de Libération Nationale (FLN) and Boumedienne, Nasser's Egypt, the Ba'ath regimes in Iraq and Syria, and the South Yemen Republic, shared common characteristics. These were not democratic regimes according to the Western criteria (they were 'one-party' systems), nor even according to our criteria, which implies positive empowerment of the peoples. They were, nevertheless, legitimate in the eyes of their peoples, for their actual achievements: mass education, health and other public services, industrialisation and guarantees for employment, and social upward mobility, associated with independent initiatives and anti-imperialist postures. However, they were continuously and fiercely opposed by the Western powers, in particular through repeated Israeli aggressions.

These regimes achieved whatever they could in that frame within a short period, say 20 years, and then ran out of steam, as a result of their internal limits and contradictions. This, coinciding with the breakdown of Soviet power, facilitated the imperialist neoliberal offensive. The ruling circles, in order to remain in office, have chosen to retreat and submit to the demands of neoliberal globalisation. The result has been a fast degradation of the social conditions. All that had been achieved in the era of the National Popular State for the benefit of the popular

and middle classes was lost in a few years, poverty and mass unemployment being the normal result of the neoliberal policies pursued. Thus, the objective conditions for the subsequent revolts were created.

The period of retreat lasted, in its turn, almost half a century. Egypt, submissive to the demands of globalised liberalism and to US strategy, simply ceased to exist as an active factor in regional or global politics. Instead, the major US allies – Saudi Arabia and Israel – occupied the foreground. Israel was then able to pursue its course of expanding its colonisation of occupied Palestine, with the tacit complicity of Egypt and the Gulf countries.

Depoliticisation of Egypt's society due to the modus operandi of the Nasserist regime is behind the rise of political Islam. Note that Nasserism was not the only system that took this approach. Rather, most populist nationalist regimes of the first wave of awakening in the South had a similar approach with regard to the management of politics. Note also that the actual existing socialist regimes have all also taken this approach, at least after the revolutionary phase, which was democratic in nature, during which they solidified their rule. So, the common denominator is the abolition of democratic praxis. And I do not mean here to equate democracy with multiparty elections, rather, the practice of democracy in the proper sense of the word. This, in other words, is the respect for the plurality of political views and political schemes and for political organisation. Because politicisation assumes democracy, democracy does not exist if those who differ in opinion to those in authority do not enjoy freedom of expression. The obliteration of the right to organise around different political views and projects eliminated politicisation, which ultimately caused the subsequent disaster.

This disaster has manifested itself in the return to bygone archaic views (religious or otherwise), and this was also reflected in the acceptance of the project of consumer society based on solidification of the so-called trend of individualism, a trend which spread not only among the middle class that benefits from such pattern of development, but also among the poor masses, who call for participation in what appears to be minimal welfare – even though with its maximum simplicity – in the absence of a credible real alternative. Therefore, one must consider this as a legitimate demand from the popular classes.

The depoliticisation in Islamic societies took a prevailing form that was manifested in the apparent or superficial return to 'Islam'. Consequently, the discourse of the mosque, along with the discourse of the governing authority, became the only ones allowed in Nasser's period of rule, and more so during the periods of Sadat and Mubarak. This

discourse was then used to stop the emergence of an alternative based on the entrenching of socialist aspirations. Then, at the beginning of 1979, with the signing of the Camp David accords, this 'religious' discourse was encouraged by Sadat and Mubarak to accompany and cope with the deteriorating living conditions resulting from the subjugation of Egypt to the requirements of imperialist globalisation. This is why I argued that political Islam did not belong to the opposition bloc, as claimed by the MB, but was an organic part of the power structure.

The success of political Islam requires further clarification regarding the relationship between the successes of imperialist globalisation on the one hand, and the rise of Brotherhood slogans on the other.

The deterioration that accompanied this globalisation produced proliferation in the activities of the informal sector in economic and social life, which represents the most important sources of income for the majority of people in Egypt (statistics say 60 per cent). The Brotherhood's organisations have a real ability to work in these circumstances, so that their success, in turn, has produced more inflation in these activities and thus ensured its reproduction on a larger scale. The political culture offered by the Brotherhood is known for its great simplicity. This culture is content with only conferring Islamic legitimacy to the principle of private property and free market relations. It does so without considering the nature of the activities concerned, which are secondary bazaar-like activities that are unable to push forward the national economy or development. Furthermore, the generous provision of funds from the Gulf States has allowed for the boom of such activities, as these states have been pumping in the required funds in the form of small loans or grants. This is in addition to the charity work (clinics and so on) that has accompanied this inflated sector, thanks to the support of Gulf States. The Gulf States do not intend to contribute to the development of productive capacity in the Egyptian economy (building factories and so on), but only to lumpen development, since reviving Egypt as a developing state would end the domination of the Gulf States, whose model is based on the Islamisation of society. The dominance of the US subsumes Egypt as a comprador state, infected with worsening poverty, but that of Israel must ensure the impotence of Egypt in the face of Zionist expansion.

Imperialist powers and a huge security apparatus boosted the stability of the Egyptian regime. Unlike the perceived wisdom that Islamists were at loggerheads with the Egyptian regime, in reality, the regime had perfectly integrated reactionary political Islam (on the Wahhabi model of the Gulf) into its power structure by giving it control of education,

the courts and the major media (especially television). The sole permitted public speech was that of the Salafists, a freedom that falsely had bestowed upon them the role of an opposition force when in reality they were integrated with the regime. The double standard of the US establishment was perfectly adapted to its aims. The de facto support for political Islam destroyed the capacity of Egyptian society to confront the challenges of the modern world (bringing about a catastrophic decline in education and research). The regime could still appear tolerable as long as it had the safety valve provided by the mass emigration of poor and middle-class workers to oil-producing countries. The exhaustion of that system (Asian immigrants replacing those from Arabic countries) brought with it the rebirth of opposition movements. The workers' strikes in 2007 (the strongest strikes on the African continent in the past 50 years), the stubborn resistance of small farmers threatened with expropriation by agrarian capital, and the formation of democratic protest groups among the middle classes (like the 'Kefaya' and 'April 6', which are popular opposition movements) foretold the inevitable explosion – expected by Egyptians but startling to foreign observers. And thus began a new phase in the tide of emancipation struggles, whose directions and opportunities for development we are now called on to analyse.

The history of modern Egypt is that of successive waves of attempts at emergence, designed using, essentially, the model of a capitalist society. Nonetheless, it is associated with progressive social transformations and advances in democracy, benefiting from a clear vision that the hostility of Western powers must be confronted. The abandonment of these attempts must be largely attributed to this hostility, which has been directed more at Egypt than against the other mentioned countries, particularly modern Turkey.

Egypt entered, in 2011, a new phase in her history. The analysis which I propose, consisting of a democratic movement, national and popular in its appeal, and the strategies of the local reactionary adversary and its outside allies, permit one to imagine a multitude of different paths towards emergence. In conclusion to this analysis, I must say, at this time (in 2014, three years after the uprising of 2011), one could not say that Egypt is on the path towards emergence. Rather, for the foreseeable future, Egypt will sink into a fatal combination of lumpen development, powerful political Islam and submission to the domination of the global imperial system. However, the struggle will continue and will perhaps permit an exit from this impasse and a reinvention of an appropriate road to emergence.

## 1.1 Emergence and lumpen development

There can be no emergence without state politics, resting on a comfortable social bloc, which gives them legitimacy, capable of constructing a coherent project, an inward-looking national productive system. They must, at the same time, ensure the participation of the great majority of social classes and that these groups receive the benefits of growth.

Opposing the favourable evolution of an authentic emergence is the unilateral submission to the requirements of the implementation of global capitalism and general monopolies which produce nothing other than what I would call 'lumpen development'. I will now liberally borrow from the late Andre Gunder Frank, who analysed a similar evolution, albeit at a different time and place. Today, lumpen development is the product of accelerated social disintegration associated with the 'development' model (which does not deserve its name), imposed by the monopolies from the imperialist core on the peripheral societies they dominate. It is manifested by a dizzying growth of subsistence activities (called the informal sphere), otherwise called the pauperisation associated with the unilateral logic of accumulation of capital.

One can remark that I did not qualify the emergence as 'capitalist' or 'socialist'. This is because emergence is a process associated with complementarity, and, at the same time, conflict, of the logic of capitalist management of the economy and the logic of 'non-capitalist' (and potentially socialist) management of society and politics.

Among the experiences of emergence, some cases merit special mention as they are not associated with the processes of lumpen development. In such cases, there is no pauperisation among the popular classes, rather, there is progress in living standards, modest or otherwise. Two of these experiences are clearly capitalist – like that of South Korea and Taiwan (I will not discuss here the particular historical conditions which permitted the success of the implementation in the two countries). Two others inherited the aspirations conducted in the name of socialism – Vietnam and China. Cuba could also be included in this group if it can master the contradictions which it is currently (as of 2015) experiencing.

But we know of other cases of emergence which have been associated with lumpen development of a massive nature. India is the best example. There are segments of this project which correspond to the requirements of emergence. There is a state policy which favours the building of an industrial productive system. Consequently, there is an associated expansion of the middle classes and progress in technological capacities and education. They are capable of playing autonomously

on the chessboard of international politics. But for a grand majority (two thirds of society), there is accelerated pauperisation. We have, therefore, a hybrid system which ties together emergence and lumpen development. We can highlight the link between these two complementary parts of reality. I believe, without suggesting too gross a generalisation, that all the other cases that are considered emergent – which include Brazil, South Africa and others – belong to this familiar hybrid.

But there exist also, as in most of the other Southern countries, situations in which there are no elements of emergence, as the processes of lumpen development occupy so much of society. The three countries considered here (Turkey, Iran and Egypt) are part of this group, and it is for this reason that I declare them non-emergent, and the projects of emergence begun within them, abandoned.

In Turkey and Egypt, submission to the comprador economic model, geostrategic alignment with the US, lumpen development and pauperisation, and the increase in reactionary political Islam, trap the societies in a downward spiral. This is because the more a society succumbs to lumpen development, the more susceptible it is to political Islam. In Iran, the duo of lumpen development and control of society by the mullahs relegate this country to the same downward spiral. Despite the political conflict with Washington, there has not been a rupture with the pursuit of a political economy analogous to that of a comprador state. It is therefore more necessary than ever to rid oneself of the illusions of transition led by the local exercise of power by political Islam.

There is a prevailing media discourse that is extremely naive: that contends that the victory of political Islam became inevitable because Islamic self-identity dominates the reality of these societies, and it is a reality that some had rejected, and thus a reality which imposed itself on them. However, this argument completely ignores another reality, namely, that the depoliticisation process was deliberate, and, without it, no political Islam would have been able to impose itself on these societies. Furthermore, this discourse argues that there is no risk from this victory of political Islam, because it is temporary, for the authority emerging from it is doomed to failure and thus public opinion will abandon it. This view thus seems to believe that members of the Brotherhood will accept the implementation of the principles of democracy even if such principles work against their interests.

However, the regime in Washington, as well as the public opinion there, apparently adopts this discourse, which is manufactured by the media. And there is an ensemble of Egyptian and Arab intellectuals who

also became convinced by this discourse, perhaps due to opportunistic factors, or because of a lack of clarity in thought.

Accepting this discourse is, however, a mistake. I would argue that political Islam, in its goal to take over governments, will continue to impose itself, if not 'forever', at least for a long time (50 years?). Let us not forget the case of Iran, for example. During this phase of transition, other nations will continue their march of development, and so we will find ourselves eventually in the bottom of the list. So I don't see the Brotherhood primarily as an 'Islamic party', it is, first, a reactionary party, and, if it manages to take the government, it represents the best security for the imperialist system.

## **2. The fall of Morsi: An important victory of the Egyptian people**

The fall of Morsi and of the rule of the Muslim Brothers is an important victory for the Egyptian people. It was expected by all Egyptians. Twenty-five million citizens had signed a petition requiring the departure of Morsi, who had been elected only thanks to a massive fraud, and whose legitimacy was not recognised by the Egyptian judiciary, but was imposed by the decision of Washington. The body of international observers of elections had indeed failed to see the fraud!

The government of the Muslim Brothers was pursuing the same reactionary policy as that of Mubarak, in an even more destructive way for the majority of the popular classes. It made clear that it did not intend to respect the rules of democracy, even mobilising criminal gangs paid to harass the popular movements, continuously waving the flag of a civil war. Morsi acted as a brutal dictator, exclusively putting devoted Muslim Brothers in all state positions. The combination of a disastrous economic and social policy, and of disrespect for the normal management of the state, led to an accelerated decline of the earlier illusions of a good part of society: the MB had shown their real face. Yet the Western powers continued to support the elected president, claiming that the regime was progressing towards democracy. Probably just as the Democratic Republic of Qatar is.

What happened on 30 June was expected. There were mass demonstrations, larger even than those of January 2011, with 16 million people on the streets, as recorded by the police. Morsi responded by raising again the flag of 'civil war'. But he was unable to mobilise more than a few hundred thousands of paid supporters. Western powers, Israel and the Gulf countries hate the perspective of a democratic,



socially progressive, independent Egypt and will work to foment civil war if they cannot get it by voting means. In order to create the conditions for internal war, they will manipulate criminal mercenaries, so-called Jihadists, established with their complicity and support in Libya and in the Egyptian province of Sinai to begin a process of destabilisation in Egypt. However, the Egyptian nation and its army can defeat them.

## **2.1 Egypt today: The challenges for the democratic popular movement**

Too much is written on Egypt, which is understandable, even when it is coming from people whose knowledge of the AW is limited. Too many are absorbing the information given by the mainstream Western media, which is, in that case as well as it is with respect to Venezuela for instance, almost always systematically distorted and even often completely false. Many are also simplifying the issue, the alternative being: respect of 'so-called' elections' results or support of a military power. No, the real challenge does not allow that oversimplification. The 'movement' – a gigantic mass movement – expresses a set of demands: (1) for social justice; (2) for respect of human dignity and rights (in other words, democracy understood as more than simply elections); and (3) respect of national sovereignty and independence. These demands are objectively complementary, progressive and involve moving away from neoliberal economic and social policies which are at the origin of the disaster, and simultaneously moving away from alignment with the US and their allies (Europe, Israel the Gulf countries) in international and regional politics. Yet wide segments of the movement understand these demands only in part, sometimes separating the issues and forgetting this or that one – and that is the least that can be said. The military high command took advantage of that weakness by supporting the demand of the masses (removing Morsi) and simultaneously denying power to the movement (and keeping it for themselves). The struggle is on that ground, not on the one as defined by the Muslim Brothers or the Western powers. It is a struggle aimed at compelling the government to implement the three demands as formulated, certainly not demanding the return of the so-called elected President Morsi.

Progress towards democracy (including fair and meaningful elections) cannot be achieved if it is separated from social progress. Pursuing policies which associate 'democracy' (reduced to elections) with neoliberal policies (which ineluctably produce social regression), is simply killing the perspective of democracy, which then loses legitimacy and opens

the door to non-democratic forces. Am I wrong? Are elections in such a frame not turned into a farce, even when not a simple fraud? The progressive attitude would be that of the mainstream media (and behind the leading powers and the donors' agencies), which precisely requests alignment on neoliberal policies. Can Egyptians accept that? In other words, can we abstain from going beyond what the imperialist and their agencies allow us?

Now the ball is in the hands of President Sissi: Will he pursue the disastrous liberal economic policy of his predecessors, or will he understand that moving away from that policy is the only alternative which responds positively to the demands of the popular movement? Unfortunately, there is little doubt that that the popular movement will again mobilise, as it has done against Mubarak and Morsi.

### **3. Liberal capitalism, conniving capitalism and Lumpen development**

What are the immediate alternative answers?

#### **Liberal capitalism or conniving capitalism?**

Liberal (or neoliberal) capitalism, proposed and imposed without alternatives, is based on seven principles considered to be valid for all societies in the globalised world.

1. The economy must be managed by private companies because these firms are subjected to the requirements of transparent competition – which is more beneficial to society; this ensures economic growth based on the rational allocation of resources and fair remuneration of all factors of production – capital, labour and natural resources. Accordingly, if there are assets owned by the state, as, for example, an unfortunate legacy of socialism (productive enterprises, financial institutions, urban land or agricultural land), they should be privatised.
2. The labour market must be liberalised, the fixing of a compulsory minimum wage (and *a fortiori* a sliding scale for the latter) should be removed. Labour law must be reduced to the minimum standards to ensure the morality of human relations between employer and employee. Trade union rights are limited and controlled for this purpose. The wage hierarchy result of individual and free negotiations between employees and employers must be accepted, as well as the

sharing of net national income between labour income and capital income as a result.

3. Services called social – education, health, or the supply of water and electricity, housing, transport and communications – which were in the past provided by public agencies (state and local authorities), should also be privatised as much as possible; their cost must be borne by the individuals who are the beneficiaries and not covered by tax.
4. The tax function should be the minimum necessary to cover only sovereign functions (public order, national defence in particular), the tax rate must remain relatively moderate, so as to not discourage private initiative and to guarantee reward for this.
5. Credit management should be undertaken by private interests, allowing the free encounter between the supply and demand of credits to form itself in a ‘rational monetary and financial market’.
6. Public budgets must be designed to be balanced without incurring unnecessary unless unforeseen circumstances force the state into deficit. If a country suffers from a structural deficit related to past expenditure excesses, the government must commit to reforms that reduce the scale of the debt as quickly as possible. Meanwhile, the deficit must be covered by borrowing on the private capital market, domestic or foreign.
7. These six principles are considered to be implemented not only in all the nations of the globalised world, but also in international relations, regional (for example, the European Union (EU)) or global. Private foreign capital must be free to move and be treated on an equal footing with local private capital.

These principles, together, constitute ‘market fundamentalism’. I shall recall here the inconsistency of the assumptions and the lack of compliance of the scheme with reality. Very briefly, the proof by logical reasoning that the free play of market is widespread, even under the extravagant (not according to reality) assumption that the existence of a transparent competition would produce a socially optimal balance between supply and demand has never been made. Instead, logical reasoning leads to the conclusion that the system moves from imbalance to imbalance, never arriving at balance. Successive imbalances are produced because this theory (which defines conventional economics) excludes from its scope of investigation the conflicts between social and national interests. Moreover, these assumptions describe an imaginary world that has nothing to do with the contemporary system,

which is that of a capitalism of generalised, financialised and globalised monopolies. This system is not viable and its ongoing implosion proves that.

Implemented globally, the principles of liberalism do not produce anything in the outskirts of the South other than a connivance capitalism (*crony capitalism*) or a comprador state, as opposed to a national state embarked on a path of sustainable economic and social development. This form of capitalism produces no development, or a lumpen development. In what follows, I draw an example from the Egyptian case.

### **Connivance capitalism, comprador state and lumpen development: The case of Egypt from 1970 onwards**

Successive Egyptian governments, since Sadat's accession to the presidency (1970), have so far implemented, with all diligence, all the principles proposed by the liberal fundamentalism. Morsi and the Muslim Brothers continued this same liberal policy. The present government also pursues the same route. The result of these policies has been the subject of serious analysis with definite conclusions:

1. The Nasserist project to build a national developmental state had produced a model of state capitalism that Sadat dismantled, as he told his US interlocutors: 'I want to send to the devil of Nasserism, the socialism and all this nonsense and I need your support to achieve that', a support which was obviously given, without restriction. Assets owned by the state – industrial, financial and commercial, agricultural land and urban or desert land – have been 'sold'. To whom? To businessmen in collusion with the power system: senior army officers, officials, rich merchants returned from their exile in the Gulf countries equipped with fortunes (in addition to the political and financial support of the MB). But also to citizens of the Gulf countries and foreign US and European companies. At what price? At ridiculous prices, incommensurate with the real value of the assets.

It is in this way that the new Egyptian owner and foreign class has been built, and, as such, it fully deserves the qualification 'crony/capitalist collusion' (*ra'smalia al mahassib*). Here are some additional notes on cronyism:

- a. Property granted to the army transformed the character of the responsibilities it already exercised in certain segments of the productive system, as in the army factories that the army managed as state institutions. These powers of management became those of

private owners. In addition to privatisation, in this economic race, the most powerful officers also acquired the property of many other state-owned assets: commercial businesses, suburban and urban land, and housing estates in particular.

- b. The mainstream and MB opinion describes these Egyptian practices of corruption as located in the field of morality, making the assumption that justice worthy of the name could fight it successfully. Much of the left itself makes the distinction between this condemnable corrupt capitalism and an acceptable and desirable productive capitalism. Only a small minority understands that when the principles of liberalism are accepted as the basis of policy, dubbed realistic capitalism in the periphery, development fails. There is no bourgeoisie building itself on its own initiative as the World Bank wants us to believe. There is a comprador state active behind the creation of these colossal fortunes.
  - c. The fortunes of Egyptian and foreign entrepreneurs were formed through the acquisition of existing assets without adding productive capacities. The capital inflows (Arab and other), however modest, fall within this framework. The operation ended with the establishment of the private monopoly groups that now dominate the Egyptian economy. This is a far cry from healthy and transparent competition, as the liberal discourse trumps it to be. Moreover, the greater part of these colossal fortunes consists of property: holiday villages (*marinas*) on the shores of the Mediterranean and the Red Sea, new secluded neighbourhoods (Latin American fashion – previously unknown in Egypt) and desert terrain, in principle intended for agricultural development. These properties are retained by their owners, who speculate on the possibilities of resale after the state has provided staggering costs of infrastructure that gives them real value (these costs have obviously not been included into the sale price of the land).
2. The monopoly power of the new capitalism of complicity has been systematically reinforced by the almost exclusive access of these new billionaires to bank credit (including for the purchase of the assets in question), at the expense of lending to small and medium-sized producers.
  3. These monopolistic positions have also been reinforced by massive subsidies from the state, for example, granted for the consumption of oil, natural gas and electricity by industries that had been privatised (cement, iron, metallurgy and aluminium, textiles and others). But the free market has allowed these companies to raise their prices to

adjust to those of competing imports. The logic of public subsidy which compensated for lower prices by the state sector is broken in favour of super-profits by private monopolies.

4. Real wages for the vast majority of unskilled and medium qualified workers deteriorated as a result of the laws of the free labour market and the fierce repression of collective action and trade unions. Wages are now located at rates much lower than they are in other countries of the South whose per capita GDP is comparable. Super-profits of private monopolies and poverty go hand in hand, and result in the continued widening of inequality in income distribution.
5. Inequality has been reinforced consistently by a tax system which denied the principle of progressive taxation. This low tax for the rich and corporations, praised by the World Bank for its alleged virtue to support investments, resulted simply in super-profits.
6. Despite these policies implemented by the state, comprador/crony capitalism only produces, by itself, a low growth (less than 3 per cent), hence unemployment continues to grow. When the rate was a little better, this was due to the expansion of extractive industries (oil and gas), associated with a conjuncture of better prices, the growth in fees from the Suez Canal, tourism and remittances from migrant workers.
7. These policies have also made it impossible to reduce the public deficit and the external trade balance. They have led to the continuing deterioration of the value of the Egyptian pound, and imposed growing public debt. This gave the IMF the opportunity to impose ever-greater respect for the principles of liberalism.

### **Immediate responses**

These answers have been collected from the various components of the movement – left and centre national democratic forces, trade unions, various youth and women organisations, and so on. Considerable work of quality was conducted for more than a year by activists responsible for the formulation of a common programme, principally Ahmad El Naggar, to meet the immediate requirements of the programme which was designed by the activists, the salient points of which are:

1. Past transfer operations of public assets (under Mubarak) should be subjected to systematic revisions. Specific studies – equivalent to good audits – are available for many of these transactions and prices

corresponding to the real value of these assets calculated. Given that the buyers of these assets have not paid these prices, the acquired property assets must be transferred by law after an audit ordered by the court to state corporations whose shareholder is equal to the difference between the actual value of the assets and that paid by buyers. The principle is applicable to all these buyers, be they Egyptian, Gulf citizens or foreign.

2. The law should establish minimum wages, amounting to LE 1200 per month (155 Euro at rate of exchange, in effect the equivalent purchasing power of 400 Euros). This rate is lower than it is in many countries whose GDP per capita is similar to that of Egypt. The minimum wage must be associated with a sliding scale and unions must be responsible for monitoring its implementation. It will apply to all activities of public and private sectors.

Given that the beneficiaries of the freedom of prices and private sectors that dominate the Egyptian economy have already chosen to locate their prices closer to those of competing imports, this measure, although it will reduce the margins of monopolies' profit, will not destroy the viability of these industries. This adjustment does not threaten the balance of public accounts, taking into account savings and new tax legislation. The proposals made by the movements concerned will be strengthened by the adoption of the maximum wage: 15 times the minimum wage.

3. Workers' rights – conditions of employment and loss of employment, working conditions, health insurance/unemployment/retirement – should be discussed in a major tripartite consultation (unions, employers, government). Independent unions formed through the struggles of the past decade should be legally recognised to have the right to strike, which remains illegal under current legislation.

A 'survival benefit' must be established for the unemployed, the amount and conditions of access and funding of which should be subjected to negotiation between the unions and the state.

4. Subsidies granted by the colossal budget to private monopolies should be abolished. Again, the specific studies conducted in these areas show that the abolition of these benefits does not affect the profitability of the activities involved, but only reduces their monopoly rents.
5. New tax legislation should be implemented based on progressive taxation of individuals. The rate of taxation of profits of enterprises employing more than 20 workers should be raised to

25 per cent. Tax exemptions granted with extreme generosity to Arab and foreign monopolies should be abolished. Taxation of small and medium-sized enterprises, often heavier now should be revised downward. The proposed rate for the upper brackets of personal income – 35 per cent – also remains low in international comparison.

6. A calculation was conducted which shows that all the measures proposed in points 4 and 5 of this list can not only remove the current state budget deficit (2009–2010), but also provide a surplus. This will be used to increase public spending on education, health and popular housing subsidy. The reconstruction of a public social sector in these areas does not impose discriminatory measures against private activities of a similar nature.
7. The credit (as in lending money for business expansion) must be placed under the control of the Central Bank. Extravagant facilities granted to monopolies should be abolished in favour of the expansion of credit to existing or potential small businesses. Specific studies have been conducted in the areas concerned: craft, industrial, transport and service. Consequently, it is clear that entrepreneurial candidates, who will take the initiative in creating business and employments, exist (particularly among unemployed graduates).
8. Programmes offered by the components of the movement remain less clear with regard to the rural question. The reason is that the movement of resistance to the expropriation of small farmers, which accelerated after the current policies of modernisation of the World Bank were adopted, remains fragmented and never outgrew the village – mainly because of the fierce repression to which it is submitted and the non-recognition of its legality.

The current claim of the movement – mainly urban, admittedly – is simply passing laws making it harder for the eviction of tenants unable to pay the excess rents charged and the expropriation of indebted smallholders. In particular, it advocates a return to a law fixing the maximum rent (the rental laws were later freed by the successive laws, revising the agrarian reform, allowing owners to raise rents at will and this happened in tandem with vast privatization measures that rolled back nationalized agriculture in Egypt).

But it should go further. Progressive organisations of agronomists have produced concrete projects and argued for ensuring the development of the small peasantry. The projects include improved irrigation methods (drip, for instance), a choice of rich and intensive



cultures (vegetables and fruits), removal of the upstream monopoly control of inputs by suppliers, and the removal of the downstream monopoly power through the creation of marketing cooperatives associated with consumer cooperatives. But the issue is to establish an enhanced communication between these organisations of agronomists and the agricultural smallholders involved. Legalisation of organisations of farmers and their federation at the provincial and national levels should facilitate progress in this direction.

9. The action programme set out in this list would certainly initiate a resumption of healthy and sustainable economic growth. The argument advanced by liberal critics – that would ruin any hope of new entries of capital from external sources – does not hold. The experience of Egypt and other countries, particularly in Africa, who have agreed to comply fully with the requirements of liberalism and renounced to develop by themselves a project of authentic development, shows that these countries do not attract foreign capital despite their uncontrolled opening (but precisely because of it). Foreign capital will simply then conduct raid operations on the resources of the countries concerned, supported by the state and with the collusion of comprador capitalism. On the other end, emerging countries who actively implement a national development project do offer real opportunities to foreign investment that engage in these national projects, and accept the constraints imposed on them by the state, as well as the adjustment of profits at reasonable rates.
10. The government of MB chosen by the President Morsi had immediately declared its unconditional adherence to all the principles of liberalism, taken measures to accelerate their implementation and deployed, to this end, all means of repression inherited from the former regime. The state and comprador capitalism connivance continued. Popular consciousness that there was no change was growing, as evidenced by the success of the campaign of signatures collected by the movement Tamarod asking for the removal of Morsi (26 million signed), and then by the massive popular demonstration of 30 June (33 million people demonstrating the same day in all cities of Egypt) that brought down Morsi. Yet, the new government set up after the fall of Morsi does not seem to have understood. Its economic programme is 'liberal', based on the same illusions that the US, the World Bank, IMF and the Gulf countries should and will rescue Egypt. But the movement continues and the

people say in the streets: the revolution has not changed the regime, but it has changed the people.

11. The programme of immediate demands of which I have traced the dominant lines here only concerns the economic and social challenge. Of course, the movement also discusses its political sides: the draft constitution, the democratic and social rights, and the required 'citizens' state' (*Dawla al muwatana*). Due to space constraints, these issues have not been addressed here.

# 2

## The Failure of Arab Macro Policy

*Fadle Naqib*

### 1. Introduction

On the eve of the 'Arab Spring', late 2010, most Arab governments were faithfully implementing economic measures similar to those included in the much-touted policy package known as the 'Washington Consensus' (Williamson, 1990).<sup>1</sup> Some had faithfully been doing that for a very long time, even before Professor Williamson coined the term, and others were latecomers doing their best to make up for lost time. The IMF, and other self-appointed spokespersons of the Washington gospel, hailed Tunisia as a success story. Other Arab governments were busy sending their economists to Tunis to learn from the Tunisian experiment, which was on the verge of being declared the 'Tunisian Miracle'. Soon enough, a watershed moment did happen when Mohamed Bouazizi, an unemployed 26-year-old, set fire to himself outside a municipal office in the town of Sidi Bouzid in central Tunisia, protesting his inhuman environment, and triggering street protests throughout the AW that shattered the half-century stagnant political and social structure of the whole area. For a brief moment, a brief shining moment, it seemed as if the Arab masses re-entered history and were on their way to resuming their historical march, which started at the end of the nineteenth century and was crushed twice before,<sup>2</sup> towards building free independent democratic societies. But soon enough, everything that was starting to become clearer grew dark and chaotic again. Young revolutionaries were jailed and tortured, civil wars were fought everywhere and dark murderous religious fanatics were unleashed, motivated by convictions from the Middle Ages and equipped with twenty-first-century finance, weapons and telecommunication technology. In the midst of all of this, human suffering and the economic situation of the masses became quite

unbearable. Tyranny was not replaced by democracy, as revolutionaries have hoped for, but with various shades of civil wars. Naturally, this unfortunate outcome has raised many questions in the minds of both ordinary citizens and social scientists. The following are some typical questions:

- Was the 'Arab Spring' a genuine revolution aimed at liberating the Arab masses, or was it merely a sinister conspiracy to bring about a permanent destruction of both the fabric of Arab societies and the structure of Arab states?
- What went wrong with the early promise of the mass uprising in Tunis and Egypt? On the other hand, were we rather quite naive in expecting anything different from what has actually happened, given the factual conditions of Arab societies on the eve of the 'Arab Spring'?
- What is the true nature of the various forces that have been fighting in the 'Arab Spring' countries, since 2010, to replace the old regimes? What are the differences, in appearance and reality, of their political projects from those of the old political orders?
- After several years of 'Arab Spring', is the turmoil dying down, promising a new morning in the AW, or a return to a more familiar situation of calm and stagnation; or are these years nothing but the opening ceremonial scenes of a long revolutionary era that will last for many years to come?

Instantly, we can dispense with the first question. The 'Arab Spring' is indeed a revolution that marked a new epoch in Arab history. History is full of conspiracies, and many things are achieved by conspiracies, but conspirators, by their very nature, cannot move masses and induce them to sustain sacrifices of heroic spirit and gigantic proportions. Moreover, yes, there is nothing wrong with using the name 'Arab Spring', despite the dispirited and gloomy events presently associated with the name, and regardless of what ultimately would be its place in history. Pivotal events in history do not always acquire names that literally reveal their true worth and significance, as is evident by names like the American Tea Party of 1773 and the French Tennis Court Oath of June 1789. After all, *what's in a name?*

The other questions are not so easy and the scope of their analysis is a lot larger than the scope of this chapter. I am confining myself here to making some observations on matters related to the third question and the nature of the forces currently occupying centre stage in the 'Arab

Spring' battles. More specifically, I am interested in drawing attention to what appears to be a major contradiction in Arab Spring politics regarding the *economic* dimension. On the one hand, it is taken for granted that the poor economic condition of the Arab masses is the mainspring of the uprising in each country. On the other hand, *economics* has not been a fundamental issue in all the battles that followed the uprising. Moreover, various forces fighting to replace the old order in the Arab Spring countries, especially Egypt and Tunis, are promising to dismantle the old system of corruption and political repression, while at the same time keeping their allegiance to the old regimes' economic structures and policies. It is obvious that these forces, representing diverse political groups of Islamists and liberals, stand by the notion that the present disastrous situation, fraught with unemployment, poverty and human rights violations, is an outcome of the corrupt nature of the old regimes and not of their economic structure. They are advocating the fallacious and deceptive notion that democracy and prosperity will be the inevitable outcome of 'free elections': 'clean governments' with no changes in economic orientations. The purpose of this chapter is to argue that new constitutions and free elections would bring, at best, a system of 'unstable democracy' similar to what was prevalent in Egypt, Syria and Iraq during the 1940s and early 1950s before the advent of the military regimes. The chapter will demonstrate that the existing economic structure is decidedly anti-democratic, and that working towards the goal of achieving 'stable democracy' requires dismantling its structure, and adopting a comprehensive 'pro-democracy' economic strategy.

The rest of the chapter is divided into three sections. Section 2 presents a graphic picture of the social conditions, along with their ideological trappings, in Egypt and Tunis at the eve of the Arab Spring. Section 3 analyses the present Egyptian scene as a struggle among three forces; revolution, counter-revolution and anti-revolution. Section 4 outlines elements of a pro-democracy economic vision for the AW.

## **2. The social conditions of Egypt and Tunisia on the eve of the Arab Spring turmoil**

For almost three decades preceding the Arab Spring, most Arab governments were pursuing economic policies similar to those prescribed by the 'Washington Consensus', aimed at maximising the growth of gross domestic product (GDP). Growth, according to the gospel (the Washington Consensus), will increase the size of the pie and thus

increase everyone's share. 'A rising tide lifts all boats; large and small' was very popular aphorism at the time.

Guided by that logic, most Arab economies were restructured by privatising 'inefficient' state-owned enterprises, and adopting 'fiscal responsibility', de-emphasising public investment and social expenditures. Macroeconomic policies were reoriented, with the priority of combating inflation, attracting foreign direct investment (FDI), and increasing openness to trade and capital flows.

These policies succeeded as most Arab economies (in particular Tunisia and Egypt) grew at a rate higher than the world average. However, the growth was jobless and associated with inflation, as indicated by the Misery Index in Table 2.1 (Okun, 1960s).<sup>3</sup> Furthermore, it was associated with large inequality, concentrating the fruits of growth in the hands of elite and excluding the majority of poor people, as indicated by the Anti-Democracy Index in Table 2.2 (see also Table 2.3).<sup>4</sup>

Table 2.1 Economic indicators (2000–2010)

Country	Growth rate of GDP**	Misery Index*
Tunisia	4.93 (3.45)	17.2
Egypt	4.90 (2.97)	17.7
Korea	4.83 (4.0)	6.0
US	1.81 (0.91)	8.5

\*Misery Index = unemployment rate + inflation rate.

\*\*Numbers in parenthesis are growth rate per capita.

Source: Calculated from the World Development Indicators.

Table 2.2 Anti-Democracy Index\*

Period	Egypt	Tunisia	Korea	US
1961–1970	0.45		0.55	0.38
1971–1980	0.50		0.53	0.47
1981–1990	0.66	0.66	0.40	0.48
1991–2000	0.63	0.68	0.41	0.44
2001–2010	0.65	0.68	0.38	0.48
2011–2013	0.74	0.72	0.38	0.50

\*Anti-Democracy Index = rate of unemployment + rate of inflation + GINI Coefficient - rate of growth of per capita income.

Source: Calculated from the World Development Indicators, University of Texas Inequality Project.

Table 2.3 Inequality in the twenty-first century

Block	Population* (no. of countries)	Weighted average of GINI Index**	Percentage change in the period (1996–2008)
EU	481 (27)	36.5	0.6
Asian Tigers	66 (3)	39.2	1.6
US	318 (1)	40.1	5.2
BRICS	3,006 (5)	43.9	(5.4)***
Israel	8.2 (1)	45.4	6.6
Africa	246 (9)	48.4	5.1
Latin America	364 (7)	49.5	0.2
Arab Countries	168 (8)	51.1	6.7

\*Population in millions.

\*\*2006 or 2007 or 2008.

\*\*\*Negative number.

Source: Calculated by the author using data from the World Development Indicators (2014) and University of Texas Inequality Centre (2014).

A quick look at these three tables is enough to underline the following two interconnected points:

- As of 2015, there are two different capitalist roads: the neoliberal anti-democratic road championed by the US and faithfully followed by Israel and most Arab countries, and a capitalist road similar to the post-World War II ‘social democracy’ system adopted by some Latin American countries and Brazil, Russia, India, China and South Africa (the BRICS countries).
- The unipolar system, in which the US has hegemony over the whole world that was ordained following the demise of the Soviet Union in the early 1990s, is being challenged in the economic sphere. We are witnessing a return to world power rivalries.

After a closer look at the tables and their supporting data, we observe that the economies of Tunis and Egypt have been in lockstep with the US economy.<sup>5</sup> This strong relationship is an indication that, in both the US and Arab countries, the forces of income convergence (working towards equality) are weak and are dominated by the forces of income divergence (working towards inequality). Historical evidence demonstrates that the main force for convergence is the diffusion of knowledge and investment in training and skills. It depends on educational policies, access to training, and the acquisition of appropriate skills and

Table 2.4 Mechanism of divergence ( $r > g$ ) (2000–2010)

	Capital's rate of return ( $r$ )	Direction	Income's rate of growth ( $g$ )
Egypt	0.181	>	0.0645
Tunisia	0.091	>	0.060
US	0.029	>	0.019
Korea	0.044	>	0.045

Source: Calculated by the author.

associated institutions. It is public good par excellence and not a market mechanism. This mechanism of income convergence was weakened in the US by the dismantling of the welfare state and the process of deregulation, and in the AW by the destruction of the public sector and the rolling back of the state. On the other hand, the main force for divergence is associated with a process of accumulation and concentration of wealth that results in the rate of return on capital (including profits, dividends, interest and rents) being greater than the rate of growth of the economy:  $r > g$ . Under such a condition, inherited wealth will dominate wealth accumulated from a lifetime's labour by a wide margin, and the concentration of wealth could reach a high level that is incompatible with the principles of social justice fundamental to modern democratic societies. Table 2.4 shows that the first decade of the new century was characterised by the forces of divergence working in Egypt, Tunisia and the US, but not in Korea.

### 3. The economics of revolution, counter-revolution and anti-revolution in Egypt

The analysis in Section 2 has revealed the anti-democratic nature of the economic and political structure of Egypt and Tunisia on the eve of the Arab Spring. In this section, we analyse the nature and orientation of the political forces that have occupied the political centre stage in Egypt since the January 25 Revolution.

In any revolutionary situation, we can identify three different contending forces. First, the revolutionary forces, resolving to destroy the old political order and create a new one. Secondly, the counter-revolutionary forces, fighting to turn back the clock and restore the old order. Thirdly, the anti-revolutionary forces that do not want to turn



back the clock to the old order, but want to divert the revolutionary course and guide it to serve their interests.

The revolutionary forces in Egypt include groups of workers, students, professionals, and small political and social organisations who opposed the Mubarak regime, the military council regime, the MB regime and the present transitional regime. These revolutionary groups are fragmented and disorganised. They know what they are against, but they are far less certain about what they are for. Their ideologies vary across the political spectrum, but they are united in their opposition to the practices of the police state. Their power lies in their ability to mobilise the masses, as evidenced by the events of 25 January 2011 and 30 June 2013.

The counter-revolution forces include many army generals, businesspersons and political fixers, who hope to replace Mubarak's oligarchy with a new one. They promise to run free elections, fight corruption and reform the economy, without altering the underlying distribution of economic power. Their economic policies will be a continuation of Mubarak's. They will continue their support of the ideology of 'free market' and will continue their practice of monopolising economic activities for the interest of the oligarchy. The anti-revolution forces are mainly Islamist groups. Here, we need to distinguish between 'Muslims' and 'Islamists'. For the majority of Muslims, religion constitutes just one dimension of their social, cultural and political identity. Islamists, on the other hand, undertake to reduce all politics to selective reference to Islamic texts, which are themselves the subject of conflicting interpretations. There are many different Islamist groups, most of which are reactionary, but some are genuine *resistance* groups (Lebanon and Palestine). The MB and other Islamist groups in Egypt, like Islamist movements in other countries, are less the products of the authentic culture of Islam, and more the products of a particular historical development. This development is rooted in the legacies of the Ottoman Empire, British colonialism, Nasser and the Arab Liberation Movement, the Cold War and the post-Cold War period. The reactionary nature of the MB is evident by their adherence to the slogan: '*Islam is the solution*'. The economic dimension of that solution is the so-called Islamic economics. The latter is nothing but capitalism made Islamic-friendly. Thus, there is no difference between the economics of the counter-revolution and the economics of anti-revolution. It is worth noting that the confused, indecisive and sometimes contradictory US policies towards the 'Arab Spring' stems from the fact that the Obama administration is divided between those who support the counter-revolution camp and those who support the anti-revolution camp.

## **4. Elements of pro-democracy economic vision for the revolutionary forces in the Arab World**

The 'Arab Spring' has exposed two fundamental truths about the contemporary AW: (1) the political economy system of each Arab country, based on oil, rents, foreign aid, remittances and a police state, has long passed its expiry date; (2) the success of the revolutionary forces depends, largely, on their ability to articulate a radical economic restructuring programme of society. A pro-democracy economic plan requires rehabilitating the public sector and empowering it with resources to create a new economic environment conducive to 'inclusive growth' (IG). IG requires the effective participation of the majority of the citizens by dynamic processes aimed at enabling the poor and the marginalised to improve their health and education and so acquire assets, information and legal standing, allowing them to become part of the socio-political structure of the country. IG is a long-term strategy that needs sound economic management policies to protect it from short-term shocks. The following are elements of such a strategy.

### **4.1 Fiscal policy**

The combination of a fixed exchange-rate regime, a tax system that relies heavily on indirect taxes, an increasing pressure of external debt and free capital mobility render fiscal policy in most of the non-oil-rich countries of the AW quite ineffective. A pro-democracy fiscal reform should aim at enhancing government legitimacy by paying more attention to equity. The tax system needs to be reformed by increasing the reliance on income progressive taxes, restructuring the property tax and introducing presumptive taxes. A major reallocation of public expenditures should aim at allocating resources to build infrastructure services that help the poor and allow them to improve their health and education, as well as gain inclusion in the political structure of the country.

### **4.2 Monetary policy**

Monetary policy in most countries is devoted to the sole objective of keeping inflation at a low rate. It is rather striking that tight monetary policy is used in a region that suffers from a very high rate of unemployment. A pro-democracy monetary policy should aim at lowering the real interest rates, particularly in strategic and priority sectors for poverty reduction, and expanding the money supply that accommodates growth and financial deepening. A pro-democracy financial reform should promote the creation of a widespread network of

financial institutions that encourage a rise in the propensity to save, and pave the way for an expanded and more equitable flow of funds to impoverished locations and to small and resource-poor business and micro-enterprises. A pro-democracy financial intervention should aim at the creation of development banks with the mandate to provide discounted or subsidised credit to selected sectors, such as agriculture, small-scale industries and priority industrial establishments.

### **4.3 Exchange-rate policy**

The existing exchange-rate arrangements in most Arab countries have the worst aspects of the two polar-type exchange-rate regime. Pegging the local currencies to the US dollar renders monetary policy completely ineffective, as in a fixed exchange-rate regime. On the other hand, the continuous fluctuation of the US dollar has the potential for increasing costs associated with fluctuations in exchange rates, typical of a flexible exchange-rate regime.

After considering all other options (different fixed exchange-rate arrangements, unilateral free exchange rates, integrating into one of the key currency areas), it was found that monetary coordination among all the Arab countries aimed at adopting a unified exchange-rate regime is most promising. The coordination could start by linking the various currencies in the region in a common bloc, floating vis-à-vis the rest of the world. This will achieve double objectives. First, it will stabilise intraregional trade by pre-empting relative shifts in the intraregional exchange-rates structure. Secondly, it will insulate the domestic economies from external developments; thereby permitting monetary policy to concentrate on the problem of unemployment. The monetary coordination could move gradually towards the ultimate goal of creating a common super-national currency.

### **4.4 Regional integration**

No Arab country is capable of implementing these policies alone. Implementations of these policies require Arab economic integration. This is not because such integration allows for a larger market and its attendant benefits of economies of scale, specialisation and stronger bargaining power with the rest of the world (important as they are), but because the segmentation of Arab countries preserves and sustains the sanctity of the rent system for the oligarchy and prevents the emergence of competitive markets, reinforcing the existing inequalities and undermining efforts of democratisation. Therefore, the lack of Arab economic integration is the most powerful weapon in the hands of the undemocratic

forces in the AW. This anti-democratic weapon is protected and strengthened by the US and Israel. The US treats the Arab region differently from other regions in the world. There is a need to contrast the US insistence on bilateral relations with Arab countries, with its efforts to mainstream regional trade in South Asia through a revival of the Old Silk Road in the Afghanistan–Pakistan region (Malik and Awaddallah, 2011). Needless to say, Israel has been, since its establishment in 1948, pursuing policies of reinforcing Arab fragmentation and disunity. Consider its economic policies towards the Palestinian-occupied territories and Jordan. This US and Israel stand is echoed by the following two pronouncements from the World Bank and the IMF:

*World Bank*: ‘It seems advisable for MENA policy makers to focus first on how to maintain and strengthen their countries’ competitiveness in the global market and only then ask what contribution regional integration can make toward achieving this end.’

(Shui and Walkenhorst, 2010, p. 294)

*IMF*: ‘Rather than set as the first economic policy priority the goal of regional integration, MENA countries should focus on domestic policy reforms and the associated process of greater integration into the world economy.’

(El Erian and Fischer, 1996)

Thus, the interests of all anti-democracy forces in the AW are to keep the Arab economies ‘organised in a honeycomb structure, whose individual cells are insulated from each other but connected to the outside world’ (Malik and Awaddallah, 2011). Consider the Qualified Industrial Zone (QIZ) agreements that were sponsored by the US to promote trade between Israel and Egypt and Israel and Jordan,<sup>6</sup> which ended in trade rivalry between Egypt and Jordan (Elkhafif and Elagraa, 2012).

## 5. Summing up

Perhaps with exception of Syria, the present battles of the ‘Arab Spring’ are fought between the forces of ‘counter-revolution’ and the forces of ‘anti-revolution’. While each has different objectives from the other, both perceive their interests to be best served by maintaining the present political order unaltered. Both have no interest in challenging: (1) the fragmentation of the AW, (2) the hegemony of the US and Israel and (3) the political economy structure that protects and strengthens inequality within and between the region’s countries.

The 'Arab Spring' will turn into 'Arab Revolution' once the revolutionary forces succeed in challenging these three constraints.

## Notes

1. In 1989, Professor John Williamson coined the term 'Washington Consensus' to refer to a set of ten specific policy prescriptions advocated by the IMF, the World Bank and the US Treasury Department as a reform package for developing countries. The term became an instant hit, and subsequently became another name for all economic policies ascribing to neoliberal capitalism.
2. Egypt is a good example as it has had two crushed revolutions: in 1919 and 1952.
3. The Misery Index is formed by adding the rate of unemployment to the rate of inflation. Arthur Okun created it during the 1960s. Okun served during the period 1968–1969 as the chairman of economic advisors to President Lyndon B. Johnson.
4. I built this indicator by adding to the Misery Index the Growing Inequalities' Impacts (GINI) Coefficient and subtracting the rate of growth of GDP per capita. The GINI Coefficient is a measure of income inequality. It varies between 0, which reflects complete equality, and 1, which indicates complete inequality.
5. The following regressions demonstrate that, over the period 1970–2010, there are strong positive correlations between the Anti-Democracy Index of the US and those of Egypt and Tunisia, whereas the correlation is negative between the indices of US and Korea.  

$$\text{AD (Egypt)} = -0.296 + 1.966 \text{ AD (US)}; \text{R squared: } 0.61.$$

$$\text{AD (Tunisia)} = 0.51 + 1.108 \text{ AD (US)}; \text{R squared: } 0.79.$$

$$\text{AD (Korea)} = 1.019 - 1.259 \text{ AD (US)}; \text{R squared: } 0.49.$$
6. QIZ is an agreement in which Egypt and Jordan could export manufacturing goods to the US free of tariffs, provided the goods contain a portion of Israeli input. There is a similar agreement between Jordan and the US.

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# 3

## The Unravelling of Arab Autocracy: Socioeconomic Factors in Context

*Samir Makdisi*

### 1. Introduction

After a sustained period of autocratic rule in the Arab region following the independence of the Arab countries in the wake of World War II, the successful Tunisian uprising of December 2010 has ushered in what seems to be a new political phase – the beginnings of the unravelling of Arab autocracy. However, more than four years later, this trajectory is yet to take hold region-wide and, for the foreseeable future, its eventual outcome remains uncertain. Of four countries where the uprisings managed to overthrow the incumbent regime (namely, Tunisia, Egypt, Libya and Yemen), and one where this attempt has been ongoing for the past four years (Syria), only Tunisia appears to be moving in the direction of a genuine democracy, as attested by its approved constitution of January 2014, the parliamentary elections of 26 October and the presidential elections on 21 December of the same year, as well as the generally and relatively peaceful transfer of power among its major political contestants.

The election of a new president in June 2014 notwithstanding, Egypt's democratic future is yet to be fully clarified. Yemen and Libya have been experiencing political instability-cum-intermittent armed conflicts, while, in Syria, the ensuing tragic and vicious civil war continues unabated.<sup>1</sup>

Indeed, while the foundations of the long persisting autocracy have been shaken in parts of the AW, major factors that, for many years, have underpinned the persistence of Arab autocracy remain in place

and continue to pose a threat to democratic reversals in the region. This threat has been reinforced by the expanding influence of strictly fundamentalist Islamist parties (mainly the Islamic State of Iraq and Syria (ISIS) and Al-Nusra) that, in 2014, embarked on armed attacks in Syria and Iraq, subsequently triggering US aerial interventions in an attempt primarily to help protect the Kurdish regions in northern Iraq from ISIS.

However, I shall assume, hopefully correctly, that the recent successes of Islamist groups constitute only a passing phase, and that they will be contained and reversed. In other words, the developments mentioned notwithstanding, my postulation is that the uprisings do signal the beginnings of a positive change in the Arab region and call for a better understanding of the dynamics of transition towards sustained democracy in the region – one that builds on the received literature, as well as the area's own specific experience with long surviving autocratic governance.

A gamut of interacting economic, political and other factors underpin the uprisings. But the role of any single or group of factors identified as underlying the uprisings cannot be isolated from the role of other factors pushing in the same direction. Thus, whatever the socioeconomic triggers, their role can be properly assessed only in the context of the overall trend for fundamental democratic change in the Arab region, irrespective of its ultimate success or failure. This outcome, in turn, is dependent on whether the conditions for a successful transition are being met or not. And, to the extent that such a transition is successful in the countries mentioned, it would likely induce a growing democratic space in the region.

In approaching the issues at hand, this chapter focuses on the Arab region as a whole (a cross-country analysis). However, we remain cognisant that the underlying factors of the Arab uprisings vary from one case to another, as does the role of domestic elements in unravelling the autocratic order. These elements would seem to have been more dominant and decisive in the case of Tunisia and Egypt than in the other cases, which, in turn, might explain the comparatively rapid success of uprisings in these two counties. Where appropriate, references to individual country experiences will be made.

The rest of the chapter is divided into five sections: Section 2 briefly touches on the transition literature. Section 3 explains the reasons for the persistence of Arab autocracies; Section 4 analyses the factors unravelling the Arab autocracy, beginning with Tunisia and the role of socioeconomic factors; Section 5 assesses the conditions for a successful transition; Section 6 concludes the chapter.



## 2. The literature on transitions: A brief note

Triggered by the modernisation hypothesis, there is an intensive and growing literature on democratic transitions (mainly cross-country work) spanning varied approaches to explaining this phenomenon. Essentially, this hypothesis states that, as countries develop economically – in other words, as they become more industrialised and urbanised with growing levels of wealth and education – social structure becomes complex and labour more active, while technological advances empower producers as well as civil societies – in consequence, dictatorial controls become less effective. These factors provide the incentives or requisites for a move towards democracy, the relationship between development and democracy being correlational and not causal (Lipset, 1959, 1960).

As Inglehart and Welzel (2009) elucidated, economic development brings about a coherent set of social and political changes. It is conducive to democracy in that these changes engender a transformation in people's values and motivations, in particular, the rise of self-expression values alongside the rise of the knowledge sector, reflecting, as it were, the desire for freedom and autonomy as universal aspirations.

The modernisation thesis has its critics as well as supporters (for a review of the debate see Inglehart and Welzel, 2009). While perhaps most studies do find a positive relationship (Barro, 2012), other studies offer alternative explanations for the transition process to democracy. Differences in the methodologies employed – countries selected, statistical methods applied, selection of socioeconomic indicators, democracy measures chosen, the form of the relationship tested – may partly account for these varying interpretations.

Several alternative approaches to the modernisation hypothesis have been put forward to explain the transition process. To illustrate, they include the randomness of this transition at all levels of development (Przeworski and Fernando, 1997; Przeworski et al., 2000); historical reasons for the observed positive correlation (but with no evidence of a causal relationship) between income and democracy, in other words, a change in the existing balance of power between social classes whereby the middle class may find that its interests are aligned with a push for democratisation in the face of prevailing autocratic rule by the elites (Acemoglu et al., 2008, 2009);<sup>2</sup> the importance of geographic neighbourhood, whereby there is a tendency for transitions to democracy to cluster regionally (Gleditsch and Ward, 2006); the role of past experiences with democracy in such transitions, with economic recessions

increasing their likelihood (Ulfelder and Lustik, 2007); the unfolding of democratic transitions in the wake of wars, as demonstrated by the European experience (Therborn, 1977).

On the other hand, supporters of the modernisation hypothesis abound. Thus, among others, Epstein and colleagues (2006) show that higher incomes per capita significantly increase the likelihood of democratic regimes, but additionally argue that partial democracies (in-between autocracy and democracy) are much more susceptible to democratic transitions and hence should be the point of focus of transition analysis. Challenging the analysis of Acemoglu and colleagues (2008), Barro (2012) took into consideration a much longer timescale (1870–2009) and found very strong support for the modernisation hypothesis; similarly critiquing Boix and Stokes (2003), he argues that, when employing a longer time series, one that goes back to when no country was democratic, then the modernisation effect comes out very clearly, especially for the pre-1950 period.

Other researchers have drawn attention to differentiating between historical periods. Boix and Stokes (2003) emphasise that, whereas questions of inequality and redistribution policies were important for the fight for universal suffrage in the first wave of democratisation in France or Britain, these factors were probably less decisive for the collapse of communist regimes in the late 1980s and early 1990s, as these were largely driven by emancipative values, rather than economic development. Lupu and Murali (2009) also argue that, across a large span of history, including the democracies of the nineteenth century, no relationship between economic development and democratic development is evident. However, limiting the analyses to the post-war democracies of the twentieth century, economic development has had a consistent effect on democratic development. This suggests that there is room to develop theories about varied democratic trajectories in different historical periods.

The experience of the Arab region in the post-World War II period, when most of the Arab countries became independent, does not conform to the modernity hypothesis to the extent that Arab autocracies remained entrenched despite notable socioeconomic development. Instead, other factors, a few of which are unique to the Arab region, largely explain its lagging move towards democracy, and they go beyond transition hypotheses that, at least in part, might explain transitions elsewhere (see Section 4).

But now that the foundations of Arab autocracy have started to unravel, modernity factors could very well, in the future, exert a greater

positive influence on the transition process in the region, especially if, in the wake of the Arab uprisings, the factors retarding the move towards democracy weaken significantly. In the meantime, these factors continue to exert influence, and the question of consolidating the democratic process in the post-uprisings phase does, therefore, need to be addressed (Section 5).

### 3. On the persistence of the Arab democracy deficit

#### 3.1 Autocracy in the Arab region

A number of measures concerning the level of democracy/autocracy are employed in the empirical literature. Commonly used is the Polity IV Index, which includes data going back many years that are readily available for model testing. A more recent and comprehensive measure (as of 2006) is the Economist Intelligence Unit (EIU) Index. In what follows, we make use of both of them.

The Polity IV scheme consists of six component measures that record key qualities of executive recruitment, constraints on executive authority and political competition. The scheme also records changes in the institutionalised qualities of governing authority.<sup>3</sup> The 'polity score' captures this regime authority spectrum on a 21-point scale, ranging from -10 (hereditary monarchy) to +10 (consolidated democracy). They can also be converted to regime categories: a three-part categorisation is recommended: 'autocracies' (-10 to -6), 'anocracies' (-5 to +5) and 'democracies' (+6 to +10); there are also three special values: -66, -77 and -88 for, respectively, periods of interruption (foreign occupation), interregnum (breakdown of central authority) and transition, during which new institutions are being set up.

The EIU Index is a weighted average of 60 indicators grouped in five different categories: electoral process and pluralism, civil liberties, functioning of government, political participation and political culture. In addition to a numeric score and a ranking, the index categorises countries as one of four regime types: full democracies (a score of 8-10), flawed democracies (6-7.9), hybrid regimes (4-5.9) and authoritarian regimes (0-3.9).

#### *A caveat*

We should, of course, keep in mind that empirical measurements of democracy that attempt to capture its basic features – such as political competition, participation and civil liberties – do not necessarily succeed in fully reflecting the true democratic status in any given country; this

is debatably truer in developing than in developed countries. In part, this may be attributed to methodological flaws of the measurements, but could also be attributed to their coding rules, which do not always capture accurately the abuses of the governing classes and/or of special interest groups (Munck and Verkuilen, 2002).

The general prevalence of autocracy in the Arab region in the post-World War II period, 1960–2013, when most of the Arab countries became independent, is depicted in the polity scores of Table 3.1 and Figure 3.1.

Figure 3.1, contrasting democracy scores of various regions, indicates that, as of the early 1990s, only the Arab region remained in the negative zone; and while there has since occurred a general move towards democracy across the regions, as of 2013 the AW continues to lag behind, remaining in the autocracy zone.

On the eve of the uprisings in 2010, only three countries, Lebanon, Algeria and Iraq, gained positive scores (6, 2 and 3 respectively); these have been maintained by the first two countries through 2014. Iraq, as noted, was drawn that year into a deep conflict as a result of the

Table 3.1 Polity scores across Arab countries

	1970	1980	1990	2000	2010	2011	2012	2013
Algeria	-9	-9	-2	-3	2	2	2	2
Bahrain		-10	-10	-9	-5	-8	-10	-10
Egypt	-7	-6	-6	-6	-3	-2	-88	-4
Iraq	-7	-9	-9	-9	3	3	3	3
Jordan	-9	-10	-4	-2	-3	-3	-3	-3
Kuwait	-9	-10	-66	-7	-7	-7	-7	-7
Lebanon	5	-77	-66	-66	6	6	6	6
Libya	-7	-7	-7	-7	-7	-77	-77	-77
Mauritania	-7	-7	-7	-6	-2	-2	-2	-2
Morocco	-9	-8	-8	-6	-6	-4	-4	-4
Oman	-10	-10	-10	-9	-8	-8	-8	-8
Qatar	..	-10	-10	-10	-10	-10	-10	-10
Saudi Arabia	-10	-10	-10	-10	-10	-10	-10	-10
Sudan	-88	-7	-7	-7	-2			..
Syria	-9	-9	-9	-7	-7	-7	-9	-9
Tunisia	-8	-9	-5	-3	-4	-88	-88	-88
UAE	..	-8	-8	-8	-8	-8	-8	-8
Yemen	..		-88	-2	-2	-2	3	3

Source: Polity Scores Data Series (2013).

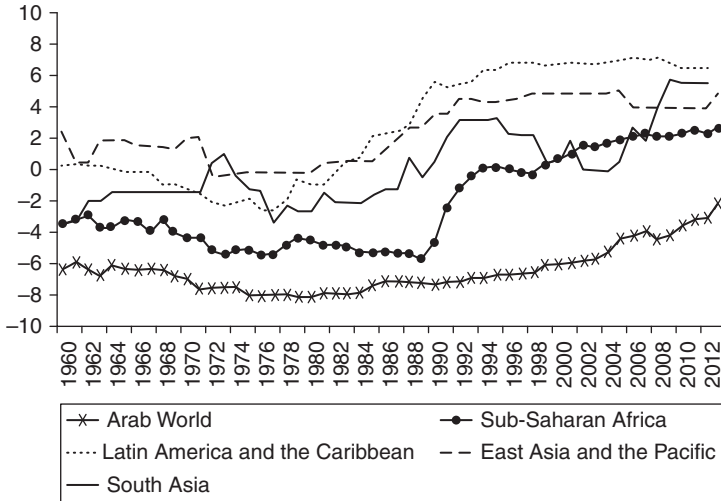


Figure 3.1 Polity scores across regions (1960–2013)

Source: Based on Polity Scores Data Series (2014).

ISIS assault. Yemen's score in 2012 and 2013 was 3 up from -2 previously, but again domestic armed conflicts intensified in 2014 and the first half of 2015. Egypt, with scores of -3 and -2 respectively for 2010 and 2011, was classified in 2012 as a regime in transition, but its score deteriorated to -4 in 2013. Tunisia, with a score of -4 for 2010, moved to a regime in transition in the subsequent three years, but with an expected positive score for 2014. Libya, with a score of -7 for 2010, was categorised in the following three years as a country with a broken central authority; it continued to witness armed conflicts in 2014 and the first half of 2015. Briefly, as of the end of 2014, only a few Arab countries had positive polity scores, with two additional ones being classified either as a regime in transition or having a broken central authority. The rest, comprising the majority of the Arab states, have, throughout, been assigned negative scores, with a number of them showing limited progress.

Noteworthy are the wide differences in the polity scores for individual countries: the obvious contrasts are Saudi Arabia, where absolute monarchy has long prevailed, with a score of -10 for 2013, and Lebanon's exceptional consociational but constrained democracy, with a high positive score of 6 for the same year. Equally, the negative scores encompass countries with both relatively high and low per capita incomes.<sup>4</sup>

Table 3.2 EIU Democracy Index for the Arab countries (2010–2012)

	2012 rank	2012 score	2011 rank	2011 score	2010 rank	2010 score
Tunisia	90	5.67	92	5.53	145	2.79
Lebanon	99	5.05	94	5.32	86	5.82
Mauritania	110	4.17	109	4.17	115	3.86
Iraq	113	4.10	112	4.03	112	4
Egypt	109	4.56	115	3.95	138	3.07
Jordan	121	3.76	118	3.89	117	3.74
Morocco	115	4.07	119	3.83	116	3.79
Kuwait	119	3.78	122	3.74	114	3.88
Libya	95	5.15	125	3.55	158	1.94
Algeria	118	3.83	130	3.44	125	3.44
Oman	135	3.26	134	3.26	143	2.86
Qatar	138	3.18	138	3.18	137	3.09
Bahrain	150	2.53	144	2.92	122	3.49
Djibouti	147	2.74	148	2.68	154	2.2
United Arab Emirates	149	2.58	149	2.58	148	2.52
Yemen	140	3.12	150	2.57	147	2.64
Sudan	154	2.38	153	2.38	151	2.42
Syria	164	1.63	157	1.99	153	2.31
Saudi Arabia	163	1.71	161	1.77	161	1.84

Source: EIU Reports, 2011 and 2012.

A somewhat similar story is revealed by the EIU Democracy Index (Table 3.2).<sup>5</sup> Looking at individual country scores for 2010, all of the Arab countries were classified as autocratic, with the exception of Lebanon and Iraq, which were classified as hybrid regimes. For 2012, 5 additional countries (Tunisia, Mauritania, Algeria, Egypt, Morocco and Libya) joined the latter category, the remaining 12 Arab countries retaining their autocratic status. By region (Table 3.3) for 2010–2012, the AW score is the lowest and is classified as autocratic, but so is Sub-Saharan Africa, though with a higher score.

Thus the AW missed out on the so-called third wave of democratisation (Huntington, 1991) that commenced with democratic transitions in Southern Europe in the mid-1970s. Regime changes in Latin America were set in motion in the 1980s and continued into the 1990s. Next came the transformation of Central and Eastern Europe upon the dissolution of the Soviet Union, beginning in 1989. Democratic transitions swept through Sub-Saharan Africa in the early to mid-1990s (though

*Table 3.3* EIU Democracy Index across regions (2010–2012)

Region	EIU Index		
	2010	2011	2012
North America	8.63	8.59	8.59
Western Europe	8.45	8.4	8.44
Eastern Europe	5.55	5.5	5.51
Latin America and the Caribbean	6.37	6.35	6.36
Asia and Australasia	5.53	5.51	5.56
Middle East and North Africa	3.43	3.62	3.73
Sub-Saharan Africa	4.23	4.32	4.33
Total	5.46	5.49	5.52

*Source:* EIU Reports, 2011 and 2012.

many were not sustained), and occurred more sporadically in various parts of Asia in the 1980s through to the 2000s.

But, of course, not all the countries that have embarked on the democratisation process have necessarily attained full democracy. Many remain classified as flawed or partial democracies.

In contrast to the Arab region's democracy record, Arab development, as indicated by the rate of growth, per capita income, education and health indicators, among others, has not fared badly (World Bank, 2014). The region's average growth rate in the past 20 years was above the world average and above that of other regions, with the exception of East and South Asia. The average income per capita in 2000–2013 for the high-income Gulf Cooperation Council (GCC) group (at almost USD 27,000) was only second to the Organisation for Economic Co-operation and Development (OECD); and, since 2000, some (especially Qatar and the United Arab Emirates (UAE)) have surpassed the average income per capita of the OECD, while the average income per capita for the whole Arab region (comprising both the oil and diversified non-oil economies) was only slightly below USD 4,000, which was more than twice the median income for the developing world. Finally, looking at the Human Development Index (HDI) (Figure 3.2), the Arab region has been developing in line with other regions.

If the Arab experience, in contrast with that of other regions in the world, does not conform to the modernisation hypothesis that

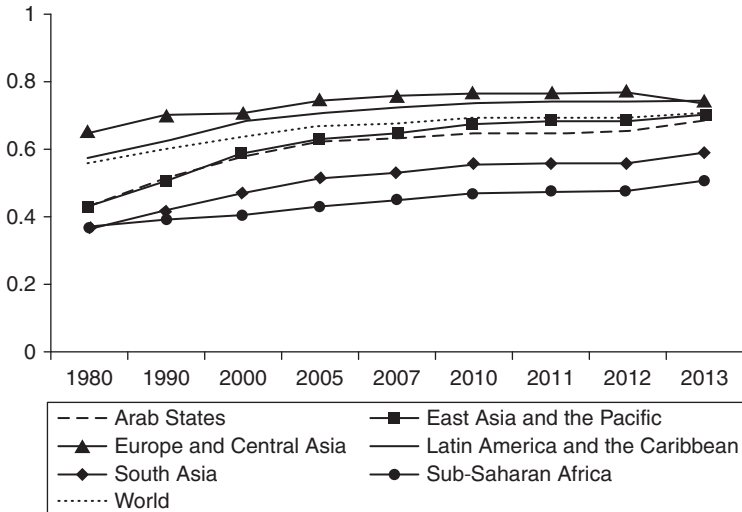


Figure 3.2 HDI across regions (1980–2013)

Source: Human Development Report (2014).

stipulates a positive correlation between democracy and development, then the question arises: What explains the persistence of Arab autocracies, at least until the outbreak of the Tunisian uprising?

### 3.2 Underpinnings of the democracy deficit

Numerous past and more recent analyses have analysed the question of lagging democracy in the Arab region. These vary from a broad historical viewpoint to more focused analyses on underlying factors (Center for Arab Unity Studies, 1983; Sharabi, 1988; Hudson, 1991; Kedourie, 1994; Salameh, 1994; Waterbury, 1994; Al Naqeeb, 1996; Bichara, 2006; Harik, 2006; Noland, 2008; Diamond, 2010; Elbadawi and Makdisi, 2011, 2013; Amin et al., 2012; Chaney, 2012).<sup>6</sup> Space limitations, however, do not allow a review of this literature here. Instead I shall refer to recent work by Ibrahim Elbadawi and myself that, informed by existing literature, attempts to explain the long persisting Arab democracy deficit (Elbadawi and Makdisi, 2011).<sup>7</sup> Taking the modernisation hypothesis as a framework for analysing long-term cross-country differences in the standards of democracy, rather than as a theory of political transition, this hypothesis is deployed as a benchmark model for analysing the Arab democracy deficit relative to the counterfactual consistent with its level



of development, as well as for testing hypotheses that might explain the persistence of this deficit.

Very briefly summarised, the model (for details refer to Elbadawi and Makdisi, 2010) shows that, for the Arab region as a whole, while the extended 'modernity' variables (for example, income, education, neighbour polity and female percentage of the labour force) are important determinants of democracy in the long run, they fail to explain why the Arab democracy deficit has persisted relative to other comparator regions.<sup>8</sup> Post-colonial rule has had a negative impact (a preponderance of Arab countries became authoritarian immediately after independence) but, in turn, does not furnish evidence of the deficit. Ethnic fractionalisation reduces the persistence of polity, whether autocratic or democratic. However, the results imply that ethnic fractionalisation does not seem to have affected democratisation in the Arab region.

Religion, specifically Islamic religious practices and/or traditions, have been invoked by a number of writers as promoting autocracy in the Arab region (Rothstein and Broms, 2011; Chaney, 2012); in our model, both Muslim and Christian dummy variables are found to be insignificant and small in scale, suggesting that they have no influence on polity. Other writers have reached similar conclusions (Kuru, 2014; Maseland and van Hoorn, 2013). But, of course, religion can be employed as an instrument to promote authoritarian rule: clerics beholden to the ruler, especially in oil-rich countries, have played and continue to play the role of defenders of the status quo (Aldashev et al., 2013).<sup>9</sup>

What fundamentally seems to explain the persisting democracy deficit in the Arab region, are oil and conflicts, in particular the Arab/Israeli conflict, along with all their attendant disruptive foreign interventions. The oil curse effect, the trade-off between economic welfare and political rights, is well established in the literature (for a review see Ross, 2014). However, two qualifications to the oil effect should be noted (Elbadawi and Makdisi, 2013): first, below a certain per capita level it is not a significant factor and, secondly, it acts as an impediment to democracy only in autocracies and partial democracies, and not in countries that are already democratic. So far, neither condition stands in a majority of the Arab oil countries. But conflicts are found to have a unique negative effect on the democratisation process of the Arab region, partly because these conflicts, in particular the ongoing Arab/Israeli conflict (the Palestinian question) have been exploited by some incumbent autocratic regions to justify their rule. More generally, the persistence of this question helped maintain a conflict-prone

regional environment that was inimical to democracy: it provided a region-wide pretext for authoritarian rulers to escape the consequences of their national failures, and also contributed, in a few cases, to the outbreak of civil wars (e.g. Jordan, Lebanon), whose settlement did not lead to a significant change in the political status quo. In contrast, in other regions of the contemporary world, with no experience similar to the Palestinian one, civil conflicts have mostly been followed by a process towards democracy, noted reversals notwithstanding (Jai Kwan Jung, 2008).

On their part, the case studies have enabled a deeper and more nuanced understanding of the oil and conflict thesis, leading to four important conclusions:

1. The influence of oil wealth in permitting the trade-off between economic welfare and political freedom cannot be considered in isolation from the specific socio-political history of the country concerned. To illustrate, in Iraq the effect of oil wealth was tempered by the ability of the cross-ethnic nationalist movement to undermine the legitimacy of the monarchy, and saw the overthrow of the monarchy in 1958. In Algeria, the influence of oil wealth should be considered in the context of the political alliance of the party that took over power after independence with the military and bureaucracy. In Kuwait, the important merchant class has been able to extract certain political rights (an elected legislature) before and after the oil era began: as a result, a partial democracy has started to emerge (see Elbadawi and Kubursi, 2014). In Saudi Arabia, fundamentalist religious groups have, throughout, exercised great influence over the nature of the state.
2. It is necessary to recognise fully the important indirect influences oil wealth has had on non-oil Arab countries in the region as it tended to reinforce their autocratic regimes. In some of these countries, for instance, oil wealth has been used to support particular religious/political groups. This support, irrespective of its charitable aspects, has often accentuated already existing social/religious divisions and rendered the leaders of these groups politically beholden to their benefactors. In other countries, oil wealth has been used to help autocratic regimes spend lavishly on their security/military establishment, or support them in their regional wars.
3. The negative impact of the Arab/Israeli conflict has varied from one country to another, being felt more in countries nearer to the stage

of the conflict, such as Jordan, Lebanon, Syria, Egypt and Iraq than, for example, in Algeria or some of the Gulf States. For countries that have gone through a civil war, such as Sudan and Lebanon, the wars' corrosive impact on polity has been manifested in a number of ways. For example, in the former case it encouraged military coups, while in the latter it contributed to a deepening of sectarian divisions and, in consequence, hindered a potential move to a more advanced democracy.

4. Finally, foreign military interventions (for example, Kuwait and Iraq) and the rise of Islamic fundamentalism (encouraged by such interventions) have also acted, in one way or another, to bolster authoritarianism in the region. The ruling authorities have not hesitated, and would not hesitate, to use the potential threat, let alone a real one as has transpired, posed by fundamentalist groups to the existing political order as an added justification for their authoritarian rule, with its attendant violations of political and civil rights of citizens. The role that fundamentalist movements have come to play after the uprisings, briefly noted in Section 4, lies outside the purview of this chapter.

The case studies also reveal that the Arab countries have shared additional common explanatory factors (e.g. historical legacies, co-optation of business elites). And as El-Affendi (2011) put it succinctly: what stands out is that the post-independence Arab rulers continued to arrogate to themselves the same privileges and powers that the colonial state had enjoyed, thus alienating themselves from their societies as much as the colonial powers had done before them.

#### **4. Unravelling of the Arab autocracy and the role of socioeconomic factors**

Whatever the immediate triggers for the Tunisian and Egyptian uprisings, their underlying factors had been building over the years, and their success provides additional incentives for the push towards a wider democratic space in the region. But this push faces resistance: the major factors that, in the first place, had obstructed the rise of democracy continue to exist, though perhaps their influence might have somewhat waned.

Numerous writings have been published on various facets of the Arab uprisings. Drawing on recent analyses, I submit five major factors

explaining the unravelling of the Arab autocracy that started in Tunisia:<sup>10</sup>

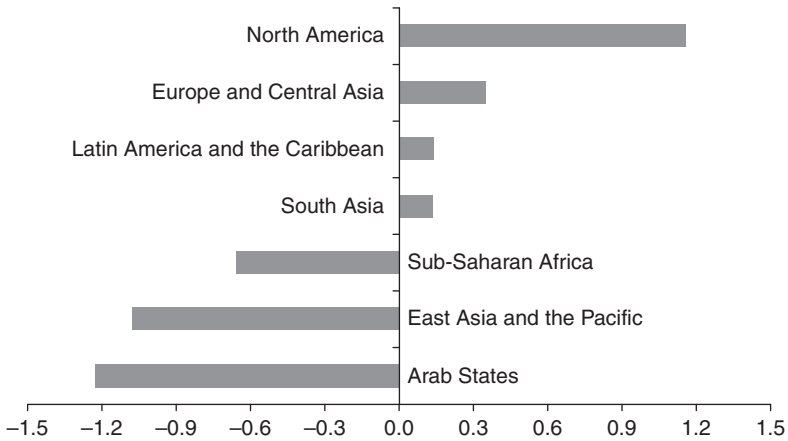
1. The declining economic role of the state (its downsizing) that has been accompanied by a sharp rise in the levels of unemployment, especially youth unemployment, and growing inequality.
2. The impact of greater openness, both within the Arab region and with the outside world.
3. Deep-seated ambitions, not only for socioeconomic advancement, but also for greater freedom and political participation.
4. The impact of growing democracy in the Arab region or the neighbourhood effect.
5. The impact of conflict resolution in the region, especially the Arab/Israeli conflict that admittedly remains a potential factor.

In the period following the fall of the Soviet Union, the gradual shift in the development paradigm from a nationalist developmental strategy based on a public sector-oriented economy to a market economy had a major consequence. With this shift, and for various reasons, including misguided policies, the private sector failed to generate sufficient employment opportunities that state and public sector institutions had previously provided (no matter how inefficiently), especially for the youth.

Some analysts point out that when economic growth faltered, as in the 1980s, implementation of economic reforms was uneven, hesitant and incomplete, and not infrequently accompanied by cronyism and corruption (Ansani and Daniele, 2012). Indeed, it is not only the impact of economic policies on growth performance that should be considered, but, equally, if not more importantly, that of institutions, both economic and political. Institutional performance, as has been argued, plays a determining role in explaining differences in per capita income outcomes (Acemoglu and Robinson, 2008), and institutional performance in the Arab region has not generally been of high quality (Table 3.4).

Whatever the causes of the faltering Arab growth, in the period 2005–2010 Arab youth unemployment reached high levels, averaging more than 25 per cent, and continued to rise in both 2011 and 2012 (the highest rate among various developing regions, ILO, 2013). This growing unemployment tended to weaken the regimes' authoritarian hold on power and weaken its authoritarian bargain, more so in the non-oil-producing than the oil-rich countries; in other words, impacting

Table 3.4 Voice and accountability across regions (2011)



Source: Based on World Bank, WDI, 2012.

on their ability to trade off public goods and other economic benefits for political rights and participation. As some writers have put it, the Arab Social Contract started to unravel (Amin et al., 2012). Indeed, according to Elbadawi and Makdisi (2013), it is shown that high unemployment levels (above 10 per cent) were one of the factors underlying the uprisings. The unemployment channel appears to be particularly relevant to explaining recent Arab uprisings in the low-to medium-resource-endowed countries, such as Egypt, Syria, Tunisia and Yemen, or those that are ripe for change, such as Algeria and Sudan.

Furthermore, the declining economic role of the state has helped promote the growth and empowerment of independent civil society organisations that traditionally press for economic and political reforms. Of course, as already mentioned in the preceding section (Section 3), the Arab ruling classes have attempted to counter this trend by co-opting both the business and intellectual elites, and indeed by forging partnerships between high government officials and business tycoons (who basically engaged in rent-seeking activities). In practice, this meant that a few groups were favoured and received the larger part of the benefits of growth to the relative exclusion of the majority of the populace; this phenomenon, in turn, bred growing resentment among the latter. While the trend in income inequality may not have changed significantly in the past few decades (Hakimian et al., 2013),<sup>11</sup> discontent, associated

with disillusionment with economic prospects, led to what has been termed ‘unhappy growth’ (Amin et al., 2012).

The impact of greater openness, both within the Arab region and with the outside world, on weakening the authoritarian bargain is perhaps self-evident. It helps civil society organisations, including those run by students, women and other social groups, to press harder for political reform. And, as amply demonstrated by the recent uprisings, there are deep-seated ambitions, not only for socioeconomic advancement, but also for greater freedom and political participation on the part of large segments of the populace who have felt disenfranchised and largely excluded from the benefits of economic development.

The unexpected success of mass street mobilisation in both Tunisia and Egypt has acted as a spark for similar mass movements in other Arab countries: in particular, the younger generations pressed successfully for the dismantling of the autocratic regimes of both countries via mostly peaceful means, including intensive use of the rapidly spreading social networks (Figure 3.3).

The uprisings of the Arab youth were influenced by two underlying factors: primarily they had lost faith in the role of traditionalist reformist political parties, which proved incapable (for whatever reason) to act as agents of political change and therefore had to be left behind. But, also, they were influenced by the ripple effects of the important democratic changes that had taken place in other regions of the developing world.

It is true that subsequent uprisings, in Syria, Yemen and Libya, have turned into armed conflicts with confessional and/or tribal overtones. And, especially in the Syrian case, the ongoing tragic conflict has

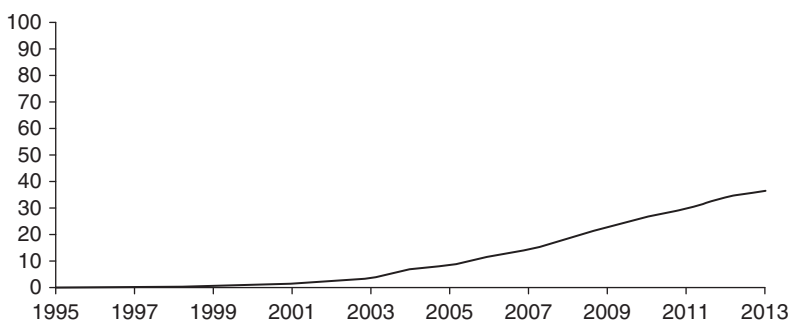


Figure 3.3 Internet users (per 100 people) in the Arab states (1995–2013)

Source: World Bank, WDI (2014).

attracted armed fundamentalist groups whose aims are contrary to the original popular demands for political freedom and socio-economic reform. Nonetheless, the transitional regimes that will follow the settlement of these internal conflicts will be under growing pressure to put a genuinely democratic order in place, especially if other Arab countries manage to develop and/or consolidate their democracies.

Indeed, societies located in democratic neighbourhoods tend to be more susceptible to democratic transition. Moreover, resource rents could very well cease to be a constraint to democratic transition in democratic regions, even for highly resource-endowed societies (Elbadawi and Makdisi, 2013). Hence, should the current Arab uprisings swell into a major regional democratic phenomenon, it might very well spread to the highly resource-endowed GCC societies that, save Bahrain, have so far remained unaffected.

Similarly, we should consider the potential impact of settling regional conflicts, in particular the Arab/Israeli conflict that, in the past decades, have destabilised the region and influenced negatively potential moves towards democracy, albeit to varying degrees from one country to another. Hence, one can postulate that, should the various violent conflicts afflicting the AW be resolved, including, above all, a just and sustainable resolution of the Palestinian question, this would greatly reinforce the trend towards a genuine democracy in the region. And where partial democracies already exist this would only act as a further element in pushing for full democratic change, as such democracies are more susceptible to democratic transitions than autocracies (Elbadawi and Makdisi, 2013).

## 5. Consolidation of the democratic transition?

Generally, as current Arab uprisings expand and consolidate, they will, as noted in Section 4, generate an increasingly positive neighbourhood externality. But, as the experiences of other regions teach us, the consolidation of democracy is a not a foregone conclusion. For this consolidation to take place, a number of challenges will need to be met. I here point out three of them:

1. A major challenge is the willingness and ability of the political victors in the countries that manage to break the hold of autocratic rule to establish genuinely representative, accountable and transparent political institutions that would guarantee basic human rights (freedom of expression and free choice being at the top of these

rights), provide the opportunity for the most disadvantaged groups to participate, institutionalise their rights to make choices and challenge public policies, and hold governments accountable, as well as ensure equitable development or IG.

If such institutions are established and become operable and secure, whereby the toppled elite is not replaced by a new elite with a similar pattern of behaviour, then we need not fear initial electoral success of particular politico/religious groups. Under these circumstances, their initial success can later be democratically contained, if not reversed, especially if they fail in governing developments; Tunisia, in particular, represents a good demonstration of this matter.

2. Another challenge facing the consolidation of the democratic process is the ability to frame and implement a broad and inclusive long-term socioeconomic strategy: this strategy should create expectations that growth, expanding employment opportunities, fairness and equity will play major roles in the transition to a new economy. This would imply modernising the public sector and eliminating its 'elite capture', with the objective of ensuring that newly emerging political and business interests are not capable of forestalling the implementation of desired socioeconomic reforms.

Looking at the record of democratic transitions elsewhere, they resulted, not infrequently, in economic recessions which either derailed or potentially could have derailed the process of substantive political reform. Of note are studies showing that transition countries that succeeded in implementing socioeconomic reform have forged ahead economically more than those that failed to do so (Amin et al., 2012).

3. Finally, we cannot but keep in mind the corrosive impact of regional conflicts. Briefly, the consolidation of democracy in the region could remain precarious in the absence of fundamental resolutions to prevailing major conflicts, especially the central Arab/Israeli conflict, acceptable to the parties concerned. The corrosive impact of this conflict and the more recently emerging sectarian divisiveness pose threats of reversals in the countries that manage to break out of the grip of entrenched autocracies. This potential threat may be greater in countries closer to the central conflict and/or are exposed to potential divisive sectarian influences. It remains true, however, that the more countries in transition succeed in implementing a genuine democracy, along with a viable socioeconomic strategy based on the



principles of IG, the less is the potential threat of reversal posed by such conflicts.

## 6. Concluding remarks

Looking at the socioeconomic dimension of the Arab uprisings, three major factors have been building up as fundamental triggers: high unemployment, persisting deep inequality and relative exclusion of the populace from the benefits of growth. These factors led to growing public resentment and alienation from the authorities. But, important as they might have been, they remain part of a wider spectrum of causes leading to the overthrow of autocracy, beginning with Tunisia and Egypt. Deep-seated desires for greater freedom and political participation, improved governance, and accountable and inclusive institutions have also played major, indeed paramount, roles as potential triggers for change, let alone the additional impact of geopolitics and foreign interventions. It would be difficult to assign weights to economic versus non-economic triggers. What perhaps can be said is that these factors have been interacting all along, and when the opportunity arose (whatever the triggering circumstances), public pressure for major political change could no longer be held back.

The phase of dismantling Arab autocracy is just beginning. So far only Tunisia appears to be moving towards a substantive democracy, with Egypt falling behind. The eventual outcome of the other uprisings remains highly uncertain. While some reforms have been introduced in the other Arab countries, the regional contagion of democracy remains contained. The elements pushing for change are being resisted by the elements that have maintained the persistence of the Arab democracy deficit. An eventual breakthrough will, no doubt, take place, and the regional space of democracy will widen. It is a question of time and, hopefully, not necessarily a very long stretch of time.

## Notes

1. Bahrain has also witnessed mass popular protests demanding political reform. But, with the assistance of Saudi Arabia, the authorities have so far been able to thwart any potential uprising, leading substantive change in the incumbent regime.
2. According to the authors, democracy is most likely when inequality is neither too low nor too high. This leads to the main empirical prediction, a curvilinear relationship between inequality and democracy: an inverted U-shaped curve.

3. The Polity Index data include information only on the institutions of the central government and on political groups acting, or reacting, within the scope of that authority. The data does not include consideration of groups and territories that are actively removed from that authority (in other words, separatists or 'fragments'; these are considered separate, though not independent, polities) or segments of the population that are not yet effectively politicised in relation to central state politics.
4. We should keep in mind the limitations of the democracy measurements noted above. They might explain, for example, why Kuwait, with its relatively freely elected and active national assembly, remains classified as highly autocratic, with a polity score of  $-7$  for 2012. Or why, for the same year, Lebanon's score was  $+6$ , which puts it in the non-differentiated 'democracy' category, though its political regime is enshrined with sectarian features that discriminate among citizens: unequal electoral rights and varying personal status laws to which they are subject, depending on their religious affiliation.
5. According to the EIU Index, the Middle East and North Africa (MENA) region includes Iran and Israel. Their removal would not change the weighted average significantly.
6. The following references are but a tiny sample of writings starting in the early 1980s and representing differing views of this question: Center for Arab Unity Studies, 1983; Sharabi 1988; Hudson 1991; Kedourie, 1994; Salameh 1994; Waterbury, 1994; Al Naqeeb 1996; Harik, 2004; Bichara, 2006; Noland 2008; Diamond 2010; Elbadawi and Makdisi, 2011, 2013; Amin et al., 2012; Chaney, 2012.
7. This chapter is part of wider research projects in which Samir Makdisi is participating whose aim is successively: (1) explaining the Arab democracy deficit and (2) understanding democratic transitions in the AW, which we have been jointly managing with the participation of a number of scholars. The projects comprise both cross-country work and case studies. The findings of the first project have appeared as EM 2011; a manuscript that includes the research findings of the second project is under preparation.
8. Modernisation variables appear to have accounted for the determinants of democracy in Sub-Saharan Africa and East Asia. Additionally, though the Latin American dummy is found to be significant in scale, it is only about one third that of the Arab dummy coefficient.
9. Some writers caution that, in contrast with Islam, which, as a religious faith, is compatible with democracy, Islamist fundamentalism is not: Islamist movements may embrace ballots but merely as a political exigency, while continuing to reject the concept of political pluralism that underlies democratic governance (see Tibi, 2008).
10. There is a vast and growing literature on the Arab uprisings which we cannot review here, so will only refer to a few select writings.
11. The authors point out that data tend to place the MENA region's income distribution levels between those for Africa and Asia, and that they tend to have moderately high levels of inequality overall (some countries, like Egypt, are at the lower end of the scale of inequality, with an income distribution closer to the Asian pattern; others, such as Iran, have fairly high inequality, closer to African levels). A key finding is that, despite huge structural changes

in these economies, income distribution has not changed by much. Over the last few years, there are indications of a worsening tendency, but the trend is not noticeable when compared to worsening income distribution in fast-growing Asian countries.

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# 4

## Transcending Neoliberalism through Pro-Poor and Democratic Economic Development Strategies

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This chapter examines the pro-poor (democratic) macroeconomic policy framework, and the scope for its deployment as a progressive alternative to Washington Consensus-type (mainstream, or neoliberal) policies. Despite their regressive outcomes, these mainstream economic policies have been implemented consistently in most Arab and developing countries during the last 30 years; alarmingly, their hegemony has escaped virtually unscathed even the ravages of the ongoing global economic crisis. The chapter also contributes to the development of the literature on pro-poor policies through the integration of recent heterodox works in the areas of industrial and social policy and democratic economic policymaking.

This endeavour can be justified at two levels. First, many economists reject the policies inspired by the Washington Consensus, not only because of their theoretical inconsistencies, but also because of their close association with weak macroeconomic performance, recurrent crises, regressive shifts in the distributions of power, income and wealth, and because those policies have consistently thwarted the achievement of such pro-poor outcomes as the Millennium Development Goals (MDG). Secondly, despite their considerable value, academic critiques of the Washington Consensus are insufficient. They ought to be supplemented by suggestions for alternative macroeconomic policies in order to counter the argument that the Washington Consensus is, effectively, the only game in town. The democratic policy framework offers both a critique of mainstream development policy and a set of progressive alternatives that may find resonance with large audiences, including heterodox economists and social scientists working in other disciplines,

government officials, activists and concerned citizens in several countries. This makes pro-poor (democratic) development strategies one of the most exciting developments in heterodox macroeconomics.

The policies outlined in this chapter draw upon insights from several non-mainstream traditions, including the post-Keynesian, institutionalist, evolutionary, Kaleckian and Marxian Schools, in order to offer a compelling case for economic policies focusing on the basic needs of the poor and the improvement of the distribution of income, wealth and power in the poor countries in the AW and elsewhere. This chapter also seeks to strengthen further the links between heterodox academics and policymakers, in order to enrich the burgeoning pro-poor tradition with the achievements of non-mainstream economic theory, while offering heterodox theorists an institutional and policy framework supporting the development of alternatives to the mainstream.

The chapter includes this introduction and three substantive sections. The first explains the principles underpinning democratic economic policymaking. The second examines these policies in detail, including investment and productivity growth, fiscal policy and public investment, balance of payments and exchange rates, monetary and financial policy, and social policies. The third section concludes the chapter.

## **1. Democratic economic policies**

There is incontrovertible evidence that the 1980s and 1990s were 'lost decades' for development within most countries, especially the AW, which implemented policy reforms inspired by the World Bank and the IMF. Realisation of these disappointing outcomes fuelled opposition to the mainstream in academia, international organisations and non-governmental organisations (NGOs) (Fine and Saad-Filho, 2014). The critics argued that mainstream policies focus inordinately on short-term stabilisation while, at the same time, undercutting the basis for long-term growth, and supporting the economic and political structures that reproduce poverty and inequality (Taylor, 1988; Bird, 2001; Bracking, 2004; Saad-Filho and Yalman, 2010). Unsurprisingly, these policies systematically fail to trigger rapid economic growth or support the elimination of poverty. Even when they are accompanied by social policy interventions, the contractionary impact of mainstream policies invariably overwhelms the compensatory programmes available that, in turn, are limited by low growth, arbitrary fiscal targets, high or rising unemployment, informalisation, the policy-driven disarticulation of the pension and welfare systems, and reluctance to tax

the wealthy. The outcome tends to be the expansion of poverty and the deterioration of the distribution of income, which may or may not be accompanied by 'jobless growth' (UNCTAD, 2002, 2012). Traditionally, the mainstream has tended to ignore these difficulties, invariably promising them imminent and spontaneous 'market-led' resolution.

Eventually, the critics led the Washington institutions to admit that poverty reduction and improvements in distribution were neither the spontaneous by-product of growth nor the unmediated outcome of policy reforms, improvements in governance or the elimination of 'market distortions' (Saad-Filho, 2011). In the 1990s, the World Bank developed a more nuanced understanding of the relationships between growth, poverty, social policy and distribution, leading to the emergence of the notion of 'inclusive growth' (IG) (Stiglitz, 1998; UNCTAD, 2000; Fine et al., 2001; World Bank, 2005, 2006, 2009; Rodrik, 2006; van Waeyenberge, 2006; CGD, 2008; Saad-Filho, 2011). Although IG is more sensitive to the plight of the poor than the Washington Consensus, its focus remains firmly on growth, which, presumably, 'naturally' delivers welfare improvements through trickle-down effects, as long as the latter is supported by marginal policy interventions.

Democratic and pro-poor economic development strategies (PPS) are sharply distinct from mainstream approaches to growth, development and distribution, and they can be contrasted both to conventional Washington Consensus-type policies and to newer IG approaches. PPS are based on four principles (Kakwani and Pernia, 2000; Kakwani, 2001, 2002; McKinley, 2001, 2003, 2009; Osmani, 2001; Dagdeviren et al., 2002; Palanivel, 2003; Chang and Grabel, 2004; Pasha and Palanivel, 2004; Vandemoortele, 2004; Wignaraja et al., 2009). First, and very simply, is the recognition that mass poverty is the most important problem facing the developing countries, and its elimination should be their governments' main priority (Sengupta, 2004; Saad-Filho, 2007).

Secondly, by definition, growth is pro-poor when it benefits the poor more than the rich; that is, when it reduces relative as well as absolute poverty. Traditionally, growth and equity were perceived to be negatively correlated, at least in the early stages of growth, and this was often used to validate the implementation of regressive policies in poor countries. This claim was challenged by studies of the empirical evidence and by alternative accounts of the East Asian experience, which suggested that greater equity can support rapid growth and development. This debate is informative, but it contributes only marginally to the case for PPS. In this framework, economic policies are not selected in order to maximise growth, equity is not an instrument for the achievement of



rapid growth, and there is no presumption that there is a stable trade-off between growth and equity that can be exploited for policy purposes. Consequently, PPS must include a set of policies enforcing a positive feedback loop between growth and distribution, and making distribution essential for growth. That is, in PPS distributional outcomes are a condition for growth, rather than the incidental outcome of growth.

Thirdly, improvements in distribution and social welfare should be pursued directly. These improvements should not be conditional on trickle-down effects, and they must be unambiguous across a broad spectrum of welfare and distribution measures. Changes in the initial distribution of income and wealth (for example, through land reform, universal education and training, and the introduction of pensions and other entitlements funded by progressive taxation) can promote several pro-poor objectives simultaneously, but these distributional shifts can be achieved only through public policy. In addition to those *ex ante* distributive shifts, under PPS the process of income generation must be transformed in order to benefit the poor disproportionately. Possible changes include the deployment of industrial policy instruments to support strategic activities, aggressive employment generation programmes and incentives for wage increases for low-skilled workers.

Fourthly, pro-poor strategies must be nested within democratic political processes. The successful implementation of PPS depends critically on the political structures underpinning this development strategy, especially mass mobilisation in support of distributive policies. This is essential because distributive policies disconnected from popular participation are generally populist: they are selected and implemented arbitrarily, and they tend to be poorly monitored and disembedded from the social groups directly concerned with their success. These are not merely process failures, but symptoms of political flaws and strategic vulnerabilities in the distributive project. In the absence of supporting mass intervention, for example, through participatory budgeting, there is no way to ascertain the social priorities, gauge the intensity of support for conflicting goals, select between alternative uses for the available resources and evaluate the performance of the pro-poor programme. Democratic accountability also increases the resilience of the distributive project, making it less vulnerable to political shifts within the state apparatus, either because of changes of government or through backroom negotiations between the economic and political elites. In sum, a democratic institutional framework is essential for an effective, legitimate and durable pro-poor development strategy.

## 2. From principles to policies

PPS can give an important contribution to the achievement of democratic and distributive economic outcomes in poor countries. This can be done optimally through a combination of rapid, sustainable and employment-intensive growth, and the redistribution of income and assets.

The relationship between development strategy, distribution and poverty suggests, first, that poverty reduction works best if technologies and the economic structure are geared towards producing goods and services for the poor, with labour-intensive technologies, and employing skilled and relatively well-paid workers. Secondly, investment in productive assets and in health and education, rather than the expansion of unproductive activities such as finance or speculation in real estate, are essential to build economic resilience. Thirdly, reductions in poverty and in inequality can be mutually supporting; for instance, greater equality tends to expand the markets for labour-intensive non-traded goods and services, allowing the producers and the sellers to reap economies of scale. Section 2.1 examines the policies that may contribute to the achievement of PPS goals along these lines.

### 2.1 Investment and productivity growth

Economic growth can contribute to poverty reduction in different ways. Growth increases the availability of goods and services and expands the country's consumption possibilities. It creates employment, expands markets and sales income, and raises wages through the creation of labour scarcities. Growth also helps to fund distributive social programmes and finances the provision of public goods (Chang, 1994, 2002; Amsden, 1997, 2001; Fine, 2006). Finally, economic growth can also help to generate the savings and financial development required to fund investment and consumer spending. In the absence of growth (and, secondarily, foreign transfers including aid, debt forgiveness and workers' remittances) poverty-reducing outcomes depend, to a much greater extent, on distribution, which can generate severe political tensions.

The selection of investment priorities in PPS should recognise that, while investment is the driving force of growth, growth is also the driving force of investment because rapid and sustained growth generates the demand that makes individual investment projects viable. Conversely, low investment not only weakens growth but also complicates the task of reallocating resources towards pro-poor sectors. The

manipulation of interest rates is likely to prove insufficient to the task of inducing the required levels of investment, since there is no evidence that marginal shifts in interest rates can trigger the desired response.

In order to kick-start a virtuous circle of growth and investment it is necessary to identify the sectors that hold the key to rapid growth, the reduction of inequality and the alleviation of the balance-of-payments constraint. Their expansion should be fostered through targeted industrial policies, public investment, and focused incentives for the expansion of capacity and output.

Priorities are likely to include labour-intensive sectors producing non-tradables, such as small-scale agriculture, the construction industry, repair workshops and services industries producing food and industrial inputs, sectors offering a significant employment-generating potential, and those training entrants to the labour markets. These employment-intensive but low-productivity sectors provide direct benefits to the poor. Infrastructure sectors, including roads, ports and airports, electricity generation and transmission lines, housing, water and sewerage provision, rural roads and irrigation facilities, as well as education and technical training, will invariably need to expand in poor countries. These sectors will invariably require state funding, and they may benefit from public works programmes. In most poor countries, it is especially important to support the development of agriculture and its linkages with other sectors, because of its economic importance and the fact that large numbers of poor people live in rural areas. Poor countries attempting to raise agricultural productivity, boost the links between agriculture, the manufacturing industry and other dynamic activities, and increase the output of exportable goods can draw upon the Chinese, Indonesian and Vietnamese strategies between the 1970s and the 1990s (Weeks et al., 2002). In order to achieve those goals, it may become necessary to reform the land tenure systems and invest in better technology and in physical and social infrastructure, for example, seeds and fertilisers, crop selection, irrigation, storage and transportation facilities and so on. These programmes can be funded by a combination of taxation and targeted credit by state-owned and private financial institutions.

Low-productivity sectors absorb large amounts of labour in poor countries, and they provide not only limited outcomes in terms of the supply of goods and services but also, inevitably, low wages. In addition to these essential, but mostly low-productivity investment priorities, pro-poor development strategies should incorporate selected high-productivity projects, because these can open new export opportunities and they require the development of chains of related activities

that will expand growth and employment in other areas of the economy. They also demand a skilled workforce, which can transfer their expertise to other sectors when they change jobs or if they open small businesses. These workers will be better paid than the average, which will raise the aspirations of the workers employed elsewhere in the economy. Finally, more productive firms can set high standards of workplace safety and security that will facilitate the elimination of unsafe and degrading working conditions elsewhere.

Raising average wages gradually and continuously while reducing wage dispersion will benefit not only the low-paid workers but also the most productive firms, especially in the capital-intensive sectors. These firms will capture extraordinary profits through their higher productivity and the expansion of the domestic market, while their less efficient competitors will face losses. Export incentives, targeted credit and import protection (to the maximum extent permitted under World Trade Organization (WTO) rules) will support the adjustment of the labour-intensive sectors to the new policy regime, while offering an alternative avenue for profitability and growth. Finally, the workers left unemployed because of the bankruptcy of the inefficient firms or the declining availability of low-paid jobs will have to be retrained with public funds in order to find more productive and better-paying employment elsewhere. These medium-term policies will help to raise productivity, increase labour market flexibility and reduce structural unemployment, while creating incentives for exports and for long-term productivity growth in the economy.

These favourable outcomes are neither necessary nor automatic. High productivity gives firms the scope to grow and improve pay and conditions, rather than press for wage cuts or labour-shedding whenever they are hit by demand pressures. However, the market does not always spontaneously generate exports, internalise value chains, pay salaries commensurate with productivity, or deliver adequate health and safety standards in the workplace. State regulation, incentives and trade union intervention are essential to achieve these outcomes. Regulation should make it difficult for firms to increase profitability by cutting wages, arbitrarily extending the working day, or bypassing health and safety rules. Productivity growth and better working conditions can also be promoted by legislation raising the minimum wage and reducing wage dispersion, and offering tax and other incentives for firms investing in priority sectors, introducing new technologies and paying high wages. These policies can be partly funded by progressive income taxes and social security contributions.

## 2.2 Fiscal policy and public investment

Fiscal policy can offer an important contribution for the expansion of employment opportunities, technological innovation and productivity growth in developing countries (Kakwani and Son, 2001; Roy and Weeks, 2003). The mainstream claims that the size of the public sector should be kept to a minimum because low taxes, limited regulation and low levels of public spending will increase the scope for private sector activity, which should drive economic growth. In contrast, PPS requires the public sector to induce, regulate and sustain the process of growth, target resources into priority sectors and preserve macroeconomic stability, since poor and middle-income countries tend to experience more severe economic crises with greater frequency than rich economies.

Public expenditures and, in particular, public sector investment, can boost aggregate demand, loosen the supply constraints on long-term growth and support the reallocation of resources towards poverty reduction goals, especially in economies operating below potential. Fiscal policy tools can also be used to transfer rents, gains from trade and productivity gains to the poor and to strategic economic sectors, and aid with the development of linkages between existing activities and new sectors promising economic (and, especially, export) diversification. Finally, fiscal policy can help to sustain confidence and consumer expectations at times of global uncertainty.

Although the mainstream insists that public investment crowds out, and is less efficient than, private investment, empirical studies offer no firm evidence supporting this claim. Quite the contrary: a significant body of research indicates that public investment can *crowd in* private investment in upstream and downstream sectors such as those supplying inputs and consumables, cleaning, maintenance and security services, trading and finance, and workforce training. Public investment can also support private investment and output growth if it expands the physical infrastructure (roads, ports and airports, water, sewerage and irrigation systems, electricity generating capacity, and transmission lines and so on), boosts labour productivity (through public education and training programmes, public transport or public health provision), or fosters private savings.

Pro-poor strategic priorities should be funded primarily by domestic sources, because foreign savings and investment tend to be volatile and difficult to target, and they are often inimical to pro-poor objectives; for example, foreign investors often produce luxury goods and services rather than basic consumer goods and manufacturing inputs. Raising

the necessary resources domestically will require a concerted effort, since the savings and tax revenues in poor countries tend to be insufficient to support an ambitious pro-poor development strategy. It will also be necessary to set up or expand long-term public finance initiatives, such as development banks, in order to fund basic industries, infrastructure, housing, education and training programmes, pensions and other costly pro-poor projects. In very poor countries, the savings and tax revenues potentially available domestically may be insufficient to permit the achievement of pro-poor goals, even under the best combination of policies (Sikorski, 1996; Levine, 1997; Studart, 2005). In this case, PPS is likely to require foreign aid, other unrequited transfers (such as workers' remittances) and large-scale debt forgiveness.

In order to finance the required public investment programmes, poor country governments must jettison the restrictive fiscal policy stance imposed by mainstream policies. Public investment programmes can be deficit-financed if the economy is operating below capacity, if the balance-of-payments constraint is not binding and if the deficits can be financed in a sustainable manner (for example, if the additional public sector debt can be paid off by the tax revenues generated by future growth). In these cases, public deficits should have no inflationary impact. However, if the government needs to monetise its deficit on a regular basis, perhaps because the financial markets are insufficiently developed, the expansion of demand must be regulated because of its potential implications for inflation, the exchange rate and the balance of payments.

The growth-supporting fiscal policies required by pro-poor development strategies will be sustainable only if the tax system is modernised and the tax base is expanded. It is simply impossible to finance the necessary initiatives with tax rates much lower than 20 per cent of GDP, as is commonly the case in poor countries. Tax revenues play a fundamental role in the mobilisation of resources for the allocative, distributive, growth and stabilisation functions of the state in poor countries, especially in light of their weak financial systems and the volatility of international aid flows.

There is scope for increasing tax revenues in developing countries and, simultaneously, to distribute income. These reforms require the enforcement of the existing tax laws and the reduction or elimination of the deductions, exemptions and loopholes favouring the well-off. It will also normally be necessary to increase the existing tax rates, to tax wealth and large or second properties in rural and urban areas, and to tax interest income, capital gains, financial transactions and international

capital flows. Experience shows that the most important constraint to the expansion of the tax base in the developing countries is not poverty or the lack of managerial capacity to apply the law; it is primarily the lack of political will to confront domestic pressures with regard to the preservation of inequitable privileges, threats of capital flight and attempts at non-compliance with the law.

In sum, PPS requires more expansionary fiscal policies funded by a larger tax base. However, it is important to avoid exaggeration – but not because of groundless fears about inflation. Loosening fiscal, monetary *and* exchange-rate policies simultaneously is potentially risky for three reasons. First, support for these ‘fully expansionary policies’ draws upon a narrow reading of the experience of the US and large Western European economies between the early twentieth century and the mid-1970s. These countries could either print the world currency (especially the UK before World War I and the US after World War II), or they had much easier access to foreign currency than today’s poor countries. This experience is barely relevant to most poor countries, whose balance-of-payments constraint is much tighter. Secondly, in poor countries, loose fiscal, monetary *and* exchange-rate policies could generate unsustainable booms that would be destabilising both economically and politically. This is especially true for economies that are initially locked in stabilisation traps – that is, starved of investment for long periods, and where high unemployment coexists with low spare capacity in key sectors of the economy. In these cases, a sudden and radical policy reversal could trigger accelerating inflation and send the currency spiralling downwards. Third, the ‘fully’ expansionary option is not always politically feasible. The rapid shift of the fiscal stance and the build-up of the domestic public debt could easily become a lightning rod for critics of the government’s strategy. A rapid deterioration of the fiscal balance is likely to bring down the wrath of the IMF, World Bank and the US Treasury Department, as well as generate heavy criticism from the local media and the financial sector. This could destabilise the government, and could trigger capital flight, speculation with foreign currency or treasury bills, inflation and a balance-of-payments crisis before the expansionary and distributive impact of the government’s pro-poor policies could be felt. In order to achieve the desirable outcomes, fiscal policy should be calibrated in order to deliver what monetary and exchange-rate policies cannot offer, especially in poor countries: targeted investment programmes, incentives for the private sector to support the government’s pro-poor goals and economic stabilisation when this becomes necessary.

### 2.3 Balance of payments and exchange rate policy

The currencies of poor countries are not international means of circulation or reserve value, and they do not serve as units of account for international transactions. These limitations impose a balance-of-payments constraint, which is probably 'the single most important constraint on capital accumulation and growth' in poor countries (UNCTAD, 2002, p. 32; Winters, 2002; Thirlwall, 2003). The balance-of-payments constraint can trigger exchange-rate crises, inflation, unemployment and other destabilising processes, with serious consequences for the poor. Rich countries also have a balance-of-payments constraint, but it is more flexible, and supply bottlenecks can usually be bypassed through imports, often funded by capital flows attracted through movements in the interest rates.

The balance-of-payments constraint includes two types of restrictions: on trade (the current account) and on capital flows (the capital and financial account). Mainstream development strategies almost invariably recommend the liberalisation of imports in order to foster competition and productivity growth, economic reforms to shift resources towards the economy's (presumably given) comparative advantages and incentives for capital inflows in order to attract foreign savings. These policies are not generally conducive to macroeconomic stability or to the welfare of the poor. Instead, foreign trade and financial policies should be part of a pro-poor development strategy fostering productivity growth and the development of domestic production capability in selected areas. An alternative set of policies, compatible with macroeconomic stability and pro-poor outcomes, is sketched as follows.

The first element is the promotion of exports. Export growth can be an important contribution to productivity growth because it exposes producers to the stringent test of competition in foreign markets. Export growth is also essential for the generation of trade surpluses and the accumulation of foreign currency reserves, which can minimise balance-of-payments vulnerability and macroeconomic volatility. Export growth requires a competitive and stable real exchange rate (see below), as well as coordinated industrial policy initiatives to develop the country's competitive advantages in strategic sectors. The promotion of domestic industries requires government involvement in the complex task of 'picking winners', which has been addressed successfully by several East Asian and Latin American countries.

The second element of this pro-poor trade policy framework is the management of the country's import restrictions. In spite of mainstream myths to the contrary, 'openness and trade integration, either



separately or together, do *not* have a measurable impact on long-run growth' (Weller and Hersh, 2004, p. 492). Imports should be liberalised cautiously and selectively because of their potentially adverse impact on the poor and on strategically significant sectors. For example, gains from trade can be concentrated in enclaves, or they can raise the returns for skills or assets that are beyond the reach of the poor, increasing income and wealth inequality. Moreover, trade liberalisation can increase predatory competition, reducing economic growth and the wages and the employment opportunities of the poor. Finally, subsidised exports from the rich countries (grain, sugar, cotton, fruit, meat and dairy products) can undermine the viability of small-scale agriculture and the livelihoods of millions of rural poor.

Pro-poor strategies also require the regulation of the capital and financial account of the balance of payments (Kaplan and Rodrik, 2001; Epstein et al., 2003; Gabel, 2004). Capital account liberalisation can be destabilising for four reasons. First, liberalisation fosters the accumulation of foreign debt, especially by the banks, promotes speculative inflows that can finance consumption rather than investment, facilitate capital flight and increase the country's vulnerability to balance-of-payments crises. Secondly, pro-poor strategies require monetary policy autonomy, which is severely curtailed by financial liberalisation. Thirdly, pro-poor strategies require the state to direct investment and other resource flows to growth-promoting and poverty-reducing objectives, which may conflict with the short-term interests of the financial sector. Fourthly, and more prosaically, capital controls are needed to curb tax evasion, since the tax rates required to fund pro-poor programmes will be higher than abroad.

Capital controls can include restrictions on foreign currency bank accounts and on currency transfers; taxes or administrative limits on outflows of direct and portfolio investment; restrictions on foreign payments for 'technical assistance' between connected firms; non-interest-bearing 'quarantines' on investment inflows; controls on foreign borrowing, and multiple exchange rates determined by the priority of each type of investment. Managing these controls will burden the monetary authorities, but this task is not beyond the capabilities of most central banks. The most significant obstacle to capital controls is not technical: it is political.

The choices involved in a pro-poor exchange-rate regime are comparatively straightforward. The basic alternatives are fixed exchange rates (including currency boards), adjustable pegs or managed floating (free-floating regimes are too unstable to be considered seriously). In order

to preserve macroeconomic stability, small poor countries with highly concentrated trade patterns, and countries where currency substitution is advanced, may be forced to adopt fixed exchange-rate systems. This is far from ideal, because supporting an arbitrary peg inevitably reduces the scope for pro-poor monetary policy initiatives, but it may be unavoidable in the short term. In this case, pro-poor fiscal policy becomes even more important. Other countries may enjoy additional degrees of freedom to adopt a managed floating exchange-rate regime or, even better, an adjustable peg, which maximises the scope for monetary policy discretion.

Whatever the exchange-rate regime, it must be managed carefully. Although overvaluation can offer immediate benefits through cheaper imports and lower inflation, pro-poor strategies should normally avoid 'exchange-rate populism'. Currency overvaluation can have destructive implications for domestic production and employment, and it can induce consumption and asset bubbles that may be difficult to neutralise. Experience suggests that export growth and the expansion of employment are more easily obtained with selective import protection, export incentives, capital controls and a moderately *undervalued* exchange rate (Gereffi and Wyman, 1990; Agosin and Tussie, 1993; Chang, 1994). This may be achieved in different ways, including a relatively low peg (if this is relevant), expansionary monetary policies, the taxation and regulation of currency trading, capital controls and regular intervention in the currency markets.

## **2.4 Monetary and financial policy**

The financial sector centralises the key sources of capital in the economy: it mediates between savers and investors and between taxpayers and the state, and it plays an essential role in the transactions between the economy and the rest of the world. Two principles should inform the choice of pro-poor financial policies. First, experiences of domestic financial liberalisation have often been destabilising, and failed to increase the resources available for investment, the quality of investment or the GDP growth rate. Moreover, liberalisation has often led to excessively high interest rates, bouts of speculation with foreign assets, excessive build-up of external and domestic debt, and unwarranted threats of instability should the government fail to abide by the financial market criteria of economic 'prudence'. The potential influence of the financial sector, and the destabilising impact of financial crises, makes it essential to impose regulations to make financial sector operations compatible with the government's pro-poor development strategy.

These regulations are relevant regardless of the ownership structure of the financial institutions (e.g. whether they are state or privately owned and, in the latter case, whether the dominant interests are domestic or foreign).

Secondly, fashionable suggestions that poor country financial institutions should prioritise microcredit and microfinance initiatives should be rejected. On the one hand, there is no evidence that even a large number of individual success stories adds up to a successful pro-poor development strategy. On the other hand, experience shows that microfinance uses scarce savings to support the informalisation of the production structure and the dismantling of labour market structures, leading to the disordered multiplication of such unproductive activities as street trading, petty food sales and kiosks, as well as subsistence production. Their funding crowds out larger-scale projects, which can support the development of productivity-enhancing technologies, the creation of quality jobs, and the generation of essential backward and forward linkages. Although microfinance can generate immediate benefits to the poor, it fosters a macroeconomic spiral of disarticulation, fragility and cumulative decline, which is incompatible with pro-poor outcomes.

Implementation of these policy guidelines implies that poor country financial systems should avoid a so-called 'market-based' (i.e. US- or UK-style) structure, which promotes an 'arm's-length' relationship between banks and manufacturing and service sector companies (Zysman, 1983). This type of relationship is destabilising because it fosters short-term and narrowly self-interested behaviour. For example, when firms are doing well they display no loyalty towards their banks and, conversely, during a crisis the banks tend to cut their losses and deny credit to firms, leading to the propagation of bankruptcies and the spread of unemployment. This is undesirable for a pro-poor development strategy. A closer relationship between firms and banks, mediated not by capital market institutions, but by the state, is essential to facilitate the implementation of industrial policy, regional integration and the achievement of distributive goals in each country.

Achievement of these goals will be limited if the financial system is excessively concentrated or internationalised, if credit remains largely unavailable except for elite groups, and if the financial institutions tend to concentrate their assets in liquid papers, consumer loans and financial speculation. This can be partly addressed by the creation of large and competitive state-owned and development banks. These banks can introduce competitive pricing practices into the financial market, and limit the bias of the transnational banks towards high-value transactions

that bring little benefit to the poor. They will also make it easier to direct credit towards socially desirable goals, including the promotion of strategic industries, employment-generating small and medium-sized enterprises, and the construction of infrastructure, which provides significant positive externalities and, therefore, is undervalued by banks operating in a heavily competitive environment.

## 2.5 Social policies

Pro-poor development strategies require the integration of macro-economic and social policy and specific policies and programmes to protect the poor and improve social welfare directly. Mainstream economists generally claim that 'trickle-down' and targeted social programmes are sufficient to deliver benefits for the poor at low cost. However, this is not satisfactory by either social or economic criteria, because the contractionary policies associated with mainstream development strategies can overwhelm these compensatory programmes, which tend to become a tool of poverty management, rather than of poverty elimination.

In order to maximise their impact, pro-poor social programmes should normally be universal. They should also prioritise the provision of public goods and the social wage, rather than monetary handouts. Social programmes, including the provision of public education, training, public health, housing, water and sanitation, parks and public amenities, environmental preservation, food security, affordable clothing and shoes, and public transportation, can have relatively low managerial costs and will improve the standard of living of the poor directly.

In many countries, the administrative infrastructure required by these universal public goods programmes is already in place, or it can be created relatively cheaply. Public goods and social wage programmes can also be rolled out gradually (e.g. one product or service at a time, and limited to selected regions), making them simple and cost-effective. In spite of their universal coverage, they can incorporate several advantages of targeted programmes, which may be called 'smart targeting': they are *universal* because they are available to all, and they are *targeted* because distinct social groups will be affected differently by each project or initiative. For example, in India and Brazil heavily subsidised food stores and 'popular restaurants' are open to all; yet they target the poor through their selection of products for sale (staple foods only) and the limited availability of the outlets (which operate only in poor areas). The non-poor exclude themselves voluntarily: a middle-class Indian will not

drive into a slum to purchase ordinary rice, while her Brazilian counterpart will never eat pork and beans in the company of her social inferiors, however cheap they may be. Obviously, the precise balance between the targeted and universal aspects of the provision of public and wage goods depends on policy decisions about access and the nature of each project.

All social programmes are expensive to run, and the budgetary limitations prevailing in poor countries should not be underestimated. However, these programmes can have a significant redistributive impact. They can also contribute to the achievement of other pro-poor goals; for example, they can create employment in deprived areas, they can be plugged into regional development programmes through the creation of markets for local produce, and they can be linked to the expansion of infrastructure, such as through public works initiatives. In spite of these advantages, limited funding is likely to pose severe difficulties, especially in very poor countries. In general, these programmes should be funded by taxation. Cost-sharing and user fees can be unfair and inefficient, and they should normally be avoided.

### 3. Conclusion

The principles of global justice offer an indispensable moral compass for the assessment of alternative economic policies. The slow improvement in the welfare of the poor during the last 30 years, given the resources available in the world economy and those that could be generated through faster growth and more equitable distribution, is a severe indictment of mainstream economics, the Washington Consensus and the international community. In this context, the main problem for the majority concerns the *type* of growth promoted by different versions of neoliberalism. This growth pattern – whether it is inspired by the Washington Consensus or by IG – is undesirable because it achieves less than what is possible and necessary for the poor, given the resources and technologies available. Moreover, it concentrates income and power, perpetuates deprivation and prevents the realisation of human potential. Today, failure is not due to ignorance or lack of resources: it is due to perverse policy choices.

The limitations and insufficiencies of mainstream development strategies make it essential for the poor majority, who have benefited only marginally from economic development for a generation, to consider alternative pro-poor development strategies. These strategies respond to the imperatives of equity, democracy and social justice, and foster

economic growth, mass employment, social inclusion, the satisfaction of basic needs and the provision of welfare for the vast majority. Experience shows that these objectives can be achieved only through the deployment of centrally coordinated industrial and investment policy, informed by the democratic mobilisation of the population.

The success of pro-poor development strategies depends less on their demonstrable internal consistency than on political limitations. More specifically, the most important constraint to the introduction of pro-poor strategies is not resource scarcity: it is the lack of political determination to do what is right, and what has become imperative. Macroeconomic policy can give an essential contribution to the complex and, inevitably, contentious process of redressing structural inequalities and eliminating poverty. The urgency of these problems, their ramifications and the difficulty of addressing them while preserving political and economic stability suggest that, unless governments give absolute priority to the elimination of poverty, it will almost always fall by the wayside, despite its high human and economic costs.

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## **Part II**

# **Macroeconomics**

# 5

## Monetary Regimes and Socioeconomic Stability: A Missing Link in the 'Arab Spring'?

*Yasuhisa Yamamoto*

### 1. Introduction

The political and social uprisings that spread rapidly across the AW in early 2011 surprised many economists. At the end of 2010, Arab countries were seen as having 'weathered' the global financial crisis of 2008/2009 and having regained stability. Visible impacts of the global financial crisis in the Arab region were seen in Kuwait (the Gulf Bank of Kuwait suffered a bank run in October 2008) and the UAE (the capital flight and liquidity squeeze which culminated as the 'Dubai Shock' of December 2009). The main adverse impact of the global financial crisis over the region was a plunge in crude oil prices, which hit growth rates of GCC countries and weakened wealth spillovers from major energy-exporting countries in the region to other Arab countries. Nevertheless, during the period before the Arab Spring, the economy of net energy-importing countries in the region, which were seen as more vulnerable to negative external shocks, stayed stable without balance-of-payments concerns. IMF country papers on Arab countries in 2010, based on IMF's Article IV consultations put forward an optimistic view, albeit cautiously, of the economic prospects for Arab countries in 2011. In summation, in the period immediately before the Arab Spring of 2011, Arab countries were believed to be on stable macroeconomic paths.

Even those economists were well aware that Arab countries were carrying serious structural socioeconomic challenges of recent decades, such as low growth, high unemployment and increasing economic inequality. In order to overcome these structural socioeconomic issues, a new social contract among Arab countries, civil societies, employers,

employees and other social actors had been repeatedly urged by major international development organisations. For example, the United Nations Development Programme's (UNDP's) Arab Human Development Report 2002 (UNDP, 2002) pointed to the 'freedom deficit, gender inequality, low levels of health care, education and information technology usage, and high unemployment of Arab countries', and called for a 'holistic development' strategy for reaching the new social contract, in which 'a synergy is generated between a revitalised and efficient government, a dynamic and socially responsible private sector, and a powerful and truly grassroots civil society'. In another example, one of the World Bank's reports (World Bank, 2004) pointed out that rising unemployment, stagnant real wage level, rapid anticipated growth of working-age population and a shrinking public sector – which is, traditionally, an employment-absorbing sector – would put Arab countries in a serious employment situation, which only the creation of additional considerable number of job opportunities, up to 100 million by 2020, could resolve. In conclusion, the report emphasised the necessity of 'a new social contract' among government, employers and employees to replace the existing social contract, which dates back to the pre-independence period. Despite their alarming tone, these proposals did not result in any constructive outcomes. Thus, for those who were monitoring social changes and dynamics among social groups and classes in the AW, the Arab Spring was not a surprising series of events. These mounting socioeconomic challenges have always been seen as potentially destabilising factors.

However, it was generally understood that social instability would be triggered by a culmination of macroeconomic instability. The main observable variables used to assess macroeconomic stability in developing countries are two: the currency exchange rate and price level. A balance-of-payment crisis, combined with an excessive devaluation of national currency and hyper-inflation, could lead to social unrest and political turmoil. A case in point is the May 1998 riot in Indonesia, which brought the 30-year rule of President Suharto to an end. During a six-month period prior to the riots, the value of Indonesia's national currency diminished to 25 per cent against the US dollar, and in the month prior to the riots, year-on-year inflation rate reached 50 per cent. Compared to this case of Indonesia, among Arab countries both these variables were stable during 2010 (see Figure 5.1). There were no signs of culminating macroeconomic instability in December 2010. This observation led many economists to the conclusion that the Arab Spring is a series of socio-political, rather than socioeconomic, events: namely,

	Real wage private sector	Real wage public sector	Per capita real GDP
Egypt (2001–2010)	0.3%	4.4%	3.1%
Jordan (2000–2010)	1.8%	1.1%	3.7%
Tunisia (1999–2007)	1.6%		3.9%

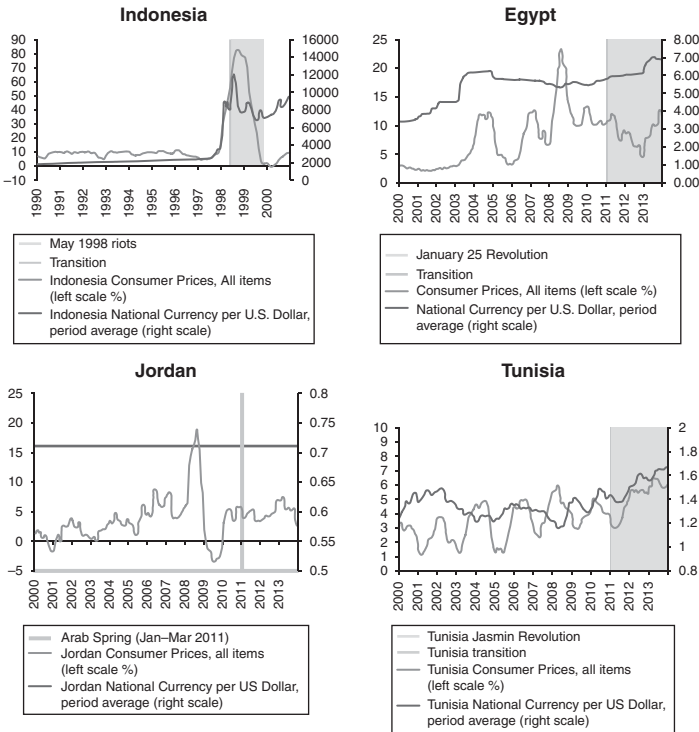


Figure 5.1 Macroeconomic stability before social unrest

Source: World Development Indicators.

a political transition due to popular demand. These economists often treated the series of events during the Arab Spring as if it was external to the Arab economies. According to this view, the economy of Arab countries, which have been stable, were adversely impacted by an external factor called the ‘Arab Spring’. In fact, it was after the uprisings on the street that macroeconomic variables started to show deteriorations. Most notable, among others, was a depletion of foreign reserves

in Egypt, Jordan, Sudan, Syria, Tunisia and Yemen, which, even during the period of the global financial crisis, had not happened. Having recorded a few years of resilience after the global financial crisis, the sudden macroeconomic instability inflicting the Arab countries, with the exception of GCC countries, was difficult to attribute to any internal economic event but to the political instability and social unrest following the Arab Spring. After all, as we enter the fourth year of the Arab Spring, what most of Arab countries, with the exception of GCC countries, are facing are political, social and macroeconomic instability.

In the assessment of the stability of a society, various concepts of 'stability' can be applied. Politics and geopolitics aside – though they are important to understand the Arab region – two opposing views on stability stand out in analytical narratives of the Arab Spring: one is of macroeconomic sense and the other, of socioeconomic. Those who were surprised by the series of events in the Arab Spring mostly identified with the concept of macroeconomic stability. Macroeconomic stability is based on the neoclassical precepts of economics. This concept, by its nature of accounting principle (in other words, a model needs to be 'closed' or 'balanced'), is characterised as static and lacks a theoretical connection to political or social instability. An analytical framework on this concept treats the socioeconomic events of the Arab Spring as external shocks.

On the other hand, the concept of socioeconomic stability generally incorporates various schools of thought and is more flexible in its application. The notion is based on interaction and interdependency, as individuals are social and interdependent. The observations and analyses of socioeconomic stability, dynamics and development consist of major themes, from classical sociology to political economy. Durkheim pointed to technological progress and associated division of labour as fundamental factors for social change, instability and development, whilst Marx asserted that the capitalist system is intrinsically unstable due to the unavoidable conflicts between the capitalist class and the proletariats. The long identified destabilising factors, such as high chronic unemployment and inequality, fed into a social system where the economic system can be defined as its subset. From this point of view, Arab countries have been intrinsically unstable over recent decades and the Arab Spring was an inevitable consequence of structural socioeconomic instability, which cannot necessarily be monitored by macroeconomic variables.

These two views on the stability of a society take opposite positions. For analysts who share the concept of macroeconomic stability,

a society's socio-political situation must first be resolved to improve its macroeconomic situation. For analysts who share the concept of socioeconomic stability, a society's macroeconomic situation must first be resolved for a stable socio-political transition to occur. These two opposing views give rise to a question: What could be the missing links between the pre-2011 macroeconomic stability and post-2011 socioeconomic instabilities? To be more precise, the question can be revised as 'How could the two views on "stability" be reconciled so that economists adhering to the neoclassical school could have raised the alarm?' Elaborating seemingly missing links can be important to explore new policy options at a time of mounting challenges for democratic transitions, now and in the future. With these questions in mind, this chapter aims at presenting one of those possible missing links, that is, the link between monetary policy regimes and socioeconomic stability. Monetary policy and its policy regime are not considered important in the discussion on economic policy and the Arab Spring. Most of the literature focuses on the failures of fiscal policies and governance in Arab countries. This chapter attempts to shed light on the area not sufficiently investigated in this field by taking examples of three Arab countries in transition (ACT), namely, Egypt, Jordan and Tunisia.<sup>1</sup>

## 2. Monetary policy and inequality

Despite the standard description in macroeconomics textbook on its impacts on the output level and employment, the scope of monetary policy is much more limited in practice. In principle, monetary authorities' policy targets are summarised as: (1) price stability and (2) stability of financial system. Typically, in developed countries, the argument over monetary policy is whether it leans towards 'pro-growth' or 'anti-inflation'. In recent decades, the general consensus has been that monetary policy is basically 'anti-inflation', and when expansionary monetary policies are pursued, they should not result in inflationary pressures. Thus, monetary authorities today are considered 'conservative'. Even in developing countries, monetary policies have been constrained by influential and conservative policy advice or prescriptions from international financial institutions such as the IMF. Consequently, the scope of recent monetary policy has become limited. A member of the Executive Board of the European Central Bank (ECB) characterised the role of central banks as follows: to ensure price stability in the medium term, by which it focuses on income and wealth stabilisation rather than on the allocation of economic resources or on redistribution – in other words, the

central bank's monetary policy is focused on stability rather than on efficiency or equity. This member, Benoît Cœuré (2012), insisted that price stability appears to be conducive to economic growth, low unemployment and subdued income volatility. In other words, price stability and economic stability are complementary. Given this limited scope, monetary authorities are reluctant to examine how their direct policy options impact inequality and poverty. Their approach to these major sources of socioeconomic instability is to support price stability, which is conducive to economic stability and hence contributes to a wider concept of socioeconomic stability. This self-declared limitation in policy scope provides monetary authorities with the leeway to be 'innocent bystanders' on increasing inequality, despite mounting criticism (particularly from the US) with regard to the deteriorating employment and income equality after the global financial crisis (Coibion et al., 2012).

Nevertheless, recent research gives rise to monetary policy's impact on inequality in terms of functional distribution of income. In the neoclassical framework, however, the theoretical link, which suggests that monetary policy and income inequality are linked, is not decisive as it depends on the structure of an economy. Romer and Romer (1998) posit a short-term improvement in income inequality as a result of monetary expansion, as the latter raises output and hence reduces unemployment; however, monetary policy cannot sustain its positive income effect, as it raises inflation rates in parallel to the growth in money stock. The subsequent monetary tightening harshly impacts the poor segment of society, assuming that inflation affects poorer households to a larger degree. Coibion and colleagues (2012) pointed to several channels: (1) income composition channel – which affects the functional distribution of income between labour income and other sources of income (at times summarised as 'capital income') and may include an expansionary monetary policy that more likely raises capital income more than labour income; (2) low-income households are more prone to suffer from inflation as they are likely to hold more cash (rather than financial assets), thus an expansionary monetary policy followed by inflation would represent a transfer from low-income households towards high-income households, which would tend to increase income and consumption inequality.

Due to the lack of data, it is difficult to be precise as to how the monetary policies of Egypt, Jordan and Tunisia have impacted the functional distribution of income. However, the available data implies a stagnant real wage growth in comparison with per capita real GDP growth (Table 5.1) with the exception of public sector wages in Egypt.



Table 5.1 Average annual growth of real wage and per capita real GDP

	Real wage private sector	Real wage public sector	Per capita real GDP
Egypt (2001–2010)	0.3%	4.4%	3.1%
Jordan (2000–2010)	1.8%	1.1%	3.7%
Tunisia (1999–2007)	1.6%		3.9%

*Source:* The author's calculation base on the data from: CAPMAS (Egypt); Department of Statistics (Jordan); Tunisia Institute of Statistics (Tunisia).

Table 5.1 also indicates that non-wage growth could be faster if the value-added of the respective economies (represented by per capita GDP) was wholly distributed between wage income and non-wage income. However, the stagnant real wage growth, as well as the high unemployment rates of Egypt, Jordan and Tunisia, can be the result of intertwined socioeconomic factors, not monetary policy alone (see Figure 5.2).

Before the present day's rather limited scope of monetary policy became the mainstream, as advocated by, amongst others, Milton Friedman (1968), monetary authorities had wider policy scope for their goals, including the targeting of the unemployment rate. In a neoclassical framework which underlies the present day's monetary policy, interest rates are understood as clearing prices, where the demand and supply of funds should meet at 'equilibrium'. Present-day monetary authorities take a minimalist approach by which they focus on price stability and the stability of the financial sector. In this approach, the role of policy interest rates has been reduced to an instrument that influences only the price level. However, the pre-1970 policy scope was based on the tradition of classical framework represented by Keynes (1936/2008), and the pre-1970 policy interest rate was saddled with more policy implications, including distributional aspects between three social groups: the entrepreneur, the rentier and workers. Keynes characterises the rentier as a 'functionless investor' who lives on the interest income of monetary assets. As opposed to the entrepreneur, who actually invests in productive facility to increase outputs, the rentier's interest is to maximise the return on holding monetary assets without involving any productive activities. While the rentier prefers a higher interest rate for his/her monetary assets, the entrepreneur prefers a lower interest rate for his/her borrowing. What is implied by Keynes by the term 'social interest rate' is that markets cannot determine the optimal level of interest rate, to increase output through productive investment

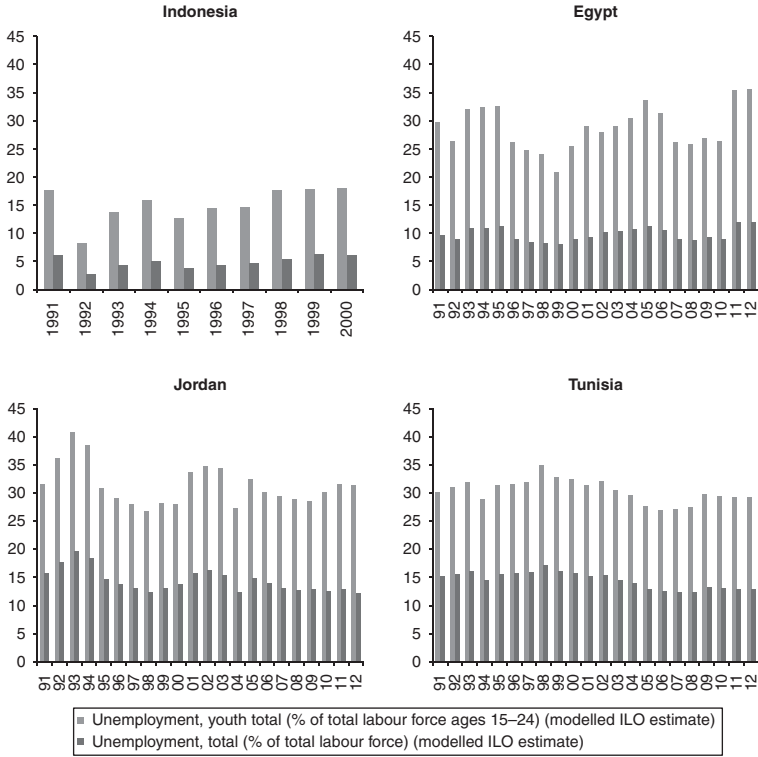


Figure 5.2 Unemployment rate leading to social unrest  
 Source: World development indicators, World Bank.

to achieve full employment. Thus, one of the roles of monetary authorities in this framework is to maintain a socially optimal interest rate in order to support the entrepreneur against the rentier.<sup>2</sup>

However, the rentier, in Keynes' sense, may not be a term appropriate in Arab countries. Inflation-adjusted yield on deposits has been lower than average real wage growth in Egypt, Jordan and Tunisia (Table 5.2). A different picture can only be derived if we assume a high proportion of foreign deposit holders. Then inflation-adjusted yield for foreign deposit holders would become attractive, with the exception of Tunisia's case. Assuming that 'external rentiers' reside in the US, they would receive a much higher yield on their Egyptian deposits and a moderately higher yield on Jordanian deposits (Table 5.2). This scenario was feasible, as both countries' capital accounts were liberalised in the late 1990s and

Table 5.2 Inflation-adjusted yield on deposits (average per annum)

	For nationals	For foreign investors (US)
Egypt (2001–2010)	–1.6%	2.3%
Egypt (2003–2010)	–3.5%	4.7%
Jordan (2000–2010)	0.1%	1.8%
Tunisia (1999–2007)	0.4%	–0.1%

Source: The author's calculation based on IMF, International Financial Statistics.

both Egypt and Jordan experienced real appreciation of their national currencies since 2003 (Figure 5.3). Considering an external social group in the distribution aspect of monetary policy requires examining a wider aspect of monetary policy characteristics, including the exchange-rate policy, which is known as the monetary (policy) regime.

### 3. Monetary regime

Most monetary authorities conduct monetary policy under a framework, which is known as a 'monetary regime' or 'monetary policy regime'. This framework provides a principle of policy decision-making or a rule of discretion. It is a pledge made public by monetary authorities, by which the authority can communicate with stakeholders, including the general public. According to Mishkin (1999), the basic monetary regimes are: (1) exchange-rate targeting; (2) monetary targeting; (3) inflation targeting; and (4) monetary policy with an implicit, but not an explicit, nominal anchor. Nominal anchor is a particular nominal variable that a monetary authority attempts to stabilise in the belief that it determines price stability through its economic linkages, ties down inflation expectations and establishes policy credibility (in the sense of pegging the national currency to the dollar). Repeatedly emphasised in mainstream monetary authorities' doctrine is that authorities should avoid overly expansionary monetary policy by more effectively limiting related political pressures.

According to a departmental publication of International Monetary Fund (Gray et al., 2013), exchange-rate targeting constitutes the monetary regime of choice in the majority of Arab countries (the exchange rate is nominally anchored against the dollar). The classification of

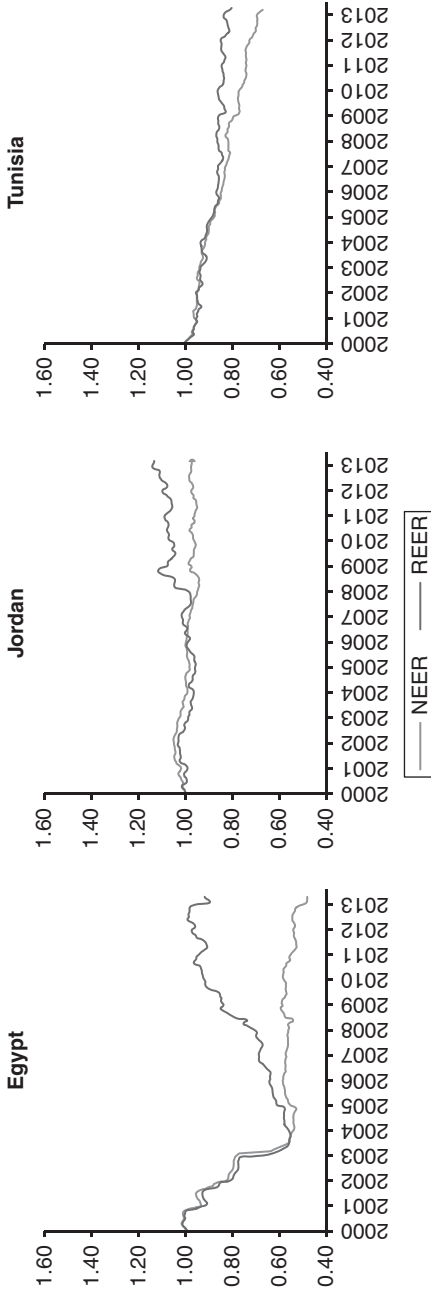


Figure 5.3 Real and nominal effective exchange rates  
Source: Author's estimation.

monetary regimes, based on IMF's annual report on exchange arrangements and exchange restrictions, which was issued in April 2011, shows that, immediately before the Arab Spring, with the exception of Egypt, Mauritania, Somalia and Yemen, monetary authorities of Arab countries explicitly stated the exchange rate to be the nominal anchor (Gray et al., 2013, p. 7).

Exchange-rate targeting may limit the scope of monetary policy, which is known as 'impossibility trinity theorem'. According to this theorem, in a fully liberalised system including full convertibility on the external account and capital accounts, the monetary authority cannot guarantee the maintenance of both domestically framed (independent) and externally framed (exchange-rate target) monetary policies. However, the rationale behind developing countries' adoption of exchange-rate targeting is that the external accounts, particularly the capital account, are not yet fully liberalised. Therefore, capital would not follow between countries as the Impossibility Trinity Theorem indicates. Moreover, in many small and open economies, policies in practice may attempt to straddle a domestic and an external target, particularly those facing rapid pass-through from exchange-rate movements to domestic inflation.

Even if justified, two problems remain with the exchange-rate-targeting monetary regime: (1) inflation cycle/trend does not coincide with that of anchor country (with a US-dollar peg), therefore, a monetary authority needs to implement a contradictory policy (an expansionary policy when there are domestic inflationary pressures or a tightening policy when there are no domestic inflationary pressures); and (2) foreign reserves become a key variable which cannot be controlled by monetary policy alone. Nevertheless, exchange-rate targeting is often taken as a transitional measure until full-fledged inflation targeting with a more flexible foreign exchange has been achieved. Inflation targeting is believed to be unsuitable when a monetary authority's operational capacity is not sufficient, wage and price levels are externally determined, political support is inadequate, and when there is a lack of market infrastructure to manage a relevant magnitude of flexibility in foreign exchange markets (Gray et al., 2013).

Egypt's monetary authority, the Central Bank of Egypt (CBE), officially abandoned exchange-rate targeting in 2003, and has been transiting into a full-fledged inflation-targeting regime, while officially stating price stability to be 'the primary and overriding objective'. However, according to Selim (2012), empirical studies found that CBE is systematically reacting to changes in the exchange rate, despite its series of reform

to pave the way for full-fledged inflation targeting. In fact, a nominal effective exchange rate (NEER) shows rate stability since the devaluation of Egyptian pounds in 2003 (Figure 5.3). It can be understood that there could be an implicit exchange-rate anchor with an undisclosed weights of currency basket. Due to its chronically higher inflation rate, compared to Egypt's trade partners, the real effective exchange rate has been rising in the same period (Figure 5.3). It has been suggested that the Egyptian currency, the Egyptian pound (EGP) was overvalued. Egypt was known to have liberalised the convertibility of national currency in both current and capital accounts since the late 1990s (Nsouli and Rached, 1998).

Jordan's monetary regime can be characterised by clear exchange-rate targeting, with a long-established peg against the US dollar. Its monetary policy highly parallels that of its anchor country, the US. Nevertheless, the Central Bank of Jordan (CBJ) puts price stability as an overriding policy goal. For example, the CBJ has lowered policy interest rates during the period of August 2013 to January 2014 as recovery in foreign reserves set in, due to financial aid from GCC countries. However, the CBJ's announcement cited 'receding inflationary pressures' as the reason for its policy decisions. Jordan was known to have extensively liberalised the convertibility of Jordanian dinar (JOD) in both current and capital accounts since the 1990s (Nsouli and Rached, 1998).

After a series of reforms, the monetary authority of Tunisia, the Central Bank of Tunisia (BCT) stated the main 'assignment' of the monetary policy to be that of preserving price stability. Despite de jure changes in monetary regimes and exchange-rate arrangements (a crawling peg until December 2004; a managed float for 2005 till 2007; and a crawling peg with a monetary aggregate target since 2007), the de facto behaviour was characterised as implicit exchange-rate targeting by pegging the Tunisian dinar (TND) to a basket with a secret composition. BCT intervened frequently in foreign exchange markets in a discrete manner (Charfi, 2013). Compared to Egypt and Jordan, where both current and capital accounts transactions were highly liberalised, Tunisia only lifted restrictions on TND's convertibility in current account transactions; its capital account is still restricted.

#### **4. Nature of inflation and balance-of-payments structure**

In developed countries, their monetary transmission mechanism from monetary policy variables (such as policy interest rates and base money) to the growth of broad money stock and to inflation rate is relatively clear. On the contrary, it is not so clear in developing countries. Among

Arab countries, several studies have found money growth to be a major determinant of inflation rate in GCC countries (DIFC, 2009; Abul Basher and Elsamadisy, 2012). Moreover, a recent Economic and Social Commission for Western Asia (ESCWA) study found a weak transmission of money growth to inflation rate in Jordan and Egypt (UN-ESCWA, 2011) during the period 2000 to 2010. The growth in money stock has had a lesser impact on inflation than international food prices as both Egypt and Jordan are net importers of food items, including flour and wheat.

However, growth of money stock is not directly controlled by monetary authorities, as it reflects commercial banks' lending portfolios, the structure of borrowers and foreign capital flows. In underliberalised capital accounts particularly, foreign capital flow is more likely to cause money stock growth. With an exchange-rate-targeting monetary regime, money stock growth is more likely to be driven by the amount of foreign reserves; there is a correlation between foreign reserves and money growth, as the scope of sterilisation measures are usually limited. Figure 5.4 shows a general correlation of foreign reserves and broad money growth in Egypt, Jordan and Tunisia. The direct link between foreign reserves and policy decisions were seen in Egypt and Jordan in 2013, as both countries needed to wait for the recovery of foreign reserves before cutting policy interest rates over three stages.

Although foreign reserves exhibit the state of the monetary authority's finance, such reserves cannot be controlled by the monetary authority. Theoretically, a monetary authority can convert part of the foreign assets to domestic assets (usually domestic government bonds), which is similar to the quantitative easing (QE) policy of Japan, the US and the UK at present. However, active adjustment of asset composition is rare in developing countries, as it is perceived as proof of weak fiscal discipline under chronic fiscal deficits – the net implication of monetary authorities' purchase of domestic government bonds could be crowding-out rather than crowding-in. Moreover, in traditional sterilisation policy, in response to an influx of foreign capital (which results in the increase in foreign reserves in a fixed exchange-rate arrangement) government bonds will be sold to commercial banks to absorb the resultant excess money growth. In practice, sterilisation upon capital inflows is difficult. Thus, a rapid accumulation of foreign reserves leads to money expansion and inflation. As opposed to this, the monetary authority cannot increase foreign reserves directly when the latter depletes – it may absorb foreign assets that commercial banks hold but, at such a time, commercial banks will not sell foreign assets at an official exchange rate. What the monetary authority can do is to indirectly control domestic demand, the amount of import, mainly, and demand for foreign exchange.

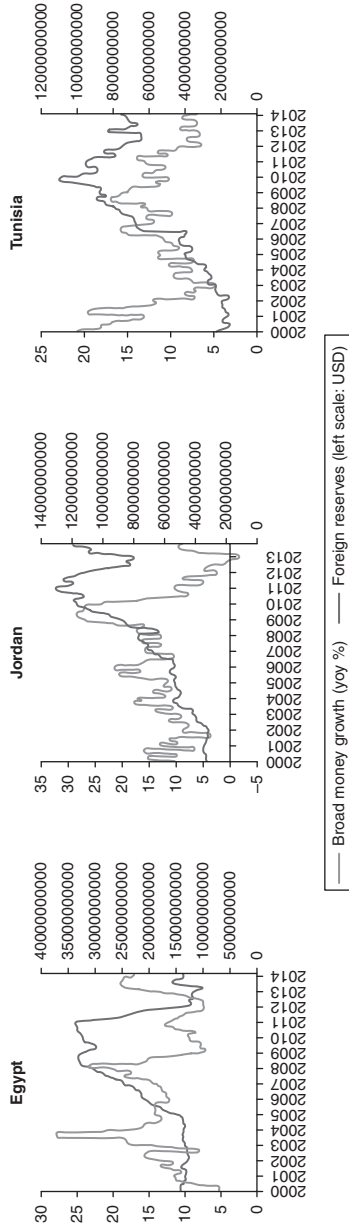


Figure 5.4 Foreign reserves and money stock growth  
Source: International Financial Statistics, IMF.



Thus, under the exchange-rate-targeting monetary regime (a strict sense of this regime is the fixed exchange-rate arrangement), during times of rapid foreign reserve increase, the monetary authority will respond by relaxing monetary policy to increase demand for foreign exchange and imports, and, during times of foreign reserves depletion, the monetary authority will shift to tight monetary policy to decrease demand for foreign exchange and imports. This is typically the case when a country has chronic trade balance deficits in goods which are usually financed by the service trade (transport and tourism), income current transfer (income flows, foreign aid and workers' remittances), capital transfer and investment inflow. The monetary authority of an economy with such a balance-of-payments structure does not have much influence to control this inflow of funds to finance trade balance deficits in goods – they are all fundamentally foreign-driven. Monetary policy in this case tends to be used to balance the total external account to react against external shocks (either positive or negative). As a general trend for the last 20 years, Egypt, Jordan and Tunisia have shared this tendency (Figures 5.5, 5.6 and 5.7).

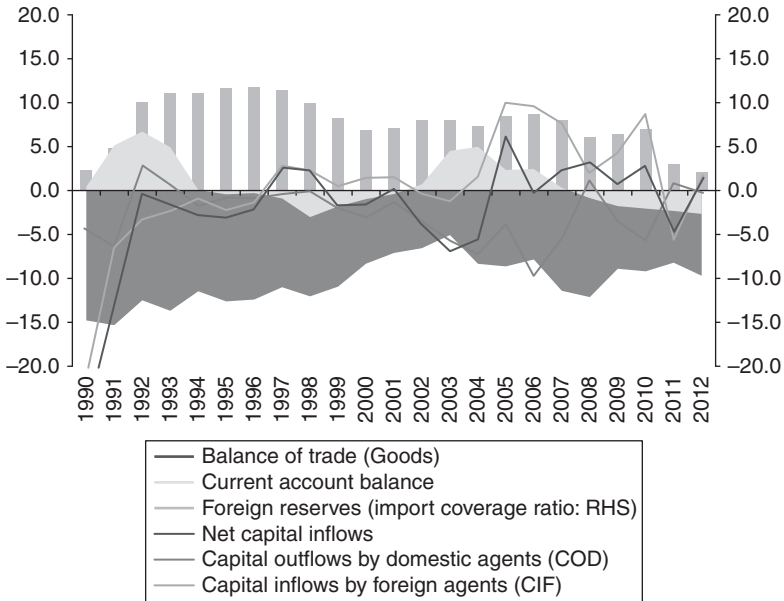


Figure 5.5 Balance-of-payments structure: Egypt (% of GDP)

Source: Monthly Statistical Bulletin, Central Bank of Egypt, various issues.

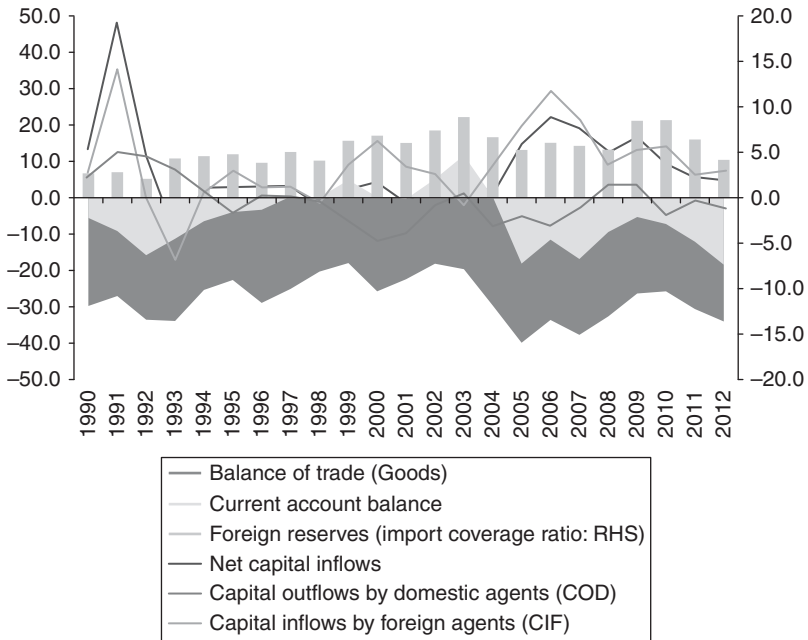


Figure 5.6 Balance-of-payments structure: Jordan (% of GDP)

Source: Monthly Statistical Bulletin: Central Bank of Jordan, various issues.

In summary, the combination of an exchange-rate-targeting monetary regime, liberalised external accounts (both current and capital) and chronic trade balance deficits reduces the latitude of monetary policy. Monetary policy becomes residual to adjust the demand for imports and foreign exchange (inflation is rather imported from abroad) in order to either anchor country or international commodity prices. Having the exchange-rate-targeting monetary regime – and stabilising nominal exchange rate against an anchor country – may cause real appreciation, but this only benefits the ‘external rentiers’ at the cost of domestic entrepreneur, who could have increased the outputs and employment which Arab countries desperately need.

## 5. Conclusion

Arab countries need to establish more policy sovereignty, particularly in the area of monetary policy. The latitude of monetary policy is externally constrained with the adoption of exchange-rate targeting under a

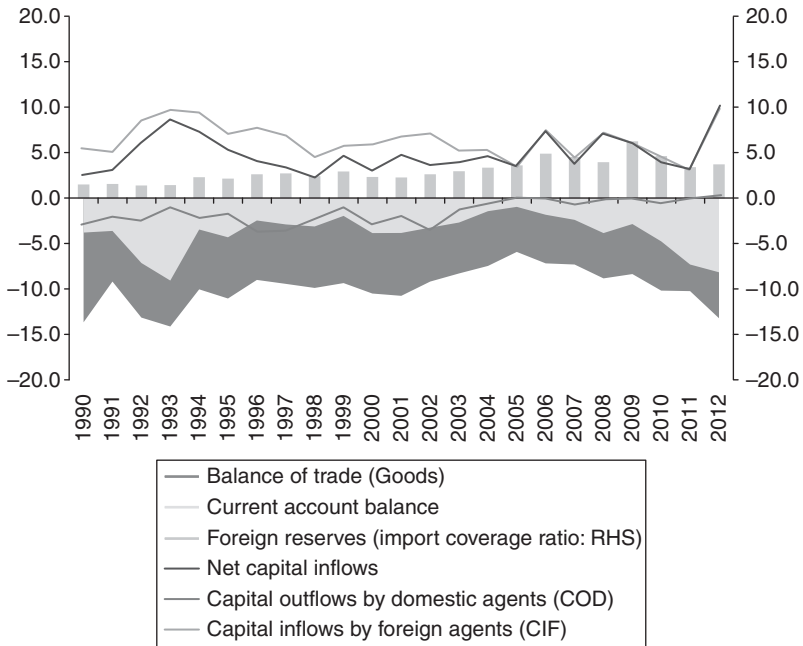


Figure 5.7 Balance-of-payments structure: Tunisia (% of GDP)

Source: Banque Centrale de Tunisie.

balance-of-payments constraint and a structurally weak trade balance. The explicit/implicit nominal policy target is the exchange rate, which necessitates the holding of a certain amount of foreign reserves and which may limit the scope of monetary policy and lead to high funding costs for the domestic entrepreneur, who could potentially be a major driver for employment creation. The link between the monetary authority and the domestic entrepreneur might be weak, but it might still be important when one examines what monetary authorities can do (or could have done) to support socioeconomic stability through employment creation. Monetary authorities of Arab countries need to consider expanding their policy scope, while paying equal attention to the issue of high unemployment. Also, they need to assist domestic export-oriented entrepreneurs and balance their policy of seeking appropriate inflows of foreign funds. However, the dependency on foreign funds inflows, or the reliance on the 'external rentier', must be corrected. The construction of a relevant monetary regime should be an important aim for Arab countries, so as to achieve structural socioeconomic stability.

## Notes

1. ACT is the term used in the 'Deauville Partnership with Arab Countries in Transition', which is an international effort launched by the G8 to support countries in the AW engaged in transitions towards 'free, democratic and tolerant societies'. <http://www.state.gov/e/eb/ecosum/2012g8/deauville/>.
2. According to Keynes (1936/2008), the competing relationship between the entrepreneur and the rentier would continue until the growing economy reaches a point where capital is no longer scarce. At this point, the rentier no longer can receive a 'bonus'. This is what Keynes called the 'Euthanasia of the Rentier'.

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# 6

## Diagnosing Constraints to Industrialisation in the Arab World: A Predatory Perspective

*Shaun Ferguson*

A journey through the past, wrote Gerschenkron, citing Bertrand Russell, destroys the ‘dogmatism of the untraveled’ (Gerschenkron, 1962, pp. 27–27) by allowing a wider perspective on the challenges of economic development. In his comparative analysis, he went on to examine Russia’s experience against those of England, France, Germany and other European countries, only to qualify the usefulness of those experiences in the light of new and momentous problems that his country was facing in the early 1960s. The *peculiarities*, he said, of each economy uniquely constrain economic development. This chapter takes a different approach in treating initial conditions that have become much the same due to conventions that blanket the South. The AW is no exception. Peculiarities have faded in relevance. It would be liberating to once again discover the peculiarities that constrain economic development but, as this chapter will discuss, that will not be possible for many countries until the constraints that we have artificially imposed on ourselves through convention are wiped away.

### 1. North–South

The AW at the time of writing is victim to a recrudescence of less than subtle forms of foreign intervention, and eventually, as overt violence subsides, other forms of international pressures are likely to resume, with ongoing implications for economic policy space in the years ahead. Two currents which can influence the quality of alternative economic frameworks in the near future will include economic vision and, more fundamentally – since integration in an economic framework

dominated by the North is part of the initial conditions of the region – some form of mediation of the North–South relationship.

The integration with the North that we take up here is confined to a distilled focus on trade. A benchmark for gauging economic self-determination for an open economy can be found in Keynes' 1943 plan, following World War II, which set as its ultimate aim stable international employment based on the arrangement of a compatible trade regime.<sup>1</sup>

In a comprehensive treatment, Keynes assessed that full employment would be possible with a payments arrangement that puts the onus of adjustment on surplus countries, to respond with increased purchases of goods from debtor countries. Keynes introduced his plan in response to the failure of the gold standard to enable full employment, precisely because it imposed deflationary adjustment on deficit countries.<sup>2</sup> Keynes further maintained the imperative that capital not to be allowed to flow freely as it would induce debt,<sup>3</sup> and he considered debt to be the single greatest detriment to full employment.<sup>4</sup> This is why, in the Clearing Union, the name for his payments arrangement, trade debt which was not offset by creditor adjustment was to be forgiven on an annual basis.<sup>5</sup>

Today's international trading system continues to put the burden of international trade adjustment on debtor countries. Moreover, trade between North and South is severely out of balance, characterised by what Keynes referred to as 'forced' exports of natural resources in order to pay for dire capital goods and manufactured imports in a long-going series of short-term horizons that characterise a state of continued dependence. It would seem that the chief problem with this system is that it adjusts in a contractionary fashion, since adjustment occurs through reduced imports by the dependent and not increased imports by the industrial leaders. But that is only part of the problem. It is not just in cutting its imports that a debtor's situation and that of others is aggravated: it is also the short-term forcing of exports rather than the long-run building-up of industry that reduces imports (Keynes, 1980, p. 46).

In the long run, Keynes believed that manufacturing trade would decrease to negligible levels and that international trade would be dominated by basic goods since natural endowments would always differ. Manufactures, since they could be produced anywhere, would decline as countries or regions grew independent of manufacturing needs from others (Rayment, 1983).<sup>6</sup>

History has shown this did not happen. In fact, trade today is heavily dominated by manufactures. This has occurred more for technical reasons than for reasons to do with the nature of intra-industrial trade, and

it does not speak to or refute the chain of causality as understood by Keynes. For an excellent discussion of intra-industry trade see Rayment (1983). What can still be gleaned from Keynes' understanding is that neither loans nor prices are enough to generate trade in any way that is conducive to full employment. It is not uncommon to cite competitive devaluation and beggar-thy-neighbour policies that lead to a race to the bottom and systemic contractionary global economy. What the mainstream of profession does not take from Keynes is his observation that, where full employment is not adhered to by all, non-discriminatory trade policies were, in no uncertain terms, referred to by Keynes as unsound and unreasonably harmful to deficit nations.<sup>7</sup>

Keynes, it might be ventured, probably recognised that the *political aspects of full employment* were not so conducive to his plan. His posturing in this case can be seen to presage Kalecki's famous paper by that title. In this regard, the Keynes Plan can be seen as a utopian benchmark, drafted in order to throw into high relief the necessary reality of integrated trading blocs, and to give a fighting chance to full employment through regional prioritisation of expenditure and industrialisation.

Keynes' plan calls for a radical renewal of consciousness for the development challenge in the South today. Development tools currently in use, even drawing from those proposed in heterodox camps, lack adequacy inasmuch as they do not address this binding constraint found in the trade balance. The manipulation of prices for goods, capital and labour through exchange rates, interest rates and wages, on one hand, and a ready supply of loans on the other, as critical as all of these tools can be, do not of themselves generate full employment or broad-based growth. Regional banking, trade facilitation and currency arrangements too have increasingly come to define the policy space across the South, and have an important role for price and income stabilisation, as do counter-cyclical, lender-of-last resort and long-term financing – not to mention frequently beyond-the-pale distributional policies. It would be difficult to underestimate the importance of this list of facilities, particularly since the Bretton Woods Institutions have not served, and have only slowly begun to recognise, the need in many of these vital areas for development. That being said, these policies alone are not sufficient to generate full employment.<sup>8</sup> This is the bottom line for Keynes, which deserves to be brought back into the policy discussion.

## 2. Political economy of trade

Foreign predatory interests leverage trade as far as possible by appending to it many non-trade matters, such as intellectual property rights,



services and investment rights (Raghavan, 1990, p. 44; Prashad, 2012, p. 106). In the 23 years since Raghavan's lament of the abuses of power in the GATT (the General Agreement on Tariffs and Trade, the WTO's forerunner), Northern power has continued to be wielded blatantly (Wyly, 2009; Khor, 2013) at the macroeconomic level (Wade, 2013), most critically subsuming the commodification of scientific knowledge and the expansion of international property rights to the complete disregard for the scientific commons (Liodakis, 2006, p. 195, cited Perelman, 2001, 2003).

What are the options for industrial development in the South given Northern domination of material and immaterial resources? Complete withdrawal has never been seen as a viable option:

The autonomy of developing countries in pursuing their development policies will be seriously compromised unless of course they decide to withdraw completely from the international economic system which does not seem to be a feasible option.

(Raghavan, 1990, p. 40)

At Raghavan's time of writing, trade in capital goods within the South had long been proposed as an alternative (Lewis, 1979). The difficulty with W.A. Lewis' South-South trade framework, which Lewis himself recognised in good measure, is that any country with open borders for trade and capital can only be realistically considered on an ad hoc basis through its unique trading relationships with the advanced economies with which it trades.

Trade blocs provide the singular advantage of increasing market size while avoiding the risks that that market size be encroached from the outside, as is inherent in free trade. This was obvious to industrialists throughout in the interwar years in Europe.<sup>9</sup> How trading blocs alleviate this constraint imposed by free trade, however, is rarely an issue on the table of industrial policy strategies since WTO rules preclude their consideration. The need for the South to trade within itself in capital goods comes from the substantial leakages of income to the North for goods that it does not produce. A constraint to producing these goods cited by Lewis is the extent of the market, since production of high-technology goods requires greater economies of scale.<sup>10</sup> A critical element of scale is access to own markets, but scale is only part of the issue. To overstate the value of scale is to end up with the perspective that foreign markets will always offer producers a greater potential bonanza than domestic markets. But the rewards of scale, no matter how great, rarely amount to much at the country/regional level unless 'enlarging the market for

one commodity produced under increasing returns [...] has the net effect of *enlarging the market for other commodities*' (Rayment, 1983, p. 21; emphasis added).<sup>11</sup> The benefit of this latter effect, as Rayment clearly illustrates, exists mainly in intermediate goods. But developing countries' exports, especially Arab countries, lack this effect inasmuch as they are constrained to activities spun off by Northern industry or consisting of primary goods.

In low-tech manufactures, for which export markets are generally non-existent (with the exception of production for lead firms, which will be addressed later in this section), markets are created for agricultural and low-level industrial commodities, including basic machinery. But the possibility of *enlarging the market for the production of other commodities* opens up considerably with the production of capital good – that area which defines the South's dependence on the North.

Closely tied to the focus on scale and exports is the emphasis today on specialisation. The call for specialisation à la Adam Smith's pin factory model is due to commonly recognised production efficiencies. But if specialisation results *from* producing for industry as a whole, and develops when the size of the industry is such that it can support separate specialist firms of a certain type (Argyrous, 2004), and if this causality does not generally hold in reverse, that is, when specialisation drops from the sky – then it does not cause industrial burgeoning,<sup>12</sup> and this limitation presents difficulties for climbing up value chains.<sup>13</sup>

To illustrate this latter point, consider the case of suppliers of machine parts. As a rule, they will find it difficult to enter into the making of machines because the machine maker will not forfeit what he has learned to others. Cowling and Sugden cite a 'centripetal' tendency in this regard where activities gravitate to the centre, away from the periphery (Cowling and Sugden, 1994; Branston et al., 2006), even where the spin-off of activities is widely observed, since spin-off only leads to development opportunities in intra-industry trade in those instances that it occurs among countries with similar industrial structures and for reasons that are due to the nature of intra-industry trade. Activities that are spun off to the developing world for their labour costs, of which there are few in the AW, do not generally pave the road to diversification, the quintessential measure of development.

This is not to deny the possibilities of catch-up growth that are frequently discussed in the literature (Veblen, 1915; Gerschenkron, 1962; Abramovitz, 1986; Gomulka, 1990). The emphasis here rather is that global trade rules, and the power of ideology behind them, have themselves become the constraint obstructing the mechanisms that lead

to catch-up growth. As far as the developing world is concerned, the spin-off of activities creates islands of capital stock that are designed to serve a hierarchy of industrial activities strategically run by lead firms. This type of industrial capital provides very little impetus for increases in domestic demand since it is not linked to local industrial needs. Intrasectoral trade consists of highly specialised divisions upon divisions of existing activities where 'each successive stage is a finer subdivision of the previous'. The importance of this observation for self-expanding industrial production which results in greater efficiencies and labour-saving technology cannot, in this immediate context (Arab development), be overstated.

This begs the question: How can existing capital and the organisation of production provide a reference point for embarking on industrial diversification? Drawing out the argument would imply a need to eliminate capital imports up to very basic levels in order to start from scratch, giving credence to Raghavan's lament. In reality, the path lies somewhere between the polar extremes of total renewal and total dependence. But resources are less an issue than processes.

This framing of development constraints bears relevance for much of the South, from African least developed countries (LDCs) to the industrial economies of Asia that have stopped short of diversification and are threatened by the middle income trap. But it is particularly relevant to the AW. Currently, 6 per cent of the AW's exports are machinery and transport equipment, while 4 per cent of exports make it into the medium- to high-tech category. The example of machinery is not arbitrary. Machinery poses a daunting challenge of entry for new producers, with its barriers of advanced technology and large capital investment. It also constitutes the core of dependency by the South on Northern markets. So, if there is a key area that could alleviate economic dependency, it includes machinery.<sup>14</sup>

Rayment's discussion on the nature of intra-industry trade expansion underscores key constraints, but it offers hope as well that the more an economy adapts existing technology indigenously, the less it would be subject to competition from intermediate imports, as it creates new specialisations within specialisations and as production processes are lengthened and made more 'roundabout' (Rayment, 1983).

Diversification therefore requires a capital stock in the South that produces *for* the South. Short-run costs and trade-offs will exist in terms of higher costs for locally-made products. This has to be expected. Meanwhile, fully reaping the benefits of existing capital stock that is produced for Northern markets will also be key. Existing export activities will

remain a national priority in generating lucrative income flows, but it does not follow that they lead to the full potential of diversification that we find in producing for own markets.

The policy implication is that, if domestic demand is to lead to industrial transformation then non-market generative processes must be found. Industrial sectors, as Edith Penrose said of firms, 'do not grow automatically, but in response to human decisions' by the corporate and national elite which higher demand calls forth, as cited in Dunn (2010, p. 194). As Galbraith the elder similarly recognised, in order to install an industrial component, high technology and heavy capital use cannot be subordinate to the ebb and flow of market demand (Galbraith, 2007, pp. 212, 391). Furthermore, it is the state that needs to absorb major risks since it can provide or guarantee a market for the product, and can underwrite costs of development (Galbraith, 2007, p. 23).<sup>15</sup>

### 3. Role of government

Within its broad industrial strategy, a government's role should generally be to assure the firm that there is a commitment to industrial development. To the extent that industrial leaders are unwilling to be brought to the service of national industrial aims – not so unlikely in Keynes' assessment of socially necessary investment – government will better aim to more directly foster activity with public enterprise. This notion of planning can be adjusted to any level of institutional culture because the strategy framework is sufficiently broad. At one extreme, it requires little technical expertise, inasmuch as it merely sends a message to investors that the rules of the trade now favour diversification and domestic production. (Of course, the problem always remains that powerful foreign interests will pressure the government to change the rules back. The graveyard is filled with unsuccessful attempts.)

The degree of sovereignty and the quality of existing foreign trade heavily predetermine the policy space, taking into consideration merely domestic interests. Strikes by established merchants plagued Salvador Allende's strategy to boost domestic industry. Here we direct the reader's attention from this question with its inherent complexity in the institutional diversity across the developing world *qua* AW. Determining the season for ambitious industrial efforts, and more or less blanket policies of this sort that aim to offset import leakages, can be complimented with slightly more discreet intersectoral policies.

#### 4. Intersectoral considerations

Kaldor recognised, in his Mattioli lectures, the necessity of intersectoral linkages between subsistence and advanced sectors, showing that manufacturing industry is determined 'by the growth of the exogenous components of demand originating outside the sector' (Kaldor, 1996, p. xxii):

[In ...] a steadily growing economy where the steady growth of physical capacity to produce output (resulting from past investment) [goes] hand-in-hand with the growth of the demand from consumable output, which in turn [is] 'fed' by the growth in the volume of investment which generate[s] an increase in the demand for consumer goods; and the latter, in turn, justified new investment decisions on an increasing scale.

(Kaldor, 1996, p. 39)

Demand can limit industrial transformation because there is a limit to which the manufacturing sector can produce for its own consumption. Its deficiency of 'own' demand means that demand from somewhere else has to be found – from persons with incomes earned outside the sector, and therefore, necessarily in services or agriculture.

There is an important distinction between the implications for demand that come from this framing of the problem by Kaldor and the framing made by Keynes in *The General Theory*. The latter focused on how economic activity settles down at levels below full capacity utilisation and therefore called upon government investment as the principal guarantor of full employment. But Kaldor turns our attention to the problem of finding endogenous demand. To force a distinction, Keynes' analysis emphasises the reasons why capacity utilisation will perennially not tend to full capacity and looks for the exogenous adjustment. Kaldor's specification directs our attention to a situation where, given constant exogenous demand, the internal relationship of sectors can result in contractionary or expansionary economic activity. Government investment is therefore the *sine qua non* to sustaining production levels, as Keynes recognised. But Kaldor's analysis helps to scrutinise how, once demand dissipates and the economy comes to rest at a lower level of economic activity, a chicken-and-egg dilemma surfaces between demand and investment. In an open economy, Keynesian public stimulus can be lost to imports for the obvious reasons associated with a lack of diverse production structure. Synthesising these observations

of Keynes and Kaldor suggest that, above and beyond sustaining production levels, government expenditure can target sectoral proportions (see Rada, 2007). Furthermore, constraints such as conventionally determined fiscal ‘appropriateness’ and the ‘loud’ provisioning for domestic industrial priorities can be sidestepped by discretionary policy that is less politically adversarial, and can create room to manoeuvre in a given policy space.

Similar to the ineffectuality of fiscal expenditure, so too demand arising in others sectors is not a sufficient condition for industrial transformation in an open economy (Kaldor’s specification was elaborated assuming a closed economy). This point is particularly binding for the AW today, where the challenge is one of producing things that they do not already produce. A surge in demand does not imply that industry will start producing in areas where it does not currently produce. This holds true whether higher demand comes from changes in income distribution à la Kalecki or from changes in prices that make domestic output more attractive compared to foreign alternatives.<sup>16</sup>

For new producers to come into existence, the industrial structure has to create that possibility. Take, for example, an individual machinist. To enter new production, the entrepreneur will face an initial challenge in terms of higher costs, which will raise the costs elsewhere in the economy since his production (unlike the established foreign supplier’s) is limited by the costly heterogeneity of inputs associated with producing for a limited number of buyers. Nor will it be empirically obvious at what point higher costs are offset at the economy level, due to additional income accrued by substituting production for the lower cost import. But such worries are strictly short term in nature. As his or her production grows, the machine maker begins to combine various inputs for different kinds of machines.

Short-run costs, and the economy-wide challenge, mean that innovation becomes central to the planning system to create the possibility for roundabout production. The constraint is a general one. It is merely that of the sovereignty of the domestic producer to begin producing goods that are imported. Although the machinist is the agent of change, his presence is a result of this broadest notion of ‘planning’, though this term is a misnomer. An institutional approach to technological innovation must supplant the entrepreneurial approach (Chiesa, 2001). The economic implications for this are open ended. As Rayment’s focus on intra-industry production highlights, since production begins to expand in intermediate goods including capital goods, once the genesis of intra-industry trade is underway, it exhibits a *sui generis* expansion that is

blind to political fault lines. Regionalism then comes into its own – assuming away *conventions* that stunt or redirect it. Integration in this way can be seen to be technically constrained in early stages of industrial advancement due to the presence of capital goods suppliers from *outside* the region. But the nature of specialisation within specialisation of intra-industry goods makes this constraint quickly fade once production has begun to advance from its own capital base. This very realisation is enough to explain why a vehemently defensive deflection of such activities by global producers at the gates of industry is fierce. It also explains Veblen's comment that 'there is no longer any necessary coincidence between productive efficiency and competitive success' (Darity Jr et al., 2003, p. 125). Regional integration presents a threat to international liberalism in the latter's rush to open all markets 'to all producers equally'. The planning problem of industry is now clearly an international problem of political economy and not really an issue of planning after all.<sup>17</sup>

But to return to the relevance of the two-sector framework, it calls forth the need to focus on the euphemistically labelled subsistence sector, which contains pools of unemployed to be integrated into the economy. Key interactions between the two sectors have been recognised in the literature, since Lewis and Kaldor, by Prabhat Patnaik, Singer and Roy, Codrina Rada and Lance Taylor (Singer and Roy, 1993, p. 24; Rada, 2007; Ocampo et al., 2009).

Formal treatment of the two sectors provides the key insight that counter-intuitive and perverse effects can arise, such as domestic demand being undercut or boosted by changing levels of income at various sector levels. Determining the intersectoral relationships that hold in a given country at a given time depends on the specific relationships of wage earners in the different sectors, their consumption patterns and to what extent consumer demands can be met by domestic industrial output. Schema set forth by Ocampo and colleagues (2009, pp. 121–141) help to unfold issues of causality and sustainability that are relevant (as helpful as typologies can be) exclusively at the country level. Not only data limitations, but drastic changes in institutions in the AW, make any meaningful estimations of the schedules presented in Taylor and Rada's formal presentation extend far beyond what might be presented here. At the current level of generality, it suffices to observe that the underemployed 'pools of labour' in the AW populate mainly a few sectors: public services, retail and transport sectors throughout the region, with larger shares in agricultural sectors in the larger countries of Egypt, Iraq, Syria and Yemen.

A more important general lesson from the two-sector framework is the *relatively* low esteem for the role of resources. The policymaker's attention is directed towards how the various activities are connected. The priority lies not in the identification of endowments in order to build on them, but in behaviours that shape and are shaped by the structure itself, that is, to borrow a term from philosophy and mathematics, mereologically. The whole includes internal and external relationships between the parts ( $\mu\epsilon\epsilon\rho\omicron\varsigma$ ), which together simultaneously and dynamically determine output and growth or decline.

Reflection on the role of sectoral analysis for development underscores the point of view that if economic policy wants to become more sophisticated than setting rules on trade and protection, which it need not necessarily do if it does not have the capacity (since blanket rules that enable diverse industrial production, if not at the country level, then at least at the regional level), then policymakers engaged in planning will benefit from delving into serious formal analysis at the sectoral level.

## 5. Agency, convention and logos

To translate the heretofore cursory observations into a framework would be distinctly against the intentions of this chapter. A final aim intended here is to expose an all too ubiquitous *lack of agency*. The core of a structuralist approach might be symbolised by Keynes' utterance about the 'dark forces of time and ignorance which envelop our future'.<sup>18</sup> It should come as no surprise, therefore, that the so-called Keynes Plan, when it was written down, came with a list of 'false approaches' and the advice to let experience tell us how to do the rest (Keynes, 1980).

For similar reasons, it will suffice here to highlight unsound conventions that constrain the policy space rather than to prescribe a to-do list or to work within universal and exclusionary frameworks like those of GATT. It is not clear to this author how the provisions of GATT 1994 for infant industry protection, which are set up as universal rules with exceptional treatment, can attain to the characteristics of 'liberality'. Liberating policymakers to promote free choice from a wide range of tools is the way to begin a new upbuilding of policy space.

One specific tool, however, deserves special attention. As Keynes positively referred to them, tariffs are 'free from the problem of putting the burden of adjustment on the debtor' (Keynes, 1980, p. 28). This point is interesting given that he also referred to protection as one of the false approaches. The point he makes, not without due irony, is that tariffs



are second best, and are only given preference when the global trading system fails to promote equity – such is the status quo today.

Growth across developing country experiences today not merely characterised by Hirschman's theory of unbalanced growth, rather it is pathetically lopsided. In the best of circumstances it remains vulnerable to the middle income trap (countries that get bogged down at a middle level of development). If we borrow Galbraith's measure of success – diversification – then there are no true success stories. Pools of isolated masses throughout the South continue to reside in certain sectors, such as unproductive retail activities in urban centres or traditional rural activities, that act more like dumping grounds for workers formerly employed in modern sectors who have lost their jobs due to deregulation. Recent growth is both irregular and unreliable, and gives a misplaced optimism in an insufficient repertory of policy responses. These constraints cannot be overcome without a gnawing away at institutionalised international trade conventions. The global organisation of production and its demand structures are the determining starting point of today's development challenges.

Public policy should therefore involve itself with three going concerns that are well recognised in the predatory perspective of economic activity: markets can be captured by domestic producers; encroachment into those markets can be made by established producers; and fierce financial competition can destroy industrial initiative. The response to this environment is not 'efficiency'. A needs- and employment-based industrial production is vital – even where it 'inefficiently' esteems employment before short-run profits (Galbraith, 2009).

In order to counterbalance the all too prevalent tendency to direct blame to the private sector's lack of innovation as a major constraint to growth, it is important to recall Keynes' trust in the efficacy with which producers explore the limits of profitability *given* their environment. The producer adapts very well to conditions of the environment, which makes for a corresponding futility, and sometimes even condescension, in calling for innovation and technological advance. Keynes is often remembered for emphasising how investors run low on animal spirits, but he is seldom recalled for his observation that investors are, by definition, overly confident and their activities were considered a risky trip to the South Pole – today's corresponding analogy would be somewhere beyond the moon. It is not the investors that need to be conditioned, it is the environment.

A strong awareness of the unlikelihood of development under the constrained policy space leads all too quickly in one of two directions

in the literature. It makes domestic activities look like viable alternatives without addressing fundamental trade constraints.<sup>19</sup> It also makes playing the value chain game relatively attractive, as can be seen even in recent heterodox analysis of the sort by Milberg and Winkler (2013). The value chain story is a key development strategy today, and even in the most thorough of presentations (Milberg including), it tends to emit from a developed country perspective more so than from that of a developing country. Clearly value chains are here to stay. Spinning-off activities from the North in an unprecedented environment of cheaper global shipping costs deceptively represents an open range of possibility. But the analytical power of a policymaker situated in this framework is restricted to the normative and does not think in terms of counterfactual policymaking. As a development approach, the value chain development seems internally consistent inasmuch as it recognises the need for market access, the power of lead firms and the interventions that are called for in response. But a sufficiently external vantage point by which the value chain development approach can be assessed is through Keynes' recognition of the significance of trade balances. Participating in value chains will not empower the developing world to grow out of its trade dependence because value chain development does not recognise the nature of intra-industry trade, and the constraints and opportunities therein. Nor does value chain development sever the link between investment and mark-up pricing, a key element that restricts the potential for the independence of the South from Northern economic activity.<sup>20</sup> Global value chains offer little *new* hope in responding to long-standing constraints inherent in the global economic structure.

Trade as a forced policy by a public elite racing to meet its short-run accounts is not the same as trade that grows from healthy diversification. 'Kick-starting' industrial transformation is a naive notion. The Lewis approach to industrial diversification can best be couched in Keynes' emphasis on the dangers of trade balances. Keynes did not leave even a suggestion that countries could grow by trading basic goods with more advanced economies. Dystopian pragmatism based on frameworks that suggest it is possible restrict the possible to a very narrow band: 'it is time to recover the impossible' (Prashad, 2013). Today's industrial policy for the developing world frequently refrains from addressing constraints we have imposed on ourselves.

Realistic proposals encounter a dilemma between feasible action that is immediately feasible within a restricted focus and a certain faithfulness to the act of diagnosis. A reduced form of the problem can be presented. But if sacrificing diagnosis for prognosis is a danger to be

avoided then framing of the problem can proceed independent of any foreseeable remedy. This is not the same as falling prey to the double-edged danger characterised by dogmatism on one hand and scepticism on the other. In this highly constrained space, critical thought can bring to the fore alternatives present in existing practice and policy discussion that are conducive to *thinking* about the problem anew. This is our objective.

As global development institutions phase out of the Millennium Development Goals (MDGs) and into the post-2015 development agenda, it is timely to reflect on a key determinant of the past that is about to be brought forward. MDG-8 begins with the target to 'develop further an open, rule-based, predictable, *non-discriminatory* trading, and financial system' (emphasis added) and then makes special provision that LDC exports receive tariff- and quota-free access. That this goes against the grain of the conceptualising framework put forth specifically by Keynes at Bretton Woods should come as no surprise, and it is perfectly in line with the 'Bretton Woods Consensus' as it unfolded in reality. It is helpful and analogous to recall how policy prescriptions of New Classical macroeconomics and mainstream finance render inutile any effort to change the level of effective demand because the rate of capacity utilisation cannot, by their theoretical assumptions, lie above its 'equilibrium' level 'in the long run'. MDG-8 similarly confines long-run relevance of trade policy to the free market, with minor exception for LDCs.

Elsewhere, a policy prescription which tends to be somewhat more directly relevant in spirit at least is the call for a world financial authority (WFA) (Eatwell, 2000; Nayyar, 2000; Eatwell and Taylor, 2001). With all the deficiencies of finance-led globalisation, the call for a WFA, despite reasonable hesitation (Akyuz and Cornford, 1999), seems commensurate with the complexity of the challenges posed to development in today's global environment.

Outside the specifically financial realm of global economy, calls for a world economic authority are scarcely present, with a few historical exceptions. The league against imperialism launched in Berlin in 1926 (Hargreaves, 1993) constituting members of the *Ligue des droits de l'homme*,<sup>21</sup> as well as the papacy (Pontifical Council for Justice and Peace, n/d) have also raised the call for a world economic authority. But neither of these speaks directly to the cornerstone of trade in the Keynesian vein presented. Not even in the Havana Charter (UN, 1948), which sought to safeguard the provision of full employment, do we find a sufficient framing of trade.<sup>22</sup> For readers still sceptical of going

against the grain of conservative liberal tradition, it is worth considering Keynes' conviction that full employment and non-discriminatory trade were generally rendered contradictory, particularly in the absence of adjustment mechanisms which could eliminate trade deficits and surpluses by fiat. Freedom of the market has never taken precedence over the role of production, except for the powerful nations and for those who have mindlessly adopted the conventional language of free trade. This radical turn taken in the twentieth century, despite being flatly rejected across much of Europe in the interwar period (Boyce, 2009), was made feasible by American economic power that fully extended its arm. How it came to be sold as a universal science by the economics profession, and its turn away from Keynes, are well documented.<sup>23</sup>

For better international institutions to become a reality, they will need to be based on a more universal approach. The trading system that we have inherited is the result of the abandonment of a universal approach in favour of what might be charitably described as the pragmatism of New Deal internationalism. The New Deal notion that the leaders can institutionalise a fairer deal for the people was never extended to an American role in international affairs besides, perhaps, in its embodiment in central figures like Harry White, Franklin D. Roosevelt (FDR) and LaGuardia. The collective view that America exhibited in the 1940s at the formation of Bretton Woods and GATT on the role of both government and foreign markets in promoting economic growth was subject to fluid interests that coalesced to hammer out a new rule-based bilateralism. But the New Deal internationalism, to be sure, faced hard, conservative business language in response, and a collective social outlook characterised by the central claims of private property, with only the occasional (if then growing) recognition that a rising international tide can lift all boats. The struggle between America and imperial power over trade took what can be considered the most obvious arguments on both sides. The right to one's own production is always foremost recognised. The universal even-handedness that recognises others' rights to production has been a perennially endangered species.

The consensus was borne out of three very different approaches to issues of tariffs and the conceptualisation of an international trade organisation, that were borne of their respective emphases on: (1) politics, (2) economics and (3) a political economics that goes back to Adam Smith's recognition of the dark risks of war generated by vying national economies and prickly matters of trade.<sup>24</sup> Holding for the business cycle, the gradual accumulation of advanced capital stock in the US can be considered as the primary determinant for declining opposition to tariffs, and therefore as commensurate with American economic power

internationally – it was only with growing US dominance internationally that tariff barriers declined.

If there is one single term in contemporary economics discourse that needs reevaluation, it is the ubiquitously abused term ‘non-discriminatory trade’. Throughout the corridors of the G77’s home at the United Nations (UN) in Geneva, this term remains standard usage. It even served as the cornerstone of the Havana Charter within the first Conference on Trade and Development. By intention, it is used today by citizens of the South with concern for Northern agricultural protectionism, but, despite this particular meaning, which is not universal, it cannot serve the interests of the developing world.

It has been the aim here to reflect critically on a variety of key constraints that are too seldom discussed. The uniqueness of each country’s development challenge will resurface, à la Gerschenkron, once the current blanket of restrictive trade conventions is cast away. In spite of the particularities, more diversified manufacturing independence can, for the greater part of the developing South, and the AW in particular, be a universally valid goal.<sup>25</sup>

## Notes

1. For the unfamiliar, Keynes’ Plan proposed the creation of an international clearing union (ICU) for registering and settling all international payments, using a virtual common unit of account – the *bancor* – for invoicing trade operations. See also Keynes Plan in IMF, 1969; also Keynes, 1980; Fritz et al., 2010.
2. Under the gold standard, adjustment was compulsory for the debtor and voluntary for the creditor, and led as a result to austerity by debtors while creditors could hoard their surpluses. Hoarding is aggravated by capital flight from debtor to surplus countries. The flow of speculative funds brought the whole system to ruin.  
(Skidelsky and Joshi, 2010)
3. ‘Each central bank to have unqualified control over the *outward* transactions of its nationals’ (Keynes, 1980, p. 34).
4. ‘Moreover, that foreign bank credit cannot generally fund industrialisation when capital markets are free. *The very forces that make a country seem credit-worthy* – its adherence to the policy line favoured by the bankers – undermine the competitiveness of industrial investment and drive the proceeds of new lending into consumption’ (Galbraith, 2009, p. 75).
5. The creditor issue today is not about China vis-à-vis the North, but the North vis-à-vis the rest of the South. While the North cannot be expected, politically, to accept eliminating its trade balance with the South, through highlighting the relevance of this end, it can, at the very least, be forced to support politically the right to economic self-determination in the South.
6. Keynes had very much in mind a notion that value is created à la Adam Smith (‘There is no such thing as free trade’: Galbraith, 2009, p. 22) and

was not swayed by the mercantilist myth that wealth is generated by the zero sum game of trade, which continues to mislead (Taylor, 2010, p. 31).

7. Keynes famously referred to these as the 'lunatic proposals of Mr Hull', and yet he proceeded to produce a plan that would permit free trade, but which guaranteed full employment. First, Keynes hoped to get the US to do its duty as a creditor, by spending its surpluses as Britain had done in the nineteenth century (Skidelsky and Joshi, 2010).
8. The stark difference in how Keynes as a cornerstone helps to frame the challenges to the Middle East here given can be compared to the absence of a structural approach in the mainstream policymaking halls of the UN, see for example ESCWA and EU (2013).
9. The perspective from capital market interests aside, much of the European push for internationalisation was intent on a European bloc. Nobody, however, wanted to sour their relationship with the Americans, so while the European flavour of internationalisation intended to compete with the US, it was packaged in more universal terms. Even industry in the slipping British Empire (particularly steel and wool) sought protections, even if they were not unified in one voice (Boyce, 2009).
10. For any given 'size' economy, developing countries are much smaller than wealthy ones due to the lower income levels associated with earlier stages of development. As developing countries begin to produce for each other, combining their markets, the size constraint recedes. This is very much in line with Allyn Young's (1928, p. 529) reading of Adam Smith notion that 'the division of labour depends upon the extent of the market'.
11. Expressed slightly differently:

The restructuring processes underway also raise the question of whether what is good for the 'competitive firm' is good for national development more broadly, since what works for a subset of firms may make the national economy more prone to balance-of-payments crises and slower growth in the short to medium run.

(Shapiro, 2005, p. 18)

12. 'This is not to deny the importance of specialisation. As Young had argued, increasing returns were essentially a macroeconomic phenomenon: 'increasing returns arise because of increasing specialisation between firms, the emergence of new subsidiary industries and new processes' (Young, 1928, p. 539, in McCombie et al., 2003).
13. For other work that questions the value chain approach see UNCTAD (2014).
14. Not all activities offer the same type of linkages. A unique set of linkages is observed when producers for consumer goods gradually induce the development of the capital goods producing sector. At the heart of this transformation is machinery (Argyrous, 2004, pp. 244–248).
15. Measures to maintain a desired level of aggregate demand are part and parcel of the task of industrial planning (Galbraith, 2007, p. 248).
16. The most drastic imaginable improvement in the terms of trade of primary products – a doubling in the price of agricultural products, metals, other materials – in relation to the products and services of the rich countries would not alleviate the poverty of the masses of India, Pakistan, Indonesia,

- Egypt, Mexico or other similarly situated countries. Price is not decisive if you have little or nothing to sell (Galbraith, 1981).
17. Keynes, for example, referred to giving up protections as analogous to signing away the British Navy (Keynes, 1980, p. 27), and elsewhere complained bitterly of a United States proposal to get Europeans to buy its flour and eat only white bread (Keynes, 1980, p. 24).
  18. *The General Theory of Employment, Interest and Money*, Palgrave Macmillan 1936, London. Page 155. Here we refer less to that of Prebisch and Latin American Structuralism and more to that of Lance Taylor, with a wholesale discounting of the economics by that name as presented by Justin Lin. For one account of 'Late' structuralism that is a mixture of the first two, see Gibson (2002).
  19. In this recent Trade and Development Report by UNCTAD, incomes policies were considered as the key potential driver to development and change, which could result in diversification without addressing trade rules (UN, 2013).
  20. This observation has been made in discussions based on North-South models by Taylor.
  21. For Marxian criticisms of the bourgeois character of *Ligue des droits de l'homme*, see Löwith and colleagues (1982).
  22. Even in the Havana Charter one encounters the call for the 'elimination of discriminatory treatment in international commerce'.
  23. As Taylor has fully laid out, the transition from Keynes took several stages (Taylor, 2004). Whether one wants to interpret the divergence away from Keynes as an intentional marauding by revanchist conservatism which similarly rebelled against Marxian thought, or merely as an ingenuous misreading of diverse works that contain within themselves many ambiguities, is another issue. What continues to be relevant for policy discussion is the perennial presence of 'fact-grubbers insensitive to the refinement of a new thought' (Löwith et al., 1982, p. 57). The discourse will have to open up to more thinking than the so-called 'science' of economics has engendered.
  24. These three are represented in the temporary marriage between the New Deal dirigisme of FDR, the business interests in foreign markets of American International Trade Organization (ITO) delegation head Will Clayton (whose main ambition was the elimination of imperial preference), and the peace-seeking internationalism of, say, Cordell Hull.
  25. This is very much in line with the outlook of UNCTAD IV, which recommended that, 'in order to supplement national efforts and to promote collective self-reliance among themselves, the developing countries take action at the subregional, regional and international levels, in an integrated and complementary fashion' (UNCTAD, 1976, p. 18).

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## **Part III**

# **The Agrarian Question**

# 7

## The Arab Uprisings through an Agrarian Lens

*Rami Zurayk*

On the eve of the Arab Spring uprisings, the AW was itself in the throes of an inextricable agrarian crisis. The chronic and profound Arab food insecurity had been exposed by the global food crisis of 2008. The stripping of entitlements from the agrarians had created a massive migration to urban centres and resulted in the largest rate of youth unemployment in the world. The mining of the landscapes, especially its soils, water and biodiversity components, had created an environmental catastrophe. The AW was ripe for insurrections. The Tunisian spark set motion to Egypt, Yemen, Libya, Bahrain, Syria and now Iraq. The remaining countries felt the tremors and experienced their share of instability.

Five years later, in 2015, the AW is struggling to extract itself from the tumult. In countries where a precarious peace has prevailed, such as Tunisia and Egypt, transitional governments are struggling with plans to re-establish economic growth and social stability. All eyes are turned towards the cities where the seism had climaxed, forgetting the agrarian world where the true epicentre of the uprising lies.

This chapter is in two parts. In the first section, I use a political ecology approach to link the convulsions that have been shaking the AW for the past five years to the Arab agrarian question. In the second part, I will critically explore some of options available to transitional governments for addressing what may be their main existential challenge: the Arab agrarian question.

### 1. The road to the uprisings

In this chapter, I argue that the roots of the Arab uprisings may be found in the radical agrarian transformations that have affected people, land and food since the early modern period. I further contend that the

violent amalgam of colonialism, imperialism, neoliberalism and populist dictatorships, exerted over a meagre ecological endowment, has created an agrarian question of cataclysmic proportions,<sup>1</sup> that has left tens of millions of Arabs unemployed, landless, disenfranchised and desperate (Amin, 2012). I further surmise that the agrarian question cannot be resolved solely by massive urbanisation and disinvestment from farming, and reliance on industrial farming and market forces, as is often suggested, but that a solution that conserves agrarian culture and society is necessary in order to construct a just and humane AW.

In order to understand the Arab agrarian question, a good understanding of the biophysical milieu in which it unfolds is necessary. In Subsection 1.1, I will present relevant environmental information using a political ecology approach that recognises the role of power relations in the access and use of the environment and its resources (Neumann, 2009, p. 228).

### 1.1 An agonising landscape

Extending from the Atlantic to the Indian Ocean, the AW covers today a total area of nearly 13 million km<sup>2</sup>. As of 2010 (Mirkin, 2010, p. 5), the Arab population numbered 359 million and was growing at a rate of 2.1 per cent, which is higher than the average for developing nations. The region is characterised by accelerated environmental degradation coupled with intensive exploitation of natural resources essential for farming and food production: soils, water and biodiversity (Saab, 2012, p. 19). Some of the damage is due to the limiting ecological endowment and to climatic uncertainty. However, environmental pressures cannot alone bear the responsibility for the prevalent rates of degradation. Over the course of history, power in its various forms has left profound scars on the Arab landscape (see, for instance, Bonine (2009, p. 82) and articles in Davis and Burke III (2011)). As a result, Arab countries suffer various degrees of water scarcity, desertification, loss of arable lands, soil erosion, ecosystem imbalance, loss of biodiversity and increasing pollution. These affect mostly the rural areas and strongly impinge on the lives of agrarians.

The availability of fresh water continues to be the most limiting factor to human and natural well-being, growth and prosperity. Per capita share of fresh water in the AW is just 10 per cent that of the rest of the world. Fifteen countries rank below the poverty level of 1000 m<sup>3</sup>/year of water (FAO, 2013). Iraq, Mauritania, Egypt, Syria and Sudan depend on surface water originating in other countries for at least 70 per cent of their needs (UNEP, 2013, p. 62). The recent bid by ISIS militias for control of major rivers and dams is clear evidence of the potential power

of water as a weapon of war (Vidal, 2014). The geopolitics of water holds the Arabs by their throats.

Rainfall is sparse and erratic: 52 per cent of the region receives less than 100 mm/year, and only 18 per cent receives more than 400 mm/year (ACSAD, 1997, p. 522) (which is below the minimum requirement for rain-fed wheat production (FAO, 2013)). Droughts are common and can be prolonged, and often result in ecological, social and political tragedies. Interseasonal variability of rainfall is also frequent, leading to figures for effective rainfall (precipitation that can effectively be used by plants) that are commonly far below those of the cumulative rainfall. Anthropogenic climate change poses an extra stress as the region is expected to be one of the hardest hit in the world in the future, with expected declines in rainfall, and increased drought frequencies (AFED, 2008, p. 129). Rural people are also extremely vulnerable to economic and climatic fluctuations. The protracted drought in Syria, from 2008 to 2011, has caused the displacement of hundreds of thousands of families and is widely acknowledged to have been a catalyst for the armed violence of the past years (William, 2013).

Aridity or hyper-aridity affects nearly 90 per cent of the Arab lands. Of these, 52 per cent are deserts and 33 per cent steppic range lands (UNEP, 2013, p. 10), locally known as *al Badia*. Their productivity is generally low and intensified, and increasingly settled animal production requires additional feed inputs, which are commonly imported. Arable land is potentially 15 per cent of the total area, but farmland covers only 4 per cent of the AW. The amount of arable land per capita has also decreased by over half since 1980. In 2005, it was less than 1 ha/capita of rain-fed land and less than a half-hectare for irrigated land (CeDARE, UNEP, LAS, 2010, p. 71). Five per cent of the total land area in the Arab region is devoted to agriculture, as opposed to a worldwide average of 11.9 per cent.

Irrigation is essential for increasing agricultural productivity. Irrigated farming on 20 per cent of the arable land produces 70 per cent of the Arab agricultural output. Although the agricultural sector's contribution to GDP is just 12 per cent, it is where most of the water is used: up to 89 per cent of the water resources (Breisinger et al., 2010, p. 15), with an efficiency of 40 per cent. This figure is expected to decline to 60 per cent in 2050 (AFED, 2011, p. 33).

## **1.2 The emergence of the Arab agrarian question: Land and water issues**

Land and associated resources are essential for the livelihoods of agrarians. When land and water are taken away, the people's decline is

inevitable. Securing access to sufficient land is possibly the most important determinant of rural poverty. Landlessness has been accurately described as a curse in the AW (Forni, 2003, p. 10).

Issawi (1965), writing on foreign affairs, traces the emergence of landlessness among the peasantry to the breakdown of the communal systems of land tenure (*masha'*, *dira*), which provided, under subsistence farming, a large degree of equity due to its periodic redistribution among farmers. Industrialisation, population growth and, most importantly, the shift to cash cropping and to market rule, caused the disintegration of agrarian communities. It also paved the way to dispossession and appropriation by powerful elite. To this, one must add the introduction of Western land laws, which served to reinforce the hold of the powerful.

As a result, land distribution in the AW is one of the most unequal on Earth, although that point is rarely addressed in documents' treatment of issues concerning Arab food security and rural development. The GINI Index for land in the Middle East, a measure of the inequality in distribution, is among the highest worldwide (FAOSTAT, 2010); the GINI Coefficients stand at 69 per cent for Egypt, Lebanon and Tunisia, 81 per cent for Jordan and 62 per cent for Morocco. (GINI Index figures were unavailable for Yemen, Syria, Libya, Bahrain and other Gulf countries). Few countries in the world show higher land inequality figures as a group. Arab land inequality is characterised by a 'bifurcation in the patterns of landholdings': the little land accessible to small and medium-sized farmers is increasingly subdivided into smaller parcels, primarily due to inheritance, until it becomes uneconomical to farm. Conversely, the property of the rich remains relatively intact. This special kind of land inequality has been proposed as one of the principal causes of political violence in the Middle East (Midlarsky, 1988, p. 504).

Control over land was accompanied by a set of policies on water that has profoundly altered resource access and governance. The politics of water in the Arab countries have been essentially demand driven and also based on engineering approaches for addressing water scarcity. Due to their historic water thirst, Arab states have sought to establish their legitimacies through grandiose hydraulic missions. Saudi Arabia tapped its fossil groundwater to exhaustion for the state-subsidised vanity farms of the ruling families (Rivlin, 2009, p. 235), while Egypt constructed the Nasser Dam, and Syria the Assad Dam. As a result, water has become even scarcer as Arab countries use today 85 per cent of renewable water resources in agriculture (AFED, 2011, p. 20), compared with values of between 1 per cent and 30 per cent for other regions (World Bank,

2009, p. 7). Public finances were used to subsidise irrigation water. Studies show that blanket water subsidies served mainly large landowners (Mohamed et al., 2009, p. 68), who increased their hold and control over resources. Poor maintenance is another shared characteristic of large Arab hydraulic projects (AFED, 2011, p. 20), which affects distribution and irrigation efficiency. To this, one must add the uncontrolled tapping of groundwater (itself associated with access to capital, finance drilling, and pump installation and operation), as well as the political power to do so in contravention of the legal framework.

An examination of the relationship between power and access to entitlements in the AW cannot be complete without a mention of the occupation and war that continue to be imposed on the Arab people. Many countries in the Arab region are forcibly occupied, as is the case of Palestine and, until recently, Iraq. War, conflict and occupation compound the impact of the Arab agrarian debacle (Zurayk, 2011, p. 119). Access to land, water, seeds and markets in Palestine has been forcibly appropriated by the Israeli settler state, which has pulverised agrarian livelihoods in the process (Sansour and Tartir, 2014). The war in Syria has led to millions of refugees and displaced people, mostly from rural areas (Zurayk, 2014, p. 9). A full examination of the contribution of war and occupations to the agrarian question is beyond the scope of this chapter, but it must be noted that, as of time of writing in July 2014, the Israeli offensive on Gaza is in full swing and will certainly contribute to further dispossession of the Palestinian agrarians (Zurayk and Gough, 2013, p. 19).

### **1.3 The human dimension of the agrarian question: The road to the Arab uprisings**

Arab endorsement of structural adjustment policies since the 1980s stimulated the rolling out of the state from the agrarian world, and the decline of state agricultural sector investments.<sup>2</sup> It also favoured private exploitation of land over communal/governmental responsibility. With the integration in the global food regime came the precedence of the exchange value of the landscape over its production value. Speculations flourished, and land became a perfect vehicle for absorbing and channelling oil rent and other forms of remittances. This deepened the inequality in land access, and estranged land further from its initial food production use.

The result has been a strong rural–urban migration especially among the working-age groups, and fast-paced urbanisation, ranging from 33 per cent (Yemen) to 85 per cent (Lebanon). However, half of Arabs still



live in rural areas (UN-ESCWA, 2008, p. 12). While this proportion is in steady decline, it only reaches negative growth in some areas.

Rural poverty runs deep. Depending on the poverty line used, 60–70 per cent of the poor live in rural areas, and 40–70 per cent of the 130 million Arabs living in rural areas are considered poor (Ben Jelili, 2010, p. 9). The rural–urban poverty divide is highest in Tunisia (4.9), followed by Morocco (3.0), Egypt (2.9) and Yemen (1.9) (Abou Ismail and Al Jondi, 2011, p. 7).

Concurrently, the Arab states withdrew their investments in agriculture: from USD 6.1 billion in 1986–1990 to USD 1.9 billion in 1996–2000 (IFAD, 2007, p. 19). In Tunisia, for example, where agriculture composes a sizeable section of the GDP at 11 per cent, 20 per cent of the labour force depends on agriculture for their livelihoods. Despite this, agriculture was barely subsidised under the Ben Ali regime and the sector received only 7 per cent of FDI between 2000 and 2007 (Lamboley, 2012).

Other indicators of human development of the Arab agrarians are equally dismal: only 62 per cent have access to safe drinking water (world: 83 per cent) and 51 per cent to sanitation facilities (world: 59 per cent), with very large disparities between rural and urban, especially in Morocco, Yemen and Sudan (IFAD, 2007, p. 31). These figures echo those for malnutrition and access to health care and education.

## **2. The morning after: Transitional regimes and the agrarian questions**

Transitional regimes in Egypt, Tunisia and Yemen have largely failed to address the popular demands for bread, jobs and social justice, and the demands of those who caused the revolutions.<sup>3</sup> On the contrary, they have persisted in approaching the agrarian question using the same set of neoliberal fixes as their predecessors. By doing so, they brought their countries one step closer to agrarian disaster.

After a major MB fiasco, during which deposed President Morsi attempted to curb wheat imports in what was described as a ‘Quixotic attempt at making Egypt self-sufficient’ (Reuters, 2013), while signalling to the IMF that he was ready to do business, the Sisi regime safely put Egypt back on the ultra-liberalisation track. No mention is made of amending ‘Law 96 of 1992’, which liberated land rent and caused millions to become landless (Bush, 2007, p. 1601). Workers strikes are still forcefully repressed and there are no indications that the dynamic of large-scale land reclamation and investment, such as the

corruption-tainted Toshka project, is subsiding, or that state support to smallholders is increasing.

However, one of the outcomes of the regime changes has been the strengthening of civil society. A popular movement has recently emerged, and modest interaction between civil society in rural and urban settings has been noted. The movement was able to obtain the mention of food sovereignty in the new constitution. There has also been contestation movements against expropriation and land rental to investors for cash crops (grapes) in the southern regions of Nag' Hammadi, Al Qanatir and Al Fayyum, where the name of former minister Yousef Wali has been associated with corruption and land grabbing (Masrawi, 2012).

The elections in Tunisia, similar to those in Egypt, brought Islamists to power. Their failure to address popular demands in the rural areas explains the popularity loss they experienced. It is also connected to the rise in armed violence in the poorest regions of the countries, where the insurrection against the Ben Ali regime started (Byrne, 2014).

The demands of Tunisian farmers for investment in small-scale agriculture and sustainable agricultural practices (Lamboley, 2012) were not met. The country has experienced violent repression of workers as a result of farmworkers' strikes. Al-Nahda (the main Islamist party in power) infiltrated and co-opted farmers' unions. This has led to the amplification of social protest and to collective organised action. The Tunisian countryside witnessed attacks on over 100 privatised state farms, some which were occupied in a direct challenge to the state privatisation policy and to the land tenure laws dating back to the French mandate. The agrarians may be able to exert political pressure on the state if they are able to organise as an autonomous force (Gana, 2013, p. 210).

## **2.1 What is to be done?**

Can the Arab regimes continue to ignore their agrarian question? Can the fire that is devouring the Arab lands ever be put out without addressing the fate of the rural world? In view of the evidence presented, this is very doubtful. Change is badly needed. It can take two forms: reform or revolution.

## **2.2 What can be done?**

With goodwill and adequate expertise there is quite a lot that can be achieved by the transitional regimes without directly challenging liberal economic principles, capitalism or globalisation. Reform options

can vary, from redistributing oil and financial rents in order to ensure political stability (Gulf countries, Algeria (see Bessaoud, 2013, p. 26)), to addressing the problems of rural poverty and unemployment through standard solutions that involve mainly treating food as a commodity, and farming as a regular economic sector. This latter solution would involve *some* attention being given to *some* farmers, who can show enterprise and are capitalised in one way or another, as well as: improving agricultural technology to sustainably enhance productivity (this includes improving water efficiency), enhancing rural education, investing in infrastructure, making markets work for the less fortunate, building safety nets, refocusing subsidies to serve the needed, involving civil society and including gender dimensions in development planning, promoting dietary shifts and reducing wastage. For example, a recent International Food Policy Research Institute- (IFPRI)-ESCWA food security conference on 'Food Secure Arab World' in Beirut on 6–7 February 2012 (IFPRI, 2012) returned the following policy recommendations:

- Building economic free zones on the coastline of Arab countries to absorb rural migrants.
- Exporting solar energy production.
- Switching from cereal production to export-oriented cash crops like vegetables. The rationale here is that cash cropping is more labour intensive and provides more jobs.
- Creating relevant vocational education programmes that build on manufacturing-led economic growth.
- Improving trade and market integration by unleashing the power of small businesses and improving access to financing.

While many of these conventional conclusions are appropriate, they seek to induce 'growth' and remedy poverty without asking why people are poor. In this classically liberal approach, to quote Averbeck, 'injustice is a product of misunderstanding, the result of faceless processes that no one really benefits from' (Averbeck, 2014). Indeed, only a tiny minority of 'expert reports' and policy guidance documents make mention of the role of power in maintaining the poor in poverty, of the causes of landlessness, and of the processes of dispossession and marginalisation (Breisinger et al., 2011). Rather, whenever the term 'resources allocation' is used, it is tainted with undertones of cultural deficiencies. For instance, the IFPRI report, *Beyond the Arab Awakening*, mentions resource allocation in reference to gender differences in access to food and entitlements within households. There is no mention of the number of landless farmers in the AW or of the violence perpetrated by power to

reproduce itself and maintain control over access resources. Economic conditions appear to be isolated from the political context.

### 2.3 Can the system be changed? Food sovereignty and the agrarian question

'Food sovereignty is the right of peoples to healthy and culturally appropriate food produced through ecologically sound and sustainable methods, and their right to define their own food and agriculture systems. It puts the aspirations and needs of those who produce, distribute and consume food at the heart of food systems and policies rather than the demands of markets and corporations' (Rahmanian and Pimbert, 2014). Essentially, food sovereignty is opposed to capitalism and neoliberalism, and calls for land reforms to redistribute resources to landless peasants and to smallholders. It also promotes a 'peasant way' and an agro-ecological approach to farming, in the interest of preserving social, cultural and ecological integrity. In a nutshell, food sovereignty appears to hold the solution to the Arab agrarian question, or, rather, to the world's agrarian questions, as suggested by economist Samir Amin (2012, p. 21).

The concept of food sovereignty has gained strength over the past two decades as a response to the impacts of the global food regime on people, land and food. It is championed by a cluster of national and transnational social movements and civil society organisations that generally go under the name of 'Food Movement'. The core of the food sovereignty movement is organised around the International Planning Committee for Food Sovereignty, which includes, among its members, La Via Campesina, an international movement that brings together 164 farmers' organisations from 73 countries.

Although much has been written in the past few years on food sovereignty, more recently in academic environments, such as the September 2013 conference convened by Yale University (Bernstein, 2013) titled 'Food Sovereignty: A Critical Dialogue' – jointly sponsored by the Program in Agrarian Studies and the *Journal of Peasant Studies*, it has become difficult to detect the ideological thread that links different members of the movement. It has been criticised from all sides of the spectrum. Aerni accuses it of containing 'too much old left-wing ideology and too little creative thinking...' (Aerni, 2011, p. 23). Bernstein (2013) offered a sceptic view on the concept from the other side of the ideological fence, and pointed at its obvious limitation: the difficulty of extracting farmers from commodity relations. Inputs need to be obtained, and crops sold. Bernstein (2013) also points to limitations in the ability of the movement to establish mutually positive synergies

between those who are peasants and those who are not. The urban poor may not be able to see the benefit from the implementation of food sovereignty agendas.

Another issue is the automatic association of the peasantry with 'goodness', as there is no conclusive evidence that smallholders exploit farmworkers any less than large capitalist production units. There is also an underlying assumption that smallholders want to remain in farming. In the current conditions, and in the absence of large-scale infrastructural investments in rural areas, it is doubtful that they do. A post-uprising study of the 1,000 Villages project in Egypt confirmed that the principal goal of farmworkers, male and female, was to exit farming as quickly as possible (Elmenofi and El-Shenawy, 2013, p. 24).

Another issue that describes well the predicament of the food sovereignty movement is the lack of an ideological basis: the movement is forced to operate within a bounded rationality; it has to perceive the world in terms of food. Without denying the importance of food, one must realise that it will take more than a sectorial approach to resolve the agrarian predicament. Can food be really isolated from the political economy at regional, national and global levels? This is very doubtful. For instance, the viability of the food sovereignty movement is highly unlikely in the context of the geopolitical struggle around water or oil. Farmers may be free to grow what they want, but the control of Turkey over the Tigris and Euphrates headwaters must be taken into account.

In summary, food sovereignty is based on radical and revolutionary thought, although it may not have the means to walk the talk. Nevertheless, it serves to bring together and strengthen movements that have been historically marginalised. However, in order to show tangible and sustainable achievements, it will need to establish broad-based coalitions involving agrarians rather than their intellectual representatives, in which all agree on the principle of altering existing power relations using the necessary means. We are still far from this point.

### **3. Conclusion**

On the eve of the uprisings, Arab regimes ruled by a combination of dispossession, redistribution and repression. The agrarian world was in the process of being dismantled, its landscapes seized by the ruling class and its people forced into exodus. Farmland was being grabbed for wealth accumulation, either through capitalist agricultural production or through real estate speculations. The ruling elites controlled land and water through political power. The state coffers were used to dissipate

the nefarious effects of this process by employing rural migrants in the public sector or in the army. The oligarchy accumulated wealth by extracting the natural resources to produce export commodities and by importing food as local agents of multinational corporations. The state, run by urbanised elites, had dealt a deadly blow to mobile pastoralism, once a major source of food. The *Badia*, the Arabian steppe, was turned into vast dump of waste and badlands, with occasional vanity farms tapping the non-renewable groundwater. These conditions precipitated the eruption of the Arab uprisings. The events in 2010 and 2011 filled Arab hearts with hope. Today, gloom reigns over the AW. What happened in-between?

Aside from the geopolitical dimensions, which I do not directly address in this chapter, transitional regimes have failed to live up to the expectations of the people, especially the agrarian community, which is historically disenfranchised and excluded. It does appear that the only toolbox at the regime's disposal originates from the Bretton Woods fellowship. Governments have wavered between doing nothing and moving deeper into outrageous neoliberalism. And in spite of the Abbasid poet Abu Nuwas' famous aphorism 'cure it with what was the illness', it is difficult to foresee a solution to the Arab agrarian question coming from the policy bundle that has created it.

Access to entitlements, especially land, in a region where landlessness is a curse and where the inequality of access to land is among the highest in the world, is the elephant in the room. Without some form of land and water justice, it is unlikely that the AW will experience social and political stability, especially given the predominance of rent economies. But land reform is a political taboo, and will not happen without a mass social and political movement. There are signs that such a movement may be forming. It must be noted, however, that neoliberalism is an ideological position, and it can only be countered with an adequate ideological framework. This is what is still lacking in the civil society movements that proclaim their commitment to agrarian justice.

## Notes

1. The agrarian question represents concern over the fate of smallholder farmers confronted with the foray of capital into the agrarian world. Samir Amin foresees its outcome as a disaster of genocidal proportions (Amin, 2012, p. 14).
2. For a good overview of the conditions under which agrarians live, refer to IFAD (2007).
3. A summary analysis of the specific agrarian conditions leading to the uprisings in Egypt, Tunisia, Yemen and Syria can be found in Zurayk and Gough (2014, p. 107).

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# 8

## Uprisings without Agrarian Questions

*Ray Bush*

### 1. Introduction

This chapter explores a series of issues that seem to have been ignored in the many debates about Egypt's post-25 January uprising and the toppling of dictator Hosni Mubarak.<sup>1</sup> I want to ask why it is that Egypt's small farmers have been ignored or abjected (cast out) of debates about Egypt's economic and political future. And I want to mention some of the reasons for this in the context of what elsewhere have been called agrarian questions (Bernstein, 2004, 2006). These questions relate broadly to issues of accumulation, production and politics. Does agriculture in Egypt have the capacity to generate food and non-food output that exceeds an amount necessary for self-provisioning, and, if it does, what obstacles prevent this potential being realised? And what policy would be needed to ensure a more equal distribution and consumption of food in Egypt, where more than 30 per cent of Egyptian children are stunted because of dietary constraints yet 35 per cent of adults are obese (FAO, 2013, p. 23). To what extent has capitalist production become generalised in rural Egypt? Is there widespread wage labour, or (just) the expansion of market activities and dispossession of opportunistic landlords and smallholder pre-capitalist farmers, who may block increases in productivity, restrict accumulation, and operate on the basis of patron–client relations and non-market imperatives? And at the level of politics, have large-scale peasant movements, independently or in class alliance with workers and other social forces, promoted policies for social justice and economic transformation (Akram-Lodhi and Kay, 2010, pp. 255–256; Bernstein, 2010)?

These questions raise a combination of theoretical and empirical concerns that are explored here to broaden debate about agricultural

transformation in Egypt. There may also be lessons to learn from other cases in MENA. I want to ask how, if at all, the uprisings were experienced or informed by the rural crisis of poverty, inequality, violence and dispossession? And what has been the institutional and policy frame for a rural development and food production strategy after the uprising? How have organisations like Food and Agricultural Organization (FAO), IFPRI and international financial institutions (IFIs) characterised Egypt's food insecurity, and what have been some of the comments on the political and economic crisis from small farmers? I argue the need to introduce the forgotten voices of small farmers to understand the driving forces for contemporary rural development. These may need to be listened to if Egypt is to become food secure, and if agrarian reform is to reduce rural poverty. An improved understanding of rural relations of production and social reproduction is important to help grasp how farmers and their families, and different members of rural communities, combat (or acquiesce to) a fundamental dilemma. This is the struggle for 'autonomy and progress in a context characterised by multiple patterns of dependency and associated processes of exploitation and marginalisation' (van der Ploeg, 2008, p. xiv).

First, a reminder of the important context in which rural development might be explored, but which is absent from Egyptian debate. This a reflection on the view that:

The most dramatic and far-reaching social change of the second half of this century [the twentieth century], and the one which cuts us off forever from the world of the past is the death of the peasantry.

(Hobsbawm, 1994, p. 289)

It is clear, notwithstanding the unevenness of what Hobsbawm remarked, that small farmers are very much in evidence in Egypt, and we need to investigate why and how they persist – as many as 4 million families rely, in one form or another, on rural conditions of existence. We need to do this, moreover, without becoming too stymied in the debate about what constitutes a peasant. The persistence and social reproduction of small farmers takes place in a broader development context. This is, namely, how some parts at least of humanity managed to progress from cavemen to space travellers (Hobsbawm, 1997, p. 40). Has the Egyptian debate (as well as elsewhere in the MENA), interrogated 'development' (AHDR, various years; Egypt Human Development Report, various years) in any way that tries to move beyond an 'idea of progress' that asserts all societies have an industrial future (Shanin,

1971) where dependence upon small farmers to feed Egypt (the world?) will diminish, replaced by industrial food production and agribusiness? Understandably, the preoccupation since 25 January 2011 has been with countering forces of the status quo – Islamist, military and the Interior Ministry – but debates about Egypt's future development strategy will, as we will soon see in Section 4, need to embrace effective policy to promote rural poverty alleviation, and greater and more equally accessible access to food, and reduce the country's dependence upon rents – from the Suez Canal, oil and gas, and remittances.

Egypt's transition from one dictatorship to another in-formation, notwithstanding a new democratic constitution, seems to affirm the idea of Egyptian development as the 'promise of politicians, and justification of technocrats, the illusion of the outcast' (Galeano, 1997, p. 214).

## 2. Uprisings and farmers

Much was made about the bloodless nature of getting rid of Mubarak, but the violence in 2011 and since has claimed the lives of more than 2,000 people, with more than 10,000 injured, including those who have suffered permanent disablement. The loss to families and communities is immense and will not be easily healed.

The mobilisation for 'Bread, Freedom, and Social Justice' has continued in the two major phases of reconstruction since Mubarak's dictatorship: Morsi's presidency and the open return of the military with the coup of 3 July 2013. The military, of course, never went away, and its persistence and an unreconstituted Interior Ministry confirm the status of Mubarak's oust as an uprising rather than a revolution. Revolutions are not determined simply by the numbers that mobilise or the toppling of presidents. Tariq Ali (2013) noted that 'mass uprisings do not on their own constitute a revolution, in other words, a transfer of power from one social class (or even a layer) to another that leads to fundamental change'. The crowd only becomes a revolutionary force when there is 'a clear set of social and political aims'. Without these the crowd 'will always be outflanked by those who do or by the state that will recapture lost ground very rapidly' (Ali, 2013). The crisis for Egyptians, who sought so desperately and who were so effective in dismissing Mubarak, was that they did not, at any time, manage to create what Ali, and of course earlier-generation Marxists before him, saw as so important for revolutionary transformation: the emergence of organs for autonomous power. There were organisations

of effective mobilisation, April 6, Revolutionary Youth, new community politics (Abdelrahman, 2013) and so on, but many of these were not sustained, did not have plans for reconstruction and did not coalesce into new organisations that could deliver transitional dual power. And in the countryside, despite decades of systemic violence, landlord aggression and often feudal-style humiliations of farmers at the hands of security forces, especially but not only during the implementation of Law 96 of 1992, farmer organisations were sporadic, defensive and ineffective in driving alternative policy scenarios.

This does not mean the uprisings changed nothing, although the phrase 'one step forward two steps backward' springs to mind more often than not (Lenin, 1904). The idea that the army and the people were ever one was just too wrongheaded to assume it would not end in tears. Military intervention in 2011 merely delayed the bloodbaths that have taken place since the summer of 2013.

The uprisings of 2011 were for Bahgat Korany and Rabab el Mahdi (2012, p. 7) distinguished by their intensity and density. A perfect storm emerged of organised and unorganised protest that toppled dictatorship: this storm was simultaneously expected and unexpected. There were three types of causes to the uprising in 2011: long-term, medium-term and immediate causes. And the role that small farmers could have played in these causes remains somewhat muted.

Among the long-term causes to highlight were decades of systemic repression and what Eberhard Kienle called 'political deliberalisation': every time Mubarak stressed the importance of political reform he promoted a more authoritarian clamp down on opposition politics. This clamp down featured attacks on Islamists in the 1990s and post-9/11 global war on terrorism (GWOT), for which the dictator got support from the US. The long-term causes also included the consequences of periods of economic reform from 1987 in the countryside and 1991 with Economic Structural Adjustment Programme.

The figures for the consequences of economic liberalisation are challenging and somewhat contradictory. Between 2004 and 2010 there are high levels of real GDP growth, but while Egypt may have been seen to have developed, and it was certainly congratulated for so doing by the IMF and the World Bank, Egyptians knew better. Between 2005 and 2009 there were high levels of FDI, more than US\$40 billion; high levels of oil and gas exports, US\$15 billion per annum. Worker remittances represented 6 per cent of GDP but structural problems remained. More than 40 per cent of GDP came from rent, making the national economy very susceptible to shifts in the global economy. There were high levels

of capital flight and of unemployment, with a disproportionately high impact on women, while privatisation led to high levels of asset stripping by crony investors linked to Mubarak and the erstwhile National Democratic Party. In short, economic reform did not work: one in five Egyptians did not meet basic needs, 44 per cent were categorised as being poor, yet in the countryside probably more than 80 per cent eked out an existence on less than US\$2 per person a day. And conditions got worse after July 2004 when Ahmed Nazif accelerated neoliberal reform as the new prime minister.

Medium-term causes included struggles over access to basic food as a result of food inflation, between 2005 and 2010, of 20 per cent. Food queues outside Cairo bakeries in 2008 led to deaths (see <http://www.reuters.com/article/2008/04/06/us-agflation-subsidies-idUSL0404033220080406> for details), and workers demanded an increase in minimum wage from LE115 to LE1200 – about £120. Resistance to the imposed austerity of workers and farmers was intense. There were unprecedented worker strikes – textiles, railways and agricultural workers from the mid-2000s. More than 2 million workers and families took part in industrial actions in the period 2004–2009, and there were continuous struggles in the textile industry in Mahalla in 2006, involving 28,000 workers: the greatest concentration of industrial workers anywhere in the Middle East. Independent trade unions emerged and, together with 55,000 property tax collectors, went on a national strike to demand for better working conditions; in the end, they succeeded in having their wages raised by 325 per cent. From September 2000 local struggles in Egypt were partly fuelled by solidarity with the second Palestinian intifada. The formation of the influential Kifaya movement in December 2004 emerged partly as a struggle against Israel's 'odious assault on Arab soil' (Cole 2014). And, significantly, informal mobilisations of youth challenging authority emerged against a background of Mubarak's attempt to get his son Gamal to inherit the presidency. Online activism soared in 2007, with more than 6,000 active bloggers. Popular campaigns for change, street protests and social movements had spillover impacts, and the National Front for Change provided impetus for a stronger and more unified opposition to the dictatorship (el-Mahdi, 2012; Abdelrahman, 2013).

The immediate causes of the uprisings related to the protest and mobilisation against the killing by police of Alexandria-based small businessman Khalid Said. The social media supporters protesting this murder reflected a culmination of disgust and anger at a regime that was complicit in systemic and routinised abuse of human rights. Additionally,

the 6 April Movement, formed to support workers in Mahalla in 2008, grew to 100,000 members, consolidating opposition to the regime – opposition which was further galvanised by Israel’s invasion of Gaza in 2008/9.

## 2.1 What about the farmers?

As we have noted in Section 2, the 25 January uprisings were preceded by working-class unrest, strikes, sit-ins and demonstrations that had their roots in more than ten years of imposed austerity. It is more difficult to be as categorical about the role Egypt’s small farmers may have played in revolt against the ancient regime. Industrial and urban struggles and forms of resistance-like strikes, go-slows and disruption of work are far more visible, and are liable to have much greater immediate impact than rural struggles and conflict. Struggles against state policy by smallholders, landless and urban allies took different forms and were often more loose knit. Fluidity of rural political coalitions of resistance is not surprising. Rural repression is intense and mechanisms for trying to exert state control over the *fellahin* – a peasant, farmer or agricultural labourer in the Middle East is distributed across a range of military, security and other forces of law and (dis)order, including the wielding of patron–client relations.

Small farmers and tenants had received very little support for their struggle against the reform in tenancy imposed after Law 96 of 1992 – which was fully implemented in 1997. The Government of Egypt (GoE) had even banned a conference in Cairo to discuss the law with members of the National Committee for the Defence of Farmers, who were instead arrested. This committee, comprised of urban- and rural-based activists, did not last many months after the law had been implemented. This was perhaps symptomatic of the difficulty of providing a broader-based national political coalition to defend small farmer and tenant interests (Kishk, 2009; Bush, 2011).

There had been violent protests against the implementation of Law 96 of 1992, especially in Bani Suwayf, Kafr al Shaykh and Abu Nassar in Al Fayyum. Some of the biggest conflicts were in the Governorate of Daqahliya, where land pressures were some of the most intense and displacement of tenants by landowners aggressive. Yet it was not until after 2002 that rural clashes seem to have become more overtly politicised. Hitherto, clashes did have a political dimension, but the challenges to landowners from smallholders or tenants often took the form of proxy conflicts relating to land access, border and irrigation disputes, and other skirmishes. After 1997, the leftist Peasant Solidarity Committee

emerged to inject a radical perspective into the ways in which rural Egypt was being transformed and poverty increased. This committee was comprised mainly of urban-based radicals and intellectuals who supported peasant actions that contested the seizure of agrarian reform land by heirs of landowners dispossessed in the 1950s. Law 96 of 1992 had politicised the issue of land, access, ownership and control. Combined with sustained (and flawed) economic liberalisation, which had begun in 1987, dispossession of smallholders, revision of tenancy to uncertain informal verbal agreements and raising rents on all types of land was enabled by Law 96 of 1992. This was the case even though the legislation had no jurisdiction over land that was not subject to tenancy agreement. The reform of tenancy opened up challenges to the rural property rights of all smallholders.

Major conflicts of rural protest and resistance that did receive publicity and impact were those, for instance, at Sarandu, where the largest landowning family accessed land that it had lost to the agrarian reform authority in 1965. The family colluded with the police, and violently and illegally evicted hundreds of families from land that it had regained. There was an unprecedented mobilisation to support the farmers of Sarandu, however, including by local neighbouring farmers, while legal teams were assembled from urban-based Adala (Justice) Centre for Political and Social Studies, Tandamon, a peasant support group, the Hisham Mubarak Law Centre and other rights-based organisations.

It is striking that, after 2002, a lot of mobilisation by farmers was self-initiated. Farmers often, but not always, initiated and then developed links with advocacy groups and NGOs to forge loose-knit coalitions. There may, however, have been different interpretations of what urban-based activists thought was possible and desirable, in terms of any explicit political reform agenda, and what farmers, who wanted to 'simply' reclaim access to their land, and in so doing create a more stable farming environment, wanted. It is certainly the case that drawing political implications from farmer protests is not straightforward. It may be difficult to draw direct links between rural struggles to reclaim tenancies, agrarian reform land and mobilisation to topple Mubarak. The development and then sustainability of political dynamics that underpinned farmer disquiet and opposition to neoliberal reform, and opposition to increased costs of production, persistent violence and intimidation, was always vulnerable to challenges from the repressive state apparatus and subject to the relative ease with which the police could stop open and direct resistance to dispossession. Yet rural violence continued. Accurate figures are problematic, but accounts from both the Land Centre for



Human Rights (LCHR) and Sons of the Soil highlight significant numbers of deaths, wounding and arrest, imprisonments and torture (LCHR, 2002; Sons of the Soil, 2010).

### 3. Food security and rural livelihoods

*'Aish, horreya, 'adala igtema'yyia'*, 'bread, freedom, social justice' was a major slogan of the protesters that toppled the Mubarak dictatorship. Rural malnutrition, poverty and inequality clearly drove the support that elected Morsi, as the Islamist Freedom and Justice Party (FJP) mobilised widespread backing for the MB. There was, nevertheless a mismatch, between MB-declared support for rural Egypt and its effective delivery of policy to boost rural livelihoods. This was echoed at an independent farmers syndicate in Dakaleya in May 2013, where representatives noted MB activity and support for poor farmers lasted only until Morsi was elected. After FJP assumed office, support for small farmers was no longer evident (field notes, May 2013).

The MB's programme for reform, sloganised 'Islam is the solution', and its April 2012 'Project for the Nahda' were claimed to be the outcome of 15 years of hard work (Achcar, 2013, p. 284). Yet there was little in the Islamist document that did more than appeal to Quranic virtue as policy. As Gilbert Achcar notes, the MB's supreme guide when talking about agriculture invoked the part of the Quran named after the prophet Joseph, as a 'marvellous way to make the Egyptian economy thrive and to avoid droughts' (Achcar, 2013, p. 284; see also more broadly, El Sherif, 2013). The MB was thus short on agricultural policy detail. But this is not surprising. Expectation for change after the Mubarak dictatorship was high, but the reality of detailed policy alternatives was low – and not just with regard to the MB and FJP.

If Egyptians expected a policy shift in relation to agriculture or other aspects of development strategy they were soon to be disappointed: none were forthcoming. Very soon, high expectations and farmer impatience were met with hasty policy utterances and behind-the-scenes influences of Khairat al-Shater, the deputy supreme guide, delivered by a bumbling Morsi. One example of this was Morsi's view, delivered in May 2013, that Egypt would be wheat self-sufficient in four years, something quickly denied by officials in the Ministry of Agriculture and Land Reclamation (MALR), who instead suggested what he actually meant was that this was Egypt's aspiration.

But what were the continuities in agriculture policy that the MB failed to break from? The central theme was the flawed view that

'food security' based upon open international trade would improve domestic access to food. In fact, there seems to be little discussion about improving (poor) people's access to food other than through claims for further market liberalisation and reformed welfare mechanisms that include, somewhat contradictorily, a reduction in food subsidies.

Egypt's agricultural sector contributes about 14 per cent of the country's GDP. Accurate figures of the proportion of Egyptians employed or engaged in agriculture are difficult to determine, but it is likely to be in the range of 20–30 per cent of the labour force: they cultivate between 5–7 per cent of Egypt's total land area.

Egypt's key agricultural products are wheat, rice, cotton, beans, fruit and vegetables, and livestock, and despite some of the highest yields for these products by any global producer, self-sufficiency for most crops is only about 50 per cent of consumption and vegetable oils 30 per cent. However, self-sufficiency for rice has recently been achieved and for red meat it is about 70 per cent (WFP, 2011, p. 5). Egypt is the world's largest wheat importer. Wheat production only meets between 50–60 per cent of consumption. In the market year 2013/14, the country's import requirements were about 15.4 million tonnes – 16 per cent higher than the previous year, but 4 per cent lower than the 5-year average (FAO, 2014). These improved wheat figures may be the result of good weather conditions and an increase in area planted of 100,000 hectares compared with 2012. Egypt, nevertheless, has an annual food inflation of almost 13 per cent: a loss of up to 25 per cent of subsidised bread because of wastage in the supply chain and the increased demand on the country's resources from more than 300,000 Syrian refugees. Food subsidies cost the Egyptian exchequer about 2 per cent of GDP in 2008/09 or LE21.1 billion to US\$3.8 billion.

Much has been stressed about Egypt's gradual economic recovery with an estimated 2.2 per cent rate of growth in 2012 (33 per cent of the 2006–2010 average), but budget deficits remain around 15 per cent, and the state has immense difficulty meeting payments for oil and fuel, including oil-based inputs for the agricultural sector.

The vulnerability of the price of imported wheat was certainly a contributing factor, as I noted in Section 2, to the uprisings in January 2011. The price of wheat rose by 32 per cent in 2010 and rice by 42 per cent. Policymakers in Egypt have remained stuck in a 'trade-based' view of food security. This refers to economies that are not self-sufficient in food, ensuring supply by accessing revenue to purchase food on global markets. Such a view remains dependent upon the viability and productivity

of the national economy (Breisinger et al., 2012, p. 11). We have seen, for instance, that national economic growth will not necessarily be translated into universal food availability. Due to economic liberalisation in the countryside since 1987, and more widely after 1991, Egypt's macroeconomic growth data may have been robust, but poverty and inequality escalated. Economic reform did not create the conditions for the structural transformation of the national economy away from rent dependency and towards the productive and distributed growth that would create conditions of poverty reduction.

Post-uprising agency assessments of Egyptian food security have tried to be more nuanced in relation to the trade-based view. The United Nations World Food Programme (WFP) and IFPRI still make only passing references to small farmers' initiatives, about the need to listen to small farmers and to try and understand local community felt needs, but they have also attempted to understand more clearly some of the underpinnings of rural poverty: education, nutrition and diet. Both WFP and IFPRI, and more recently FAO (2013), have been reluctant, or unwilling, to explore explicitly why rural poverty is endemic, widespread and systemic. Food security based upon an analysis of trade and rural development concerned with education and nutrition alone cannot grasp the dynamic and relational ways in which poverty is created and reproduced (Bush, 2004).

Egypt's public sector spending on agriculture fell dramatically between 1980 and 1992, by 31 per cent. Egypt's annual growth in public spending per capita for agriculture was minus 6.1 per cent in 2000–2007. In 2007, less than 1 per cent of public spending by sector was invested in agriculture. It is now recognised that the years of liberalisation, from Sadat's *infitah* onwards, were years of agricultural investment neglect. This coincided with and was driven by neoliberal reform, decades of United States Agency for International Development (USAID) direct influence in the MALR and external pressure on the national budget. This led to persistent rhetoric that private investment would replace the public sector (Faris and Khan, 1993). It did not. Market failure in provision of agricultural inputs and marketing, credit provision and support exacerbated rural inequalities after 1987. Private (crony) investors emerged during the years of Mubarak's dictatorship to asset-strip reclaimed land, take advantage of the theft of water and land, and squander a projected US\$86.5 billion in Toskha – the development of the western desert in an area equalling 40 per cent of Egypt's land area (inter alia Abdel Khaleq, 2010; interview Gouda Abdel Khaleq, Cairo, March 2013).

The hegemony of neoliberalism ensured that, since Nasser, a food security based upon boosting international trade to pay for food imports has been the dominant framing for Egyptian agricultural policy.

This policy was one shaped by prices, markets and commodities (Bush, 2014). One of Egypt's difficulties has been that its agricultural imports have a low elasticity of demand – wheat, edible oils and sugar. And its exports are mostly characterised by high elasticity, rice, vegetables and cotton; however, and the prices of cotton and rice both fell in the early 2000s when the GoE asserted that growth in horticulture could convert Egypt into another Mexico. The influence of USAID and the EU has been to concentrate on comparative advantage, ignoring the ability of neighbouring countries to compete with Egypt, persistent organisational and infrastructural obstacles to get crops to export locations, and most important of all, failing to listen to local farming voices about what might boost production. Policy has also ignored sustainable ways of reducing and ameliorating rural poverty and creating a view of agricultural modernisation that includes, rather than dismisses, local small producers.

None of the post-uprising governments and regimes have updated or reconsidered agricultural strategy. The GoE proposal from 2009, a detailed homage to the vitality of private market-led development, reiterated the need for comparative advantage and included continued emphasis on export-led growth. It asserted the need:

To achieve a comprehensive economic and social development based on a dynamic agricultural sector capable of sustained and rapid growth, while paying a special attention to helping the underprivileged social groups and reducing rural poverty.

(GoE, 2009)

The last GoE agricultural policy document also asserted the need to boost agricultural investment, arguing that a growth of 4–5 per cent in the agricultural sector would need an increase in agricultural investment from LE8.4 billion in 2008 to LE13.4 billion in 2009. The FAO emphasises previous mantras regarding 'underlying food security trends and drivers' and highlights the challenges posed by demography, imbalances in consumption and nutrition, and the need to increase productivity and reduce exposure to market volatility, while still emphasising 'the importance of the world market as a reliable and predictable source of supplies of basic food stuffs' (FAO, 2013, p. 7). To enable the promotion of improved food security, the FAO emphasises the importance of

a rebooted private sector and strategies for the sustainability of water management, land and biodiversity (FAO, 2013, pp. 6–7).

#### **4. Forgotten voices and back to agrarian questions**

All policy documents, whether from IFIs, international food agencies or GoE documents, give scant if any mention of small farmers and their experiences, contributions and possible future role in food production. And the confidence that the world economy, with enhanced mechanisms for trade, will assist in the promotion of regional or national food security is ahistorical: it is a view that already forgets the global crises after 2007. Analysis of Egypt's agriculture does not draw on the existing structure of agricultural production and character of smallholder farming in Egypt, of social transformation in the Delta or Upper Egypt. Instead, it laments the persistence of small farmers, land fragmentation and poor economies of scale, while the productivity of the country's small farmers remains some of the highest by global comparison.

The emergence of a new agricultural strategy will need to embrace two processes. The first is the broader global context in which agrarian questions of modernisation take place. The second is the need to engage more actively with the perceptions and interests of small farmers. What are their perceived felt needs and problems, and how might their productive engagement with agricultural development and transformation be promoted in enhancing rural livelihoods. In providing the combination of these two processes and how they relate with each other, policymakers will be challenged with regard to pressures for a development strategy that problematises the relationship between industry and agriculture, town and countryside.

When Hobsbawm noted the death of the peasantry, he assumed an overwhelming strength of modernist forces. The core of developmentalism, perhaps, is that peasants will disappear with the spread of capitalism. One of the fundamental features of Marx's analysis of the way in which capitalist development emerged was to analyse 'primitive accumulation [as] the historical process of divorcing the producer from the means of production', which appears as 'primitive' 'because it form[ed] the pre-historic stage of capital and of the mode of production corresponding with it' (Marx, 1974, p. 668). Marx's analysis of capital accumulation provided an insight into the underpinning of how capitalism was distinguished from previous epochs. He assumed that small farmers and peasants would become less evident and important as capitalist agriculture developed. The spread of capitalism, and

the rule of capital, meant that workers were required to survive, to sell their labour power and work for those who paid their wages. As a mode of production capitalism, accumulation and the spread of private property 'proclaimed... for their fundamental condition the annihilation of self-earned private property; in other words the expropriation of the labourer' (Marx, 1974, p. 724).

Marx argued that it was only wage labour that would eventually transcend capitalism, freed from restraints of access to means of production (land), the productivity of labour would be greatly enhanced. Yet one of the most evident empirical issues in Egypt and the Global South more generally has been the persistence of small-scale farmers. Recurrent struggles against dispossession, in Egypt against Law 96 of 1992, indicate not just evidence of resistance but also an attempt to politicise an alternative agricultural development strategy. Since the 2011 uprising, sporadic land occupations countering landowners who seized land in the 90s, especially in Dakelaya, were undertaken by independent farming syndicates. Farmer opposition to landowners, occupying land and houses, seizing equipment and speaking out against the return of 'feudalism', extended to examining collective farming techniques. Farmers in the Delta engaged in harvesting together and exploring collective management of farmland – these mobilisations were started by farmers themselves, challenging the state withdrawal of rural services, and local traders, who were often landowners as well.

This is not to say that farmers were universally challenging the underpinning of capitalism. They did not challenge the sanctity of private property, but some did experiment with collective actions that problematised what individual ownership might mean during a frenetic period of social change. Agrarian questions of transition to capitalism in the countryside have been historically recurrent. The class basis of rural transformation, the political status and vitality of peasants, the role that agricultural surplus might play in industrialisation have been part of modernisation plans throughout the Global South. At what pace would farmers be replaced by mechanisation as unit costs of production were driven down (Kautsky, 1988)? There has never been a simple and universal answer to this. Despite the many attempts by international agencies to see the social development of agrarian capitalism as a technical issue (World Bank, 2007; FAO, 2013), many rural contradictions emerge with the expansion of capitalist relations of production. As the first world food regime, based on the increased importance of capitalist agriculture, impacted adversely on Third World agricultural producers, unable to compete on a world scale, the political voice of small farmers

provided an opportunity to interrogate the pattern of agricultural transformation and its development role. Small farmer agricultural interests could, and did for a while, pressure national governments to protect local agricultural markets and, in so doing, revealed the political voice of small farmers (Akram-Lodhi and Kay, 2010, p. 188).

President Nasser's land reforms and other agrarian reforms, together with the protection of local markets for food stuffs and industrial production, temporised the deleterious impact of the second world food regime from the end of World War II to the 1970s (Bush, 2002; Friedmann, 2004). Nasser managed with consummate political skill to play off the US and Soviet Union in ensuring continuation of necessary wheat imports. Nasser cut a deal with Egypt's small farmers and rural poor. In return for political support he would promote an, albeit not very extensive, distributive land reform, and give, for the first time, rights to land in perpetuity with safeguarded and affordable rents. The death of Nasser in 1970, and the end of the Cold War in 1989, marked sharp fault lines in the global post-war food regimes. Economic liberalisation in Egypt with Sadat's deNassiration, later grain price inflation, increased competition in agricultural trade and the end of strategic role for food aid has been accompanied by and partly driven absolute patterns of depeasantisation, land grabs and austerity, and increased pressure for the further withdrawal of local farm supports (McMichael, 2009).

The end of (relatively) cheap grain imports has been a result of the chemicalisation of agriculture, rising energy costs and northern-state-orchestrated agro-fuel investment. The growth of corporate food power is matched by rhetoric in the WTO and IFIs of free markets and open borders, yet agricultural trade remains protected and the growth of land grabs has been labelled a form of security mercantilism or '*new territorialisation*' (McMichael, 2009, p. 50; emphasis in original).

The expansion of international food regimes did not promote universal proletarianisation. Urban sprawl, expansive building on agricultural land in Egypt for example, has not been accompanied by a working class separated from access to means of (rural) production. However, amongst other things, the ability of capitalists to feed their workers cheaply, to increase the productivity of agriculture and extend the food chain extending the commoditisation of farming has led to the idea that the agrarian question of capital, evident in the world food systems of the nineteenth and early twentieth centuries, has been resolved. If workers could be fed, albeit often at levels that barely enabled social reproduction, the determining feature of the contemporary world food system

and local arenas of food production became, increasingly, agrarian questions of labour (Bernstein, 2007, 2010).

Although there may be variation in the ways in which small farming is organised, and the extent to which capitalism has transformed rural relations of production and reproduction, 'generalised commodity production does not mean that all elements of social existence are necessarily and comprehensively commodified'. It is important instead to understand that the growth of capitalism on a world scale commodifies subsistence (Bernstein, 2010, p. 102). Thus, all aspects of rural producers' existence is shaped by the imperatives of capital, access to land, inputs and markets, food, clothing and fuel. This argument has led Bernstein to speak less about peasants as a social category and instead to refer to 'petty commodity producers'. A petty commodity producer combines the 'class "places", or locations, of both capital and labour' (2010, p. 103). So a farmer may own land and other inputs to the productive process, but also contributes his or her labour. Moreover, these class locations may be contradictory, as some households may be big, with greater access to labour and perhaps to land and other inputs, thus indicating social differentiation within the petty commodity farming activity.

If Egypt's agrarian question of the twenty-first century is one of 'fragmented classes of labour' (Bernstein, 2007, p. 449), development strategy will need to explore the relationships that have emerged in the countryside: What are the levels of dispossession, spread of wage labour, evidence for straddling – farmers employing family labour and also working for others as wage labour while retaining access to family land and engaged in a range of varied and often very different labour processes? If there is indeed a variety of ownership patterns and, from these, different labour processes and occupational roles, then we might ask why and how small farmers persist: is it because of the 'peasant principle' (van der Ploeg, 2008, 2010)? This refers to peasant households, or the 'peasant condition', being defined by, amongst other things, pluriactivity, work that includes off-farm employment that may also be ushering in new peasantries that are being reshaped and are, in turn, reshaping modernity and ecology (van der Ploeg, 2010).

Care is always needed not to romanticise the 'peasant condition' or romanticise the rural idyll. It is important to carefully unpick the specificity of peasant and small farming conditions of existence. Peasants engage in working on their own land and as wage labourers for other farmers. The labour process involved in transforming land into agricultural produce promotes a varied mix of access to and employment



of tools and other implements as well as land: ownership, tenancy, sharecropping and so on. This has been highlighted in the Egyptian case by the idea of a 'tenancy web' (Abdel Aal, 2002). The peasant labour process also establishes social relations of production and social reproduction that go beyond the household to involve neighbours, villages and nearby farming communities, and agents of the state such as tax collectors, agricultural extension workers, irrigation officials and so on. Labour migration and the category, therefore, of 'worker peasants' or a 'peasantariat' people who may not completely sever links with the land, is an important element in the uneven transformation of Egypt's countryside. And there is also a gender dimension to women searching for work as farm labourers outside the household or as domestic workers, which has certainly been a feature of rural life in Egypt's Delta. Future research agendas might also include analysis of the role of young children working in land preparation and harvesting, as continued labour hiring, village by village, continues.

The global dynamics that have unevenly incorporated Egyptian agriculture are captured by the importance of large-scale agribusiness development in Egypt. There has certainly been a concentration and centralisation of agrarian capital, evidenced by the fact that the country's top six companies account for 41 per cent of the country's total value of exports, driven by EFG Hermes and links to Citadel Capital, PICO and Americana. Corporate expansion includes regional growth and land purchase in Sudan and elsewhere (Dixon, 2013).

The capitalisation of large-scale agriculture has been accompanied by increased rural social differentiation. There has also been a process of rural land concentration. Between 1990 and 2000, the number of farms of less than one *feddan* (1 *feddan* is a unit of area used in Egypt, Sudan, Syria and Oman) increased from 36.7 per cent of the total holdings to 43.5 per cent. In what is a skewed structure of land holdings, 44 per cent of farmers in 2010 had landholdings of one *feddan* or less. Sixty-eight per cent of farmers had less than two *feddan*; 93 per cent less than five *feddan*, but 3 per cent of landowners controlled 33.5 per cent of agricultural land with an average of more than ten *feddans* each (Ayeb, 2012). The process of rural dispossession and the accumulation of capital that has ensued for some, often absentee, landowners, accelerated with the consequences of Law 96 of 1992. It is now well documented that the consequences of that legislation were driven by large farmers, industrialists and property developers linked to the erstwhile Mubarak dictatorship.

Small farmer experiences of economic crisis and political turmoil have confirmed the ways in which land has been politicised. Respondents in three different locations, from 2010 and 2013, noted the continuing deleterious consequences of land lost due to Law 96 of 1992. Respondents in Minia, Dakaleya and Fayoum, and also from Qarsaya in Cairo, complained about the way rents continued to be too high to ensure any profits were unable to do anything more than barely cover the costs of family and hired labour. High rents were exacerbated by inadequate or expensive credit and a resulting threat of dispossession, and the uncertainty associated with that. The need for a continued and expanded access to land was a central and continuous response to questions exploring farming problems and livelihood experiences. There was also a strong sense of dignity and recognition of the important role farmers played in feeding the nation – something for which respondents indicated they got no acknowledgement. A farmer from near Cairo noted that the farmers in his area fed themselves and the city. The same farmer noted that, ‘The revolution [25 January uprising] was good but the dream has not been fulfilled. The dream of freedom, social justice, human dignity’ (interview, May 2013). It is significant that many respondents lamented the dissolution of the state-run cooperative system. It was recognised that coops had been the arena in which power politics and corruption often took place, but farmers in each of the researched locations stressed the need for a new structure of coops that might ensure more economically priced farming inputs and which could override the perceived usury of merchants and market failure.

Introducing cooperatives that may be more effective in promoting the interests of small farmers, rather than the arenas of patron–client, and spoils politics will require social pressure from social movements and representatives’ associations. It will require a combination of official pressure to the GoE and the MALR, and also through the burgeoning Independent Farmers Union and federation of small farmers. New independent farmer organisations have quarrelled, and energies that might have helped forge a unified platform to defend and extend small farmer rights have been at odds with the state-run and bureaucratic General Farmers’ Syndicate and Farmers’ Co-operative Union. Both these have been under the management of the Ministry of Agriculture and Land Reclamation, and small farmer interests were also clearly ignored during the drafting of Egypt’s revised constitution after Morsi was ousted. The grounds remain strong, however, for the revitalisation of small farmer

interests. As one of the country's leading advocates noted: small farmers can be self-sufficient with access to cost-effective inputs and marketing, and cooperatives could provide a boost to productivity:

The fellah takes a burden off the state since he feeds himself. Second, he is feeding the nation. So ensuring the survival of small farmers is a struggle we all have to stand behind. This is why there is a need to build large co-operatives ... for small famers to have income from the land and from the tenancy.

(Shahenda Maklad interview, May 2011)

Shahenda Maklad has been scathing about the absence of GoE support for small farmers, but it is doubtful whether a new syndicate alone will shift government focus to a strategy that might embrace small farmers.

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## **Part IV**

# **Two Cases of Development under Conflict**

# 9

## The Political Economy of Palestinian Women's Labour Market Participation

*Samia Al-Botmeh*

### 1. Introduction

Palestinian women's formal labour market participation has been an intriguing phenomenon, mainly due to its striking features. These include: one of the lowest female labour force participation rates in the world, yet a highly fluctuating one. This is particularly odd in light of the fact that Palestinian women have high educational rates. By 2000, Palestinian girls had higher school enrolments rates and lower dropout rates than boys. Girls' primary and secondary school enrolment ratios are also higher than boys within the entire MENA region (UNESCO, 2009). At the same time, Palestinian society is not as conservative as other neighbouring countries (including Saudi Arabia), yet female labour force participation rates are lower amongst Palestinian women.

Given this context, the chapter will consider the supply and demand determinants of female labour market participation in order to provide a better understanding of the reasons behind the low participation rates of Palestinian women. In terms of organisation, this chapter starts by providing a brief literature review of the determinants of participation in the labour market. Section 3 then moves to examine the characteristics of women's participation and employment in the occupied Palestinian territory (oPt). The chapter then focuses on the political, economic and social barriers facing women in the labour market.<sup>1</sup>

### 2. Conceptual framework and literature review

The literature has examined a number of factors that attempt to explain the patterns and nature of female labour force participation rates.

Some of these factors are economic; others are institutional, historical/political and attitudinal. This chapter will focus on the economic determinants.

Within the economic literature, analysis has focused on the supply and demand sides of the labour market in understanding women's involvement (or lack of) in the formal labour market. Factors on the supply side (workers) include variables that change preferences (such as the changing role of women over time), responsibilities in the family and home (the number of pre-school children in the household, and the time-cost of producing household goods and services), the income and employment of other family members (such as husbands or fathers), and other family assets. On the other hand, factors that affect the demand for labour (employers) include sectoral changes (such as the rise in clerical jobs for women or the expansion of the service sector in general) and changes in technology that reduce the importance of male physical strength.

The income and employment of family members are important in understanding women's involvement in the labour market. For example, a rise in husband's/family's wage or family income may encourage or discourage women to become involved in the labour market. Which effect dominates cannot be decided a priori, and evidence from around the world provides mixed results.

(Dasgupta and Goldar, 2005)

Human capital factors are important determinants of the probability of labour force participation of women, including education, training and experience (Nakamura and Nakamura, 1985). Another determinant of female labour force participation is the presence of small children in the household (particularly pre-school children) (Cleveland et al., 1996). Theoretically, the relationship between fertility/presence of young children in the family is ambiguous. Psacharopoulos and Tzannatos (1989) explain that a relationship of simultaneity might exist between fertility and work. That is, more children could mean more work for women, either directly (more farming to feed the children) or indirectly (more paid work to support them). However, in the extensive empirical literature on female labour supply, the presence of pre-school children has been identified as likely to discourage labour force participation (Blau and Robins, 1988).

In addition to personal characteristics, historical transformations, gender, patriarchy and demand-side factors are fundamental in



explaining any woman's experience in the labour market – particularly that of a group of women living under settler-colonial conditions.

Within this framework, feminists emphasise the notion of gender as a tool of analysis to understand women's experience in the labour market. Gender is viewed as the social meaning given to biological differences between the sexes; it refers to cultural and social constructs rather than biological givens. From this perspective, household decision-making, patriarchy, division of labour and allocation of resources become important factors in understanding women's participation experience. The concern is in seeing how the household and the rest of the economy are articulated. How do households respond to external economic pressures such as changes in the labour market? How is labour allocated and reallocated? These questions have to do with the gendered division of labour in the household, household labour allocations (market and non-market), and the intra-household allocation of income and resources (MacDonald, 1995).

Demand-side factors are another important determinant of women's participation (Goldin, 1994; Standing, 1999). Explanations of female labour force participation experience need to take into account the structure of employment and incentives. Large differentials in wage rates between men and women would have an impact, by discouraging the group with the lower expected wage. These differences are related to the job structure (sectoral distribution across the economy). Female labour force participation responds to the availability of employment, which is a demand-side constraint. The availability of jobs within a certain market determines women's likelihood of participation in the labour market. From this perspective, the condition that might impact women's labour force participation is the economy and the size of the various sectors (Tansel, 2001).

Within the Palestinian context, much attention in the literature has been paid to women's participation experience, particularly since the early 1990s. Literature can be classified into two main strands; the first examines the supply side of the labour market by focusing on the determinants of participation from a neoclassical economic perspective with a view towards understanding the factors that shape women's decisions to engage in the labour market. These studies utilise statistical techniques and raw data to shed light on women's economic experiences. The second strand of studies is centred on a socioeconomic and political understanding of women's decisions to participate in the labour market, and aims to provide policy measures to enhance women's involvement in the labour market. These studies usually utilise qualitative

techniques in order to provide evidence of the barriers restricting women's greater involvement in the economy. However, less attention has been paid in the literature to the structure and determinants of the components of participation (in other words, employment and unemployment), which we believe are highly significant in understanding these barriers.

Using data collected by the Palestinian Central Bureau of Statistics (PCBS), Daoud (1999) examines women's participation in 1997. He finds that years of schooling are an insignificant factor in explaining women's decision to join the labour force. His study also finds that the higher the average male wage, the higher the participation rate of women. In other words, women's participation is positively correlated with men's wages. He suggests this to be so because higher-earning men usually get married to highly educated women, who often participate in the labour market. However, the finding that education is an insignificant factor stands out in the literature on Palestinian women's labour participation, since other studies report a strong positive link between women's labour supply and education.

Olmsted (1996, 2001) collected data on women in the Bethlehem area and estimated participation equations for these women. Her analysis utilised variables such as refugee status, age, years of education, marital status and number of children to investigate their impact on the likelihood of women's participation. Schooling was modelled as a parental decision, which, in turn, determined labour force participation. Her findings indicate that women with low education were less present in the labour market. However, a comparison between refugee and non-refugee women revealed that refugee women made substantial gains in education, which led to higher labour force participation amongst this group of women. Non-refugee women lagged behind in their education and subsequently in their labour force participation.

Another study, conducted by Al-Botmeh and Sotnik (2007), investigates the determinants of labour force participation for women in the West Bank and Gaza Strip (WBGs) using PCBS data over three time periods: before, during and after the second Intifada. The findings of this study confirm the importance of education as a determinant of participation. In addition, women from households depending on subsistence farming are more likely to participate in the labour force than women depending on other main sources of income. Further, women from the northern West Bank region have the greatest odds of participating compared to the rest of the WBGs.

Other studies by Hammami (1997, 2001), Shabaneh and Al-Saleh (2009), Mataria and Barghouti (2007) and Daoud (2005) all tackle the

issue of women's participation, employment and remuneration in the labour market. The findings of these studies point towards the importance of a number of variables in explaining women's participation in the labour force, including education, number of children and family income or men's earnings. Some of these studies also expose the extent of wage discrimination against women in the labour market. However, although these studies provide a valuable insight into the factors determining women's participation, they mostly focus on the supply side. A gap hence exists in the literature in relation to the role of demand-side conditions of the labour market.

Another set of studies touched upon the impact of the gender division of labour on women's participation in the labour market International Women Studies, Birzeit University (IWS, 1999; Hammami, 2001; Al-Botmeh and Sotnik, 2007; World Bank, 2010). These studies emphasised the negative role of patriarchal tendencies within Palestinian society on women's participation.

Finally, a common denominator between all studies reviewed is the devastating role of Israel's occupation on women's involvement in the labour market. This includes impact in terms of land confiscation, limiting access to other resources such as water, and causing movement restrictions and closures of borders. Israel's colonisation has had a more profound impact on women compared to men, because it worked hand in hand with patriarchy to justify women's absence in the labour market and, at other times, women's inferior position within this market (Al-Botmeh, 2013).

### **3. Women's labour market experience: Main trends**

Palestinian women's engagement in the labour market is amongst the lowest in the world. In 2013, the female labour force participation rate in the oPt stood at 17.3 per cent, compared to 23 per cent in the Arab region and 51 per cent in the rest of the world (World Bank, 2011).<sup>2</sup> The participation of women also exhibits a fluctuating trend, which is in contrast to women's experience in the rest of the world, where female participation rates have been rising steadily in both developed and developing countries.

Despite the fluctuation in women's involvement in the labour market, their participation rates rose over the period under consideration, compared to men. On the other hand, men's labour force participation rate in 2011 was at the same level as its 1996 level (68.8 per cent in 2011 compared to 68.7 per cent in 1996). The rise in women's participation trends is a significant development, despite its small magnitude (Figure 9.1).

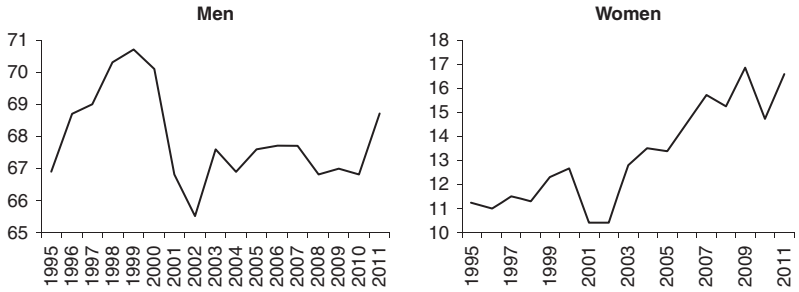


Figure 9.1 Men and women’s participation rates in occupied Palestinian territory (1995–2012)

Source: PCBS, LFS (several years).

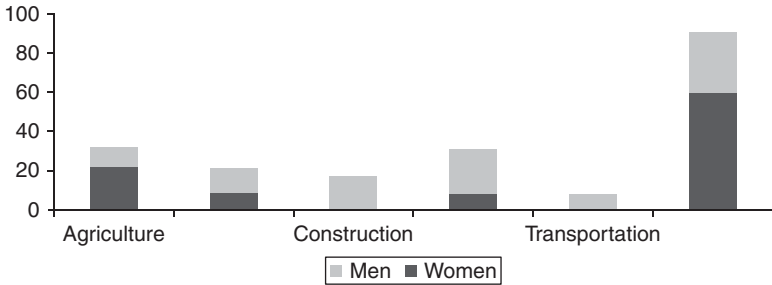


Figure 9.2 Unemployment rates for men and women (%)

Source: PCBS labour force surveys (various years).

Although women have joined the labour market at a higher rate than men in the past ten years, these rising rates translated into a higher increase in unemployment compared to employment. This is illustrated more clearly in Figure 9.2, which shows the unemployment rates for men and women. Women’s unemployment rates have continued to increase since 1999, while men’s have increased up until 2002, then declined steadily. In other words, despite the fact that there has been a rise in women’s working age population and labour force participation, women were more likely than men to become unemployed.

Palestinian women are highly concentrated in two sectors of the economy and virtually non-existent in another two. When such a case arises, the literature identifies this as a form of horizontal segregation (Figure 9.3). The two sectors in which women are highly concentrated are agriculture and services. In 2000, agriculture accounted for 34.7 per cent of women’s employment, while the service sector accounted for



*Figure 9.3* Distribution of men and women across economic sectors  
*Source:* PCBS labour force surveys (various years).

53.9 per cent of this employment. By 2013, agriculture accounted for 22 per cent of women's employment compared to 60 per cent in services. This concentration implies that women do not have equal access to all sectors compared to men. Although this is a worldwide phenomenon, the Palestinian case tends to be extreme. As a result, Palestinian women experience a higher degree of marginalisation in the labour market compared to women in other economies.

More importantly, over the past 17 years, the share of women's employment in the productive sectors (agriculture, manufacturing and construction) continued to decline, while their share of employment in services (services and commerce) rose. In 1996, services accounted for 54.1 per cent of employed women. By 2011, the share of this sector in women's employment had increased to 68.2 per cent (a 14.1 per cent rise). On the other hand, the share of women in the productive sectors (manufacturing, agriculture and construction) declined, from 45.3 per cent in 1996 to 31.2 per cent in 2011 (a 14.1 per cent decline). Employment in the productive sectors is important because these sectors generate long-lasting growth within an economy, hence prospects of further employment can usually be predicted by women's contribution to productive sectors of the economy. This implies that horizontal segregation is actually rising over time, which means that women's prospects for future employment may be negatively affected.

Palestinian women also suffer from high levels of vertical segregation, referring to the difference in earnings between men and women arising from women's inferior position within the labour market. As Figure 9.4 shows, a gap in the real wages of men and women has always existed in the WBGs. Since average wages in Israel were higher than those in the

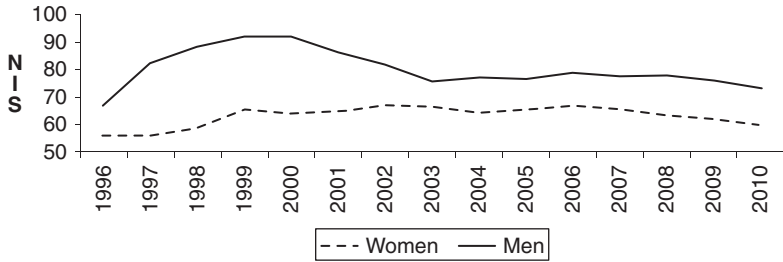


Figure 9.4 Real daily wages for men and women in the WBGS in NIS (1996–2010)

Source: PCBS labour force surveys (various years).

WBGS, this gap was large when the Israeli labour market was opened to the Palestinians. In 1999, the real average daily wage rate for Palestinian male workers was estimated at new Israeli shekel (NIS) 91, compared to NIS 65 for women. In other words, women earned nearly 70 per cent of men's wages. However, following the closure of the Israeli labour market to the vast majority of Palestinians, of which most workers were men,<sup>3</sup> the wage gap narrowed. By 2010, men's real daily wages had declined to NIS 73 (a 25 per cent decline), while, in the same year, women's real wage rate was NIS 59 (a 10 per cent decline).

Hence, the narrowing of the wage gap over the years does not represent a decline in the vertical segregation of women in the labour market, for a number of reasons. The first is that the prime driver behind this decline is the reduction in men's wages, resulting from the loss of employment in Israel rather than a more equitable distribution of resources within the local Palestinian labour market. Second, both men and women's real daily wages have declined over time, leaving the population at large worse off in terms of purchasing power and standard of living. Finally, no change has taken place in women's access to senior positions within occupations, which usually translates into better wage rates.

That more women are joining the labour market is supported by the fact that participation rates for women of all age groups have been rising. The highest participation rates amongst women were recorded after 2002 for the 25–44-year-old age group. This means that the prime working age for women in the oPt peaks in this age group.<sup>4</sup> It also implies that the second Intifada had a profound effect on all age cohorts, who increased their participation.

The percentage rise in the participation rate experienced by all age groups between 1996 and 2011 reflects a number of important

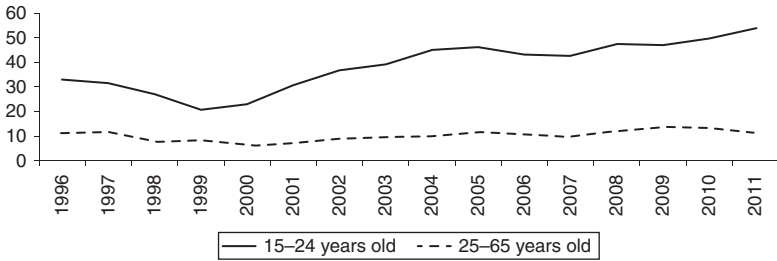


Figure 9.5 Female youth unemployment rates compared to older women (%)  
 Source: PCBS labour force surveys (various years).

developments. The first is that more women are remaining in the labour market compared to earlier periods. Second, the rise in women's participation is not only due to the movement of women from younger into older age cohorts, but because women of all age groups who were initially outside the labour market may have entered the market. However, this jump was focused in the prime age groups (25–44 years old) rather in the youngest entrants to the labour market (age group 15–24). This indicates that younger age groups are facing more difficulties in entering the labour market.

Similar to other parts of the region, Palestinian youth face substantially higher rates of unemployment than older workers. As explained earlier, young women are at an even greater disadvantage in the labour market than young men. Figure 9.5 plots the female youth unemployment rate for age group 15–24, compared to women in age group 25–65. It can be noticed that the young women's unemployment rate can reach four times that of other women. This is also true compared to men, where the youth women's unemployment rate is nearly double that of men in the same age group.

At the same time, women with an associate's level of education (13–15 years of education) or higher suffer from disproportionately high levels of unemployment. Young women under the age of 25 with 13–15 years of schooling have nearly 4 times the unemployment rate of women aged 30 or older with the same schooling. These exceedingly unfavourable indicators for younger women compared to older women as well as men, imply that particular attention has to be paid to this group in devising policies to deal with obstacles facing them in the labour market.

At the same time, over the past 17 years, nearly 60 per cent of working-age Palestinian men and women neither participated in any type of recorded economic activity, paid or unpaid, nor were recorded as searching for work. Over time, the percentage of women outside the

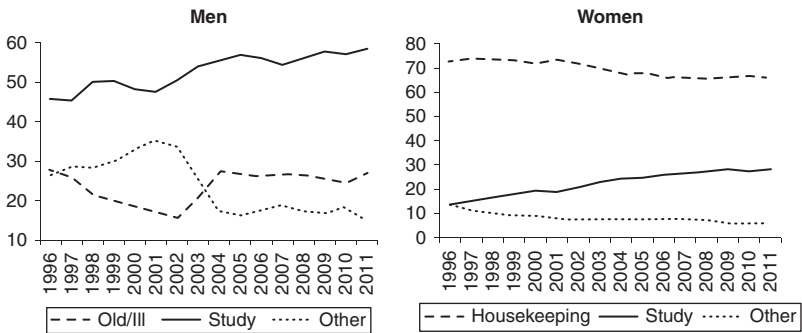


Figure 9.6 Reasons for remaining outside the labour force (%)

Source: PCBS labour force surveys (various years).

labour market has declined, while the percentage of men increased, particularly after 2001/2. The reasons behind remaining outside the labour force, as Figure 9.6 shows, are different for men and women, and are highly reflective of the traditional gender division of labour. Men stay outside the labour force because they are either physically incapable of working, for education purposes or because of losing hope of finding work as a result of political factors. For women, the reasons behind remaining outside the labour force are mainly to do with either education or household duties.

More importantly, it is interesting to observe the change in the trend after 2002, when a relatively larger share of both men and women cited pursuing education as the reason behind remaining outside the labour market. This implies that the economic shocks that took place at the onset of the second Intifada, and the consequent deterioration in standards of living, have pushed both men and women to invest more heavily in human capital. Since their initial dispossession in 1948, Palestinians have used education as a coping mechanism to survive political and economic shocks, a strategy that lives on.

## 4. Determinants of women's participation in the labour market

### 4.1 Political factors

Political constraints play a paramount role in restricting women's access and opportunities to work. It is obvious that the imposition of



movement restrictions on Palestinians and the building of the Separation Wall have added further obstacles limiting women's opportunities of moving around the area easily without any risks or dangers. Furthermore, as the occupation policies prohibit the Palestinian Authority (PA) from dealing with everyday basic demands, it becomes difficult and complicated to make demands for gender-aware policies and programmes to be undertaken (Hilal et al., 2008).

Geographical, physical and social fabric ruptures, the consequence of strict checkpoints and permanent closures of entrants and exits to several places of residence, have had a serious impact on Palestinian mobility, particularly that of women. This situation has deprived them of free and easy mobility as well as access to services; it is preventing them from reaching health-care facilities; it is cutting them off from social support once provided by families and kin-related groups; and it is denying them easy access to the workplace.

In 2000, as part of clamping down on the second Intifada, the Israeli government closed its labour market to Palestinian workers from the WBGS (Farsakh, 2005). As a result, the number of Palestinian workers in Israel declined from 135,400 in 1999 (23 per cent of the employed) to 69,270 in 2011 (10 per cent). Since Palestinian workers in Israel have always been predominantly male – 12 per cent of male workers were employed in Israel in 2011, compared to less than 1 per cent of working women – this meant that the economy in the WBGS has become even more competitive for women, which might explain the extremely high unemployment rates for women in the post-second Intifada period.

This situation was compounded by Israel's destruction of substantial parts of the domestic Palestinian economy, including infrastructure, businesses, agricultural lands and farms. According to the World Bank, by 2005, job losses in the labour market amounted to around 100,000, which directly affected the welfare of about 700,000 people, or 20 per cent of the WBGS population (World Bank, 2006). As a result, the World Bank (2006) estimates that those living below the poverty line increased from 20 per cent before the second Intifada, to 37 per cent by December 2001 and to 51 per cent by 2005. By 2011, real per capita GDP, which had fluctuated significantly over these years, remained below its 1999 level.

This devastation of the local economy in the post-second Intifada period means that the local economy was further compressed. The high unemployment rates recorded for women compared to men during this period means that, despite women's high educational rates, the demand side of the labour market presents significant impediments to

women's participation. This partly explains why female participation rates continue to be low, despite their rising trend.

#### **4.2 Economic factors: Demand-side considerations and labour market structure**

As indicated by Standing (1978) and Cotter and colleagues (2001), the availability of employment, the structure of this employment and incentives offered by the labour market are important determinants of labour force participation, particularly for women. In practice, demand-side factors have been pivotal in shaping Palestinian women's participation in the labour market throughout most of the twentieth century (Al-Botmeh, 2013). Within this context, the expansion in labour market opportunities along gender lines, large differences in employment opportunities as reflected through male/female dominated sectors, unemployment rates and wage rates have all impacted women's participation decisions over time.

Oppenheimer (1970, 1973) provides an explanation for the link between demand-side factors and patterns of participation of men and women, which rests on the occupational–industrial structure of employment. This approach suggests that the occupational structure can explain part of the level of participation via its effect on relative employment opportunities. Within this framework, the demand for female labour is measured as the extent to which the occupational structure is skewed towards predominantly female occupations. She reasoned that when the structure of employment is skewed towards female occupations, such as clerical work, the demand for female labour would be high, and more women are thus likely to be pulled into the labour market.

Oppenheimer's measure is based on the number of women employed in occupations that are at least 70 per cent female. This measure was further developed in the literature by Cotter and colleagues (2001) through constructing a weighted average of all occupations with the weights given by the national female share of the occupations. Based on this measure, an economy can be classified as having a high or low demand for female labour.

PCBS data shows that, despite the high educational rates of women participating in the labour force, they tend to dominate a few occupations, including office clerks, teaching and associate teaching professionals, as well as skilled and subsistence agricultural workers (see Figure 9.7). However, despite this concentration, only one occupational category meets Oppenheimer's cut-off point of 70 per cent domination – the category of subsistence agricultural workers.<sup>5</sup>

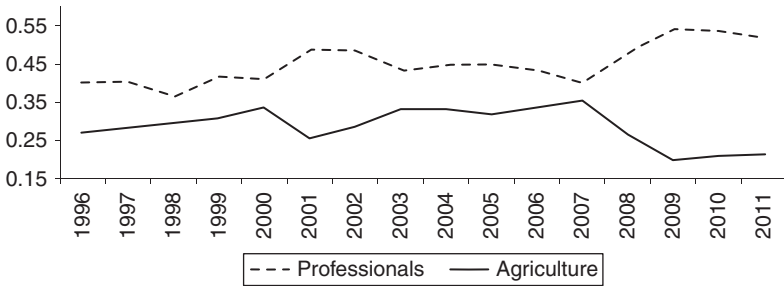


Figure 9.7 Women's employment in skilled agriculture and professions (%)  
 Source: PCBS labour force surveys (various years).

This analysis illustrates two significant facts. The first is the importance of the structure of the demand side of the labour market in attracting women into work in the oPt. Secondly, the Palestinian labour market has a weak demand for women's labour. As a result, policy measures have to focus on expanding the demand for women in order to provide them with the opportunity to join the labour market.

However, the analysis so far does not inform us about the extent of substitution between men and women within economic sectors and the labour market. Knowing this information is analytically important, because it is another indication of the strength of the demand for women's labour, hence the prospects for women's engagement in the labour market. This is in line with the views of Standing (1989, 1999) and Goldin (1990, 1994), amongst others, who argued that higher substitutability between men and women within labour market structures might allow more women into the labour market. Empirical evidence from around the world, particularly that cited in Standing's work, illustrates the importance of this factor in shaping female participation trends over time.

Within the Palestinian context, although the number of women participants in the labour force increased by 120,000 between 1996 and 2011 (a 146 per cent rise), those employed increased by 78,700; from 66,000 in 1996 to 144,700 in 2011 (a 120 per cent rise). However, despite these rises, available statistics indicate that women's distribution across economic sectors did not alter during this period. At the same time, the share of both men and women in all economic sectors has declined, with the exception of services, which implies a minimal substitution between men and women across sectors.

This analysis illustrates the fact that substitutability between men and women across the various economic sectors is negligible. The shares of

men and women in all economic sectors have been declining, with the exception of the services sector. In absolute terms, agriculture and services are the only two sectors that witnessed a rise in women's employment, and this increase is not substituting women for men within these sectors. In other words, the creation of new jobs in the services sector, rather than the substitution of women for men across different sectors, is the driving force behind women's increased employment. This implies that, in terms of policy, measures should be developed to enhance the entry of women into economic sectors, particularly the productive ones, agriculture and manufacturing.

### 4.3 Supply-side economic considerations

As explained in Section 2, participation trends are shaped by a number of factors, including demographic characteristics of the population, which decide the size of the working-age population at each point in time. During the post-Oslo Accords period (1994–2011), the PCBS conducted two censuses in the WBGS: one in 1997 and another in 2007. Based on the results of these, the Palestinian population in the WBGS stood at 2,895,683 in 1997 and 3,767,126 in 2007, a 30 per cent rise over the decade. This shows that the population continued to rise between 1994 and 2011, but at a lower rate than in the pre-1994 period. The major factor contributing to the slowing down in population growth is the decline in the natural growth rate, in other words, fertility minus mortality rates (Al-Botmeh, 2013).

The crude birth rate in the WBGS declined from 42.7 births per 1,000 in 1997 to 32.8 births in 2010. This also corresponds to a reduction in total fertility rates, which declined from 6.1 per woman in 1997 to 4.6 per woman in 2007. Despite the fact that these rates have declined by about 32 per cent, they remain amongst the highest rates in the world. Total fertility rates in neighbouring countries were significantly less in 2007, even in more conservative societies such as Saudi Arabia. According to the World Development Indicators (WDI), the total fertility rate in 2007 in Jordan was 3.8 births per woman, in Lebanon 1.9, Saudi Arabia 3, Syria 3.1, Egypt 2.9 and Turkey 2.1 (World Bank, 2011).<sup>6</sup>

The decline in fertility rates may have lessened the childcare responsibilities assumed by women, which has implications for their prospects of participating in the labour market.

One of the important factors highlighted in the theoretical and empirical literature in determining women's participation trends over time is education. PCBS data show that the percentage of the population that is illiterate has declined over time (both male and female), and that

the share of those with 13 years of schooling or more has been rising. In 2011, the percentage of illiterate women over the age of 15 stood at 7 per cent, compared to 14 per cent having 13 years of schooling or more. It is interesting to also note that the rise in women's educational rates over time is higher than men's. Enrolment rates for males and females at all levels of the education sector have continued to climb since the second Intifada in 2000. In the West Bank, by 2006, female enrolment outstripped that of males at every stage – including post-secondary; while in Gaza, between 2000 and 2011, the gender gap in favour of males narrowed sharply.

While higher male education is perceived as primarily and directly contributing to the possibility of their becoming the main breadwinners, higher female education (although also linked to hopes of employment) encompasses a cross-cutting range of purposes and strategies. The rise in female attendance levels is linked to the crucial role that higher levels of education play for women in accessing the labour market.

The trend in Figure 9.8 illustrates the importance of education in deciding the share of women in the labour force; whereby the higher the number of years of education, the larger the labour market share of that group. The trend also indicates that, at the initial stages of this period, there was a visible jump in the share of women with higher levels of education. This is associated with the availability of 'professional' types of employment provided by the public and banking sectors, which were set up during that period. However, another two jumps took place in the share of educated women, in 2001 and 2007. These two years mark the

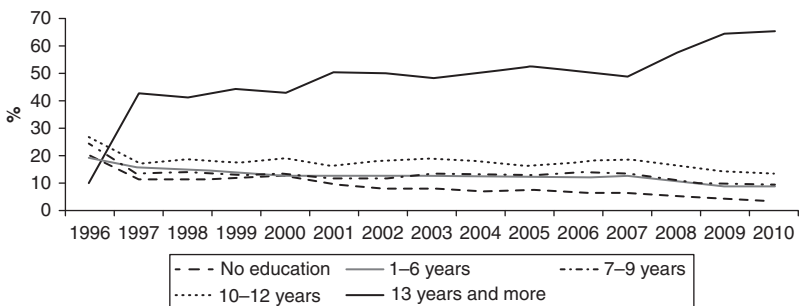


Figure 9.8 Share of women in the labour force by number of years of schooling (1995–2010)

Source: PCBS labour force surveys (various years).

beginning of periods of economic hardship. The second Intifada started in late 2000, and the Israeli siege on Gaza and international boycott of the Hamas-led government in the Strip in 2007.

The rise in the share of women with post-secondary education in the labour force illustrates the competitive nature of the Palestinian labour market when it comes to women. In contrast, men in the labour force are more evenly distributed across educational groups. The share of men with 10 to 12 years of education is highest, followed by men with 7 to 9 years of education, then those with post-secondary school education. The fact that women require more years of schooling in order to access the labour market contributes towards restricting higher female labour force participation.

To understand this analysis further, it is worth discussing certain issues that have a direct impact on gender equality and sustainable development. It can be assumed that the kind of education that women access does not seem to qualify them for existing labour market needs. The specialisation of academic, vocational and technical training means they have a limited range of professions (IWS, 1999). From this perspective, we will discuss issues related to streaming, curriculum, tertiary education, and mismatches between education and the labour market.

#### **4.4 Gender identities and curricula**

There is a link between gender identities and curriculum, as gender identities are constructed indirectly through effects of inside and outside school factors. For instance, the effects of the academic curriculum, hidden curriculum, and administrative and structural factors, such as authority or management patterns and streaming, can all have an effect on constructing gender identities and, in a lesser capacity, gender roles. However, gender roles have been influenced mainly by the family, workplace and the media (Kuttab, 2007). It is known that the school has a latent role in developing gender identity. One of the main tools that can impact gender identity is the curriculum. Despite improved gender sensitivity in some Palestinian textbooks, qualitative and quantitative analysis undertaken on a sample of these books regarding masculine, feminine and neutral expressions appearing in content situations, roles or images, produced the following conclusions:

Masculine idioms are much more commonly used than feminine idioms in the sampled books. The masculine form is usually chosen to illustrate situations and exercises, with men's names and pictures of men surpassing female references. Most stories' protagonists are

male, and they are usually depicted as the strong, intelligent characters, i.e. hero, scientist, sportsman, writer, inventor. While women are presented in secondary roles, and often portrayed in situations that take place inside the home. Occasional instances can be found in which women are engaged in non-traditional work for activities.

(Palestine Human Development Report, 2002, p. 52)

Stereotypical gender roles are confirmed through the frequent depiction of women in the home, performing housework and other traditional roles. References to female prisoners or women in non-traditional situations are too infrequent. Women are also typically portrayed as sentimental and non-analytical, while men are rational and methodological. Inconsistent or incorrect usage of gender-specific language is another problem. Frequently, textbooks do not correctly employ the proper forms of the root word and colloquial expressions are frequently masculine in nature (Palestine Human Development Report, 2002). For example, a lesson in the civics textbook for the third grade proposed a selection of women's careers, all of which were consistent with what is typically accepted as female jobs. The subject matter of the lesson is choices of occupation attributed to men; most of these were non-academic and skill-oriented. The lesson was proposing academic and professional training for women and was proposing non-academic professions such as skilled labourers and technicians for men (Kuttab, 2007).

These notions reinforce traditional gender stereotypical notions, which feed into typical forms of education and limited forms of employment. So, while streaming reinforces traditional masculine and feminine identities, which is more evident at the secondary and post-secondary levels of the education system, even when women and men have access to fields of specialisation in theory, enrolment records indicate that women make traditional occupation choices, and avoid science and technology courses and careers. This can either be the result of school administrators, who discourage females from entering non-traditional fields, or through recruiting students based on gender assumptions that non-traditional occupations are not socially acceptable and not a viable option for females. In addition, women may lack information and counselling regarding both educational institutions and employment opportunities, and, moreover, women may have internalised gender roles, which they abide by without any direct coercion (IWS, 1999). Consequently, the real question is not access to education or enrolment rates, but quality, maintenance and transformation through education as an empowerment tool to impact gender roles and diminish gender disparities.

#### **4.5 Tertiary education and the mismatch between skills and labour market needs**

Tertiary enrolments in Palestine are very high, yet present quite an imbalanced picture. Enrolments at the traditional universities and university colleges have doubled during the last decade. There are 10 traditional universities, one open university, 11 university colleges and 19 community colleges in the oPt. The bulk of enrolments are found at the university level – 55 per cent at the traditional universities, and 33 per cent at the open university. Enrolments at the six tertiary education institutes that are directly funded by the PA represent a small percentage. These colleges offer both university degree and diploma courses. Business administration, teacher training and health courses account for nearly three-quarters of enrolments (World Bank, 2006).

Most women students are enrolled in stereotypical ‘female’ subjects that represent an extension of their traditional roles. Women are highly represented in health care, teacher training, arts and humanities, and life sciences. Although women are highly represented in life and physical sciences, these subjects tend to be rather abstract and frequently direct students towards careers in teaching.

The demand and supply for this type of education seems to have important failures. For instance, the demand for places at the two United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) colleges in Ramallah is very high, but their capacity to enrol students is quite limited. Among the government/public colleges, however, applicant–place ratios for most specialisations are around one (Figure 9.9).

The PCBS Conditions of Graduates Survey (PCBS, 2010) collected self-reported reasons why recent graduates have difficulty finding jobs. The most important reason cited is a lack of capital to start one’s own enterprise, indicating that the possibility of being self-employed is at least considered by recent graduates. The second reason for not finding a job is a lack of job market opportunities for graduates with their particular specialty. This reason is not simply due to universities producing too many humanities and social science majors, as at least 55 per cent of vocational and Associate degree graduates (as well as Bachelor degree graduates) cite the lack of demand for their particular specialty as a reason for their not finding a job. Finally, more than half cite a lack of connections as delaying their job search success. Personal connections still seem to be a primary way of seeking and obtaining employment by recent graduates in the WBS. Nearly half of all recent job seekers state that one of the ways that they sought work was through personal



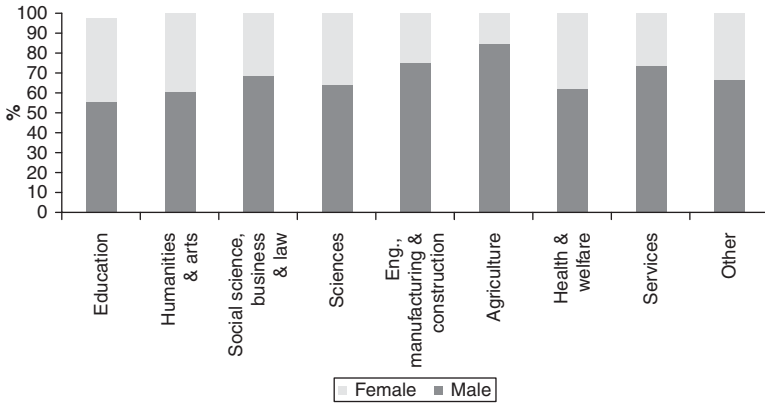


Figure 9.9 Women and men by subject at universities % (2010/2011)

Source: Ministry of Education and Higher Education, 2006.

connections. This was approximately the same proportion that registered at the employment office. Nearly one out of every three new graduates reports doing both activities (seeking work through personal connections and registering at the employment office). While young people pursue multiple strategies in their job search, the job market in the WBS is still dominated by the informal connections made through personal or family relations (Sayre and Al-Botmeh, 2009).

Graduates also cite five specific gaps which inhibit their job search. Top of this list is the lack of capital to start one's own enterprise, then the lack of demand for a graduate's specialty, the lack of personal connections, the lack of experience and the lack of speciality training. Some students also find that proficiency in English, computer skills and one's geographical location can also play a role in job market success.

The match between human capital gained through schooling and the skills desired by employers is a key component of the job search process. For those graduates that do secure jobs, a high proportion claim that their jobs suit their educational training. Over three-quarters of holders of Bachelor's degrees claimed that their skills suited their jobs, and nearly two-thirds of Associate degree holders said that there was a good match. However, only one-half of vocational graduates claimed that their skills matched their jobs. Thus, although vocational schools claim that they prepare workers for a specific career, it is likely that this training does not actually match well with the skills requested by the job market (Sayre and Al-Botmeh, 2009).

More generally, higher female enrolment rates in tertiary education – be it vocational or academic – does not seem to help these women in the labour market, partly because their education is limited to a few stereotypical domains. This implies that women’s choices and skills in the labour market are partially predefined through the nature of their enrolment in schools and higher education institutions. As will be discussed in the Conclusions, this is an important area that requires policy interventions to broaden the scope of subjects in which women are involved, in order to aid their participation across different sectors in the labour market.

#### **4.6 Patriarchy and the gender division of labour**

The dominance of males in social, economic and political organisations, known as patriarchy, is a type of power dynamics that originates in the domestic realm (Rubenberg, 2001a; Iversen and Rosenbluth, 2005). The basic relations in a patriarchal system are controlled by and subordinated to those who are higher in rank in terms of age and gender. Duties and responsibilities are strictly organised along these two variables.

Within the Palestinian context, Rubenberg (2001b, p. 13) notes, with regards to patriarchy:

It is a system for monopolising resources, maintaining kinship status, reproducing the patriline, controlling women’s sexuality and bodies, legitimising violence, regulating education to reproduce the roles and relations socialised in the family, focusing the health care exclusively on maternity and procreation, and limiting women’s access to the labour market, as well as defining the types of work in which women can engage.

In other words, the patriarchal structure of the Palestinian family and society gives men considerable authority and protects them. Palestinian society grants men power in the family sphere as well as in the public sphere. As a result, men have an advantage in resources, and are perceived as enjoying superior personal characteristics, as well as skills and abilities that are supposedly possessed exclusively by them. Accordingly, it is more acceptable in society to subject women to economic constraints and discrimination, which are usually imposed on them to a greater degree than men, both within and outside of the family. The inequalitarian economic and occupational structure of patriarchal societies, including Palestinian society in the WBGS, leaves women with very few alternatives. In general, the objective and perceived status of occupations and jobs open to women are inferior to those available

to men. For this and other reasons, in many cases Palestinian women earn less than men who are employed in the same jobs. Without access to 'good' jobs, women will continue to be economically dependent on their spouses or partners (Haj-Yahya, 2005).

The Israeli destruction inflicted upon the Palestinian economy, and the devastation caused to people's livelihoods, induced more Palestinian women to join the labour market. However, it was more acceptable for these women to join casual labour or become engaged in unpaid family work, compared to men. This broadening of the scope of gendered roles from the private to the public sphere conforms to the patriarchal structures in the sense that society views the inferior position of women in the household and outside as normal.

## 5. Conclusion

The lack of demand for work in the domestic economy of the WBGS and women's labour in particular, is an important determinant of women's likelihood of joining the labour market, and one of the most significant hurdles to women's increased participation. The service sector, which witnessed the fastest expansion since 1995, has reached its limit in absorbing women. In order to provide a strategic solution to the problem of women's low participation and high unemployment, policies have to aim at expanding the size of the productive sectors (agriculture and manufacturing) to absorb women. These sectors are considered women-dominated sectors worldwide; through expanding work opportunities within these sectors, female participation and employment levels will necessarily rise.

However, in light of the fact that Palestinians are restricted from conducting 'normal' economic life under occupation, particularly since the restrictions on trade with the rest of the world impede the viability of economic enterprises, a significant opportunity for expanding the productive sectors (agriculture and manufacturing) arises from replacing imports of Israeli goods and services by local production. Palestinians imported \$4.3 billion in 2011, of which \$3 billion (70 per cent) of goods and services originated from Israel (PCBS, 2012). A great proportion of these imports are agricultural products and simple manufacturing goods, which can be easily replaced by local production. A rise in local production and consumption will necessarily generate more employment.

An effective protection of the local market from Israeli goods and services can only be possible through practical measures on the ground led by the government, while tackling the various components of trade

linkages and distribution networks. This requires policies that focus on upgrading and enhancing local distribution networks and local marketing systems, as well as the quality of the products and commodities. This can go a long way towards increasing productivity and generating employment in these sectors.<sup>7</sup>

In other words, there has to be a shift from supply-side policies aimed at enhancing the skills of the individuals to demand-side interventions aimed at protecting economic production from Israeli economic dumping practices which render local enterprises inefficient. These policies are politically challenging, yet are the only meaningful measures to unlock the employment potential with the oPt.

On the supply side, particularly in the area of education, it is important to explore the 'latent' factors of the Palestinian basic education system that impact consequences of learning on both genders. Among such hidden factors are curriculum, textbooks as tools of transformation of values and attitudes regarding gender roles and responsibilities, gender dynamics in the classrooms, teacher's relations with students and so on. All of these need to be addressed in order to attain gender equality and bridge the gap between genders. Once such gaps are bridged within the education system, it is possible for girls/women to have a more reasonable opportunity to participate in the labour market on an equal footing with men.

## Notes

1. Labour force participants in the formal labour market are those engaged in or seeking paid employment. Their number is usually expressed as a fraction or percentage of the total working age population, to give an activity or labour force participation rate.  
The latter then amounts to all those who are working plus those looking for work (the unemployed) divided by those of working age – which differs between one country and another but mostly tends to be those between 15 and 65 years old (Blau and Robins, 1988).
2. Percentages for the Arab region and the world are for 2010.
3. At any point in time after 1995, only 1 per cent of Palestinian employed women worked in Israel, compared to between 12 and 18 per cent of employed men.
4. The prime working age varies across countries depending on women's child-bearing patterns, enrolment in education and productivity over their lives of market versus non-market time (Goldin, 1990).
5. Notwithstanding Oppenheimer's cut-off point, more broadly, PCBS data illustrates two main stereotypical facts about women's employment: women are concentrated in teaching and clerical-related activities as well as in the agricultural sector.

6. Afghanistan, Angola and Zambia are amongst the countries where births per woman were higher than in the WBGs (World Bank, 2011).
7. Although Israel has confiscated much of the land of the West Bank and places draconian controls on water resources, the current production in the agricultural sector does not utilise the available resources. In other words, there is excess capacity within this sector. Work with the Ministry of Agriculture can focus on pushing for the full utilisation of the land under the PA's control through legislation, while encouraging employment.

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# 10

## Investment and Neoliberalism in Syria

*Linda Matar and Ali Kadri*

### 1. Introduction

This chapter examines investment performance in Syria prior to the 2011 uprising, as well as the policy options debated during the devastating post-uprising war period. The chapter also provides a synopsis of the neoliberal reforms that were enacted between 2000 and 2010, under the rule of the present government (2015). These reforms consisted of lifting price controls and reducing tariffs, amending investment laws, unifying official and market exchange rates, removing subsidies, and opening up trade and capital accounts. The regime transformed the economy from state-controlled to a market-oriented economic structure; all the while, state institutions remained firmly in the hands of the ruling merchant-military class. Driven by the objective laws of growth under capitalism, the ruling class was keen to change from a state bourgeois class (which controls the means of production through its control of the state) into a private capitalist class that individually owns the means of production. Naturally, the state bourgeoisie promoted the sort of private sector-led activity that agreed with their private interests. Speculation in the real estate market, monopolising the telecommunication sector and going around the law to seize public assets for private use were landmark characteristics of the makeover. Distinct from the import-substitution policies during the Ba'athist era of the 1960s and 1970s, which emphasised the protection of national industry, openness under personally commandeered institutions led to resource divestiture away from industry. The usurpation of resources from the working class precipitated a crisis in capital accumulation, as evidenced by the aggravated social hardships prior to the uprising of 2011. However, what triggered the uprising against deteriorating social conditions was the triad of the fall



of the fear barrier, the loosening grip of the ruling class on the state and the perception that a viable alternative was possible. It is one thing for social conditions to worsen, but wholly another that sets off the avalanche of social change.

The crisis of capital accumulation is a social crisis, as it relates to the way society organises its production, consumption and distribution to sustain itself. Its foremost manifestations are the decline in quality and rate of investment, and deterioration in the level of capital stock. In a measure no different to that which occurred elsewhere, the Syrian ruling class, engrossed in the neoliberal fever sweeping the planet, used the ideology of the free market to restructure society's resource mechanisms towards their pockets. Instead of rising productivity, efficiency gains and better allocation, by the end of the neoliberal reform process nearly half the Syrian working people were effectively idle. Although many countries in the developing world have structurally adjusted under the advice of the IFIs, few ended up in a war condition that is as horrific as that of Syria. In hindsight, the overdetermining geostrategic and regional context in which Syria is situated makes the course of war somewhat inevitable. In other words, there is an international balance of power, determined by the degree of imperialist hegemony over a region to which Syria belongs. Apart from the strong economic and military cooperation between Syria and Russia, Syria's port of Tartus hosts the only Russian naval base on the eastern Mediterranean. A revolt that could potentially swing Syria away from the Russian camp would strengthen the US-led imperialist side. What was at play once the uprising had shaken the security of the state is more than just bread-and-butter reforms in Syria.

There are two interrelated perspectives that would help us penetrate the depth of the subject of capital accumulation in Syria: its history and class structure. Its historical course, muddled by war and instability, is – all on its own – not conducive to healthy growth. However, in the historical course itself, the way classes *qua* social relationships are structured defines the interface between accumulation policy and outcome. A ruling class drawing its wealth from the industrial development of national economy, more often than not (as evidenced in Syria's early socialist periods), engenders positive developmental outcomes. A merchant–military class swayed by the prospects of safer returns on their dollar investments abroad and absorbed by affluent consumption styles produces inequitable development. This tersely defines the class difference between Arab socialism and neoliberalism.

## 2. The metamorphosis of the state bourgeoisie

Syria never recovered from the economic crisis of the mid-1980s. First, the sharp drop in aid flows from the Arab conservative countries, following the drop in international oil prices in 1986, had a negative impact on the Syrian economy – pushing the balance of payment into deficit. Secondly, Syria increased its expenditure on the military – after the 1973 Arab-Israeli War and especially after the 1979 Camp David agreement – rather than on developmental and infrastructural projects. Whereas external aid during the early 1970s was pumped into industrial projects, it was later used to finance military expenditure during the period between 1979 and 1981. But the primary cause of the turnaround was that the regime adopted policies that diverted resources to low productivity sectors, such as tertiary economies and private construction. The five-year plan (1980–1985) reduced government expenditure on imports and allowed only for the completion of unfinished investment projects from the 1970s. The average rate of mining and manufacturing dropped from 45 per cent of gross fixed capital formation (GFCF) in the late 1970s to 30 per cent in early 1980s, and further to 23 per cent in late 1980s (Central Bureau of Statistics of Syria, *Statistical Abstract*, 1980, 1987, 1990). The building of new military establishments and institutions (the Ministry of Defence and the Military Housing Establishment) raised investments in the dwelling and construction sector. Private sector investments in construction and real estate totalled \$£1.5 billion during the early 1980s, whereas those in industry amounted only to \$£70 million (Seifan, 2009, p. 30). As a result, the basic infrastructure was not rehabilitated, the productive resources were not enhanced and production levels fell. Then came the fillip of the mid-1980s crisis: the foreign exchange rate crisis as a result of a massive smuggling operations of the Syrian pound in the mid-1980s, carried out by sections of the nomenklatura, which caused a severe depreciation in the Syrian pound that simultaneously increased consumer prices by 498.3 per cent during 1980–1989 (World Bank, various years).

This economic restructuring, away from modern industry, persisted up until the 2011 uprising. Real GDP was growing at the rate of 5.5 per cent per annum during the 1990s (World Bank, various years). This was mainly attributed to the production and export of light oil. Since 1985, the economy has never escaped crisis. In the late 1990s, GDP per capita at constant prices grew at – 1.2 per cent (Central Bureau of Statistics of Syria, *Statistical Abstract*, 2010). The highest growth rate of per capita income of 6 per cent was attained in the 1970s (World Bank,

various years) when the import substitution industrialisation (ISI) policy was still effective. One ought to note that the state deficit of this period (1970s) was minimal, while foreign debts to the Soviet Union were provided at concessional rates, and were later written off.

In the 1980s, public sector wages increased by 300 per cent, while retail prices rose by approximately 600 per cent from their 1980 level (Perthes, 1992, p. 43). Available national figures – likely distorted – on poverty show that it hovered at a double-digit level (14.3 per cent in 1996–1997). Low real growth rates per capita, low job creation and nominal wages that did not keep pace with prices were the norm well into the 2000s.

According to Hinnebusch (1995), economic reforms in Syria had always been determined by the political calculations of the state bourgeoisie rather than by economic considerations. Although this is a misleading statement that flies in the face of the fact that the state bourgeoisie fattened itself to financial obesity, the class in power often used it to conceal its drive for accumulation. However, Syria's transition from a state-led to a market-oriented economic structure cannot be explained without referring to regional and international developments. Two successive military defeats in the wars of 1967 and 1973 against Israel and, more importantly, the ideological defeat of the Soviet project in 1990, paved the way for the reversal of the progressive reforms of the socialising Ba'athist regime. This combination of changing historical currents, the change in the class-based interests of the state bourgeoisie and the rise of laissez-faire ideology set the ground for the regime's *volte-face* that followed.

We should consider briefly how the state bourgeois class, mainly composed of Ba'athist military officers, assumed power during the 1960s. Via a coup d'état against the group that deposed Gamal Abdel Nasser in 1961, the Ba'athist military officers wrested control of the state apparatus. Under President Atassi's leadership – he also happened to be a hero of the Algerian liberation war – further socialist reforms expanded the nationalisation and land redistribution introduced by Abdel Nasser between 1958 and 1961. Workers and peasants were the main beneficiaries of the radical macroeconomic strategies – mainly nationalisation, progressive land reforms and other populist measures – that were enacted during the Ba'athist regime (Hinnebusch, 1990). The Ba'athists exercised tight control from above without allowing working-class political participation. Because this revolution from above had stopped halfway without fully suppressing the capitalist elements in society – persistence of wage labour and appropriation of surplus value

while keeping sections of the private sector intact – and inhibiting working-class participation in politics, counter-reforms followed as soon as Hafiz Assad ascended to power by coup in 1970 (that is, prior to the wave of neoliberalism that swept the planet as of 1980) and reintroduced more private sector rights in the 1971 constitution.

By the late 1980s, the Hafiz Assad regime had initiated counter-reforms that departed from the import-substituting strategies of the preceding Ba'athist period. The state bourgeoisie, whose wealth through the state rose and whose class-based proclivities became more entrepreneurial, grew more distant from the middle class and the workers, and grew closer to the still surviving commercial bourgeoisie. They pushed for economic liberalisation, which culminated in the promulgation of investment reforms (notably Law 10 of 1991) aimed at promoting private sector activities. Investment liberalisation was allegedly crucial for revitalising the private sector after so many years of being suppressed by the state. Investment reforms were the doorway that enabled the state bourgeoisie to formalise their informal hold on property and to transform themselves from controllers to owners of the means of production. With the accumulated wealth that they had amassed through their indirect control of the state during the Ba'athist phase, the state bourgeoisie undertook their own private investment projects, either alone or in partnership with the new commercial bourgeoisie. During the socialising Ba'athist period, the state bourgeoisie increased their private wealth through the control and management of state properties. As noted by Sadowski (1985), they charged substantial commissions on waived licence requirements, lifting administrative procedures and providing priority access to commercial bourgeoisie, who presented their bids on public tenders to supply equipment for different business ventures in the state-controlled sectors such as industry, agriculture, construction and transport.

The class in power during the latter stages of Hafiz and Bashar rule decided not to build upon the ISI achievements and reversed the statist policies that had retained resources in the national economy. Deficiency in national productive capacity followed suit and imports of necessities began to rise. Shortages in capital equipment, as the state neglected technology (tools and machinery) imports and veered towards consumables imports, subdued industrial expansion. In the few years prior to the uprising, the wealthy urban tycoons were themselves the actualisation of state bourgeoisie. As these property-owning individuals exploited economic reforms in the interest of short-term profiteering, they depleted the economy of the resources that would be needed to

boost productivity in the future. Their business ventures in telecommunication, duty-free and retail projects, private banking (under Bashar), real estate and other services went unchecked, and immense private wealth was amassed. It was estimated that 5 per cent of the population controlled more than 50 per cent of the economy (Perthes, 2004). It follows that the social force deciding on investments no longer nested within the bureaucracy of the state, as during the previous Ba'athist phase, but became an amalgam of military officers and businessmen. These make up the new voracious manifestation of a capitalist class, hiding behind defeatism in order to neoliberalise.

### 3. The full gamut of neoliberal reforms

By the mid-2000s, the ruling class introduced vast free market liberalisation measures that amounted to a similar policy to the shock therapy introduced into post-Soviet Russia in 1990. The Bashar regime did not start with institutional reforms that could have empowered state institutions (police, judiciary, legislative, private property and other regulatory bodies), that, in turn, could have paved the way for a somewhat even playing-field market economy. Instead, it decided to put aside the institutional rationalities and accelerated economic reforms that were introduced during the Hafiz rule; but this time due to advice from the IFIs.

The endorsement of neoliberal policies was coupled with sidelining the Ba'athist constituency that had previously played a key role in consolidating the regime (along with bureaucracy and the security apparatus). As argued by Hinnebusch (2015), because the Bashar regime opted to side with the new commercial bourgeoisie instead of the old Ba'athist guard, it lost its rural social base of support, which became predisposed to anti-regime mobilisation. In the words of Hinnebusch (2015, p. 44), 'the party's precipitous decline both as an instrument for fostering ideological conformity and as patronage network left the regime increasingly susceptible to Islamic counter-mobilization'. As mentioned, this is an accurate reflection of the facts; however, the regime did not neglect its Ba'athist support base by choice. The retrenchment of the state from social services and the retreating public sector were the reasons why the Ba'ath could no longer furnish the privileges and patronage to its constituency it did under statist policy. Even if the regime had maintained its Ba'ath social support base, under neoliberalism the crunch on state finances and the diverting of resources to the new rich would necessarily curtail the role of the party.

A 2007 investment Legislative Decree No. 8 (Decree 8) was enacted to replace the old investment reform Law 10 of 1991, and become the main legal framework behind investment operations. Supposedly in order to promote more private investment, Decree 8 removed the remaining state controls on private investment, and allowed investors to purchase and own the land on which the investment project was taking place. This encouraged Gulf investors to place their newly acquired funds, which were earned from the oil windfall of the 2002–2008 oil boom, in the real estate sector, because speculation on real estate offered high and quick returns over the short or medium term (Barout, 2011, pp. 55, 56). With rising income inequality and dipping real wages, working people could not have egged on the real estate market. As was occurring throughout the region, oil-provided liquidity from the Gulf raised speculation on real estate and pushed prices up, driving a real estate boom in Syria during 2002–2010. The monetary stance of the Central Bank shifted towards maintaining a steady exchange rate, relaxing capital movement, raising the interest rate to curtail capital outflows and issuing credit to meet speculation demand. It was a class-based monetary policy: inflating the assets of the rich and meeting their transaction demand with a steady flow of Syrian pounds fixed against the dollar. The loss of sovereignty over monetary policy was such that, in the five years prior to the uprising, the dollar could be used in the local market instead of the Syrian pound, and national reserves were being lowered to support national currency conversion.

Housing prices increased by 30 per cent every year during 2003–2006, while in 2009, they increased by 40 per cent compared to their 2008 prices (Seifan, 2011, p. 5). Similarly, the sales and rental price of office space in central Damascus increased significantly in 2009, with the average rental cost rising by 24 per cent in the third quarter of 2009, compared to that of 2008. Meanwhile, the sales price of retail space increased by 40 per cent in the third quarter in 2009, compared to the same period in 2008 (The Syria Report, 2010b). According to Cushman & Wakefield, an international real estate consultancy firm, the 2009 retail rents in Damascus were the third highest in the Arab region. Damascus was more expensive than Cairo, Amman, Manama, Doha, Riyadh, Muscat and Dubai, but cheaper than Beirut and Kuwait City.

Just like its predecessor (Investment Law 10), Decree 8 failed to boost productive investment. The state failed to provide subsidies and tax concessions to industrial projects that could have channelled economic resources into modern sectors (high capital output ratio) with the potential for economies of scale and global competitiveness. Legislative

Decree 8 served to broaden private ownership – including the ownership of land – and, as is customary for market reforms under uneven power platforms, met private as opposed to social ends. The real estate boom played a crucial role in enriching the Syrian bourgeois class, but it was harmful for those with inferior incomes. Because the income of workers could not cope with the increase in rental prices of property, they were prohibited from obtaining decent housing (UN, 2009).

Prior to the free market takeover, import-substituting policies and state-sponsored employment programmes absorbed nearly all those reaching working age. Although the products of industry were of lesser finish and quality than European goods, they satisfied local demand and promoted a synergy between technology growth, productivity and an upskilling of labour. The problem, when adopting the free market precepts, occurred at the time the economy opened up: the level of national technology and productivity were lagging vis-à-vis international levels. Instead of gradually selecting which technology to improve from the national industry and bolstering its competitiveness, the new reforms were imposed in such a way such that, in due course, nearly the whole of the home-grown technology structure would have to be scrapped.

Neoliberalism threw the baby out with the bathwater, so to speak. The reason is simple: the ruling merchant–military class, being more merchant than military, had a knack for quick profiteering from commercial activity via co-opting the state as opposed to industrial entrepreneurship. The flux within society from geopolitical pressures and lost wars, especially the demise of the Soviet Union, had an impact on the articulation of the ruling classes in Syria. Tangentially, it was not ISI policies that went wrong or had run their course; it was the class in charge of development that had changed. This class restructuring is the result of imperialist-sponsored aggressions that mainstream social science either obscures or from which it shies away.

Starting in 2000, Syria began to open up its market to trade and investment in an effort to integrate with other regional and international economies, and boost bilateral trade and investment. Syria also substantially reduced customs on its black list – known as the ‘negative list’ of commodities as they had high tariffs levied on them – from 3,000 items to a mere 100 by 2007. These items formed part of the supply-line of the security structure of the state, given that Syria is officially in a state of war with Israel. Trade liberalisation and the lifting of state protection had exposed the Syrian industry to unfair challenges. Syrian industry required modernisation to be able to compete internationally (Abdel Nour, 2000). It was actually impossible for Syria to suddenly

compete in a global market, given the technological gap between foreign and local production, so the policy of trade liberalisation was actually a death sentence on the country's national industry. Experimentation with openness for the purpose of testing whether these industries would actually be able to cope with competitiveness from abroad was not a path that the Syrian economy could afford to follow. As a result, trade liberalisation led to a dislocation of productive resources and to the closure of many local manufacturing plants, especially those located in the suburbs of the main cities – where the protests initially started, igniting the uprising and leading to the civil war.

The pricing system moved away from the social or capped pricing of basic commodities, towards free market pricing. Price liberalisation was introduced without pre-ensuring sound social safety nets, which had detrimental social implications. The lifting of price controls on basic commodities, such as milk, vegetables and other essentials, permitted merchants with ties to the regime to abuse their privileges and raise their mark-ups. Although possibly the most doctored data is Syrian data, officially the general price level increased by 73 per cent during 2000–2010 (WDI, various years). Because of the phasing out of fuel, power, diesel and fertiliser subsidies, the price of food (meat, cereals, fisheries, fruits and vegetables) increased by 38.2 per cent in the period between 2006 and 2010. The price of electricity, gas and other fuel oils rose by 102.3 per cent during the same period. This pushed the general index up by 29.1 per cent during 2006–2010 (Central Bureau of Statistics of Syria, 2011).<sup>1</sup> The increase in nominal wages in the late 2000s was not able to correspond with the increase in the prices of basic commodities, and the purchasing power of workers and peasants was reduced. In addition, the severe drought throughout 2006–2010 forced many farmers to cultivate less land or abandon their farms altogether, as they were not able to finance the rising costs of production.

The private banking law was promulgated in 2001, allowing the establishment of private banks for the first time, after 40 years of a state-controlled banking system. Six private banks were established: Bank of Syria and Overseas (BSO), Bank BEMO, Bank Audi, the International Bank of Trade and Finance, Arab Bank and Byblos Bank. Their combined deposits were estimated at US\$30–50 million at the time of privatisation, which then increased to US\$3 billion in 2007 (Moubayed, 2007). Initially, there was a restriction on foreign ownership of bank shares. Syrian nationals or companies were required to own a 49 or 51 per cent of bank share. The ruling elites and the commercial bourgeoisie, such as Rami Makhlouf, Nader Qalai, Issam Anbouba and Samir Hassan – rather



than competitive market bidders – turned out to be the major shareholders (The Syria Report, 2010a). The activation of private banking was crucial for the state bourgeoisie. It enabled them to easily transfer their money deposits outside the country. Previously, during the 1970s, they had to smuggle in their wealth and store it in Lebanese private banks (IMF, 1975, p. 102).

During the Bashar regime, the private bank credit was limited to usury-like transactions and did not finance industrial and developmental projects. Loans were given out on the basis of collateral against a new investment project, rather than on the financial performance or achievement of the project. Because they failed to provide finance to long-term investment, the Syrian private banks therefore proved to be similar to the shallow financial institutions of most Arab countries, in the sense not only that lending operations are conducted on a short-term basis, but that they require huge collateral and guarantees.

The neglect of productive sectors by state policies was accompanied by a shift in private and state banks' lending operations from development investments to short-term commercial activities (Kanaan, 2000, p. 128). The average of total local bank credit furnished to agriculture and industry accounted for only 12 per cent and 7 per cent respectively during 2008–2010. This is compared to 51 per cent to the commercial sector (Central Bureau of Statistics of Syria, 2011).

There was enmity between merchants and industrialists during Syria's transition from state-planned to market-oriented economy. Because the private banking sector did not extend credit to industry, when the state funding dried out, tensions rose between the banking sector and the industrialists as well. The industrial sector gradually lost its political clout as the state bourgeoisie became commercially inclined. In this tension, it became obvious that the winners were the merchants, including the private financiers.

During the liberalisation phase, the Central Bank reduced the interest rate for the first time, in 2003, after holding it constant at 7 per cent for 22 years (Central Bank of Syria, *Quarterly Bulletin*, various years). The Central Bank gave private banks with the option to set their own rates on bank deposits (The Syria Report, 2008). The vast spread between the official rate and the private lending rate was exploited by financiers with ties to the regime. Interest rate reduction did not stimulate investment, as evidenced by the steady investment rates (WDI, various years).

Policymakers perceived employment generation and poverty reduction to be by-products of the neoliberal paradigm and its associated profit-based resource allocation mechanism. That is true if one takes into

account the people thrown into informal poverty employment and the higher rates of stunted growth in children (UNICEF, 2013). Overlooking the social side of market-driven economic reforms trapped the majority of Syrians in poverty. Rising unemployment and job insecurity were attributed to the long-term contraction in the traditional manufacturing sector. Given that Syria is at war, this weakening of the social front in terms of working-class security and industrial productivity weakened the country's national security. In hindsight, it looks as though, the Syrian bourgeoisie has committed political suicide. The Syrian regime in charge of development was unaware that it belonged to a financialised social class that cut across the Syrian border. This is so because as trade and capital accounts opened and Syrian currency was exchanged and held in the Dollars, the dollar-value became the common denominator that objectively united the interests of the US financial class with the Syrian financial class. However, for the US-led financial class, geo-strategic position and the war economy is one of the principal drivers of growth and profits and the making of war in Syria becomes an end in itself (Foster, 2003). Syrian economists estimated the unemployment rate to be 16.5 per cent in 2009 (Barout, 2011). Poverty rate was 34.3 per cent in 2010 (representing 7 million people) (Al-Laithy and Abu-Ismaïl, 2010: 17). In rural areas, it reached 62 per cent. With subsidies on fuel lifted, agricultural input prices rising to world levels as trade in these items was freed, and investment in agriculture and its infrastructure hitting new lows, the farmers suffered from these 'reforms'. The effects of droughts were no longer transient. The lack of dams and reservoirs, and the reliance on artisanal wealth that depleted the water table, in addition to changes to land tenure laws practically reversing the socialist-era land reforms, put farmers under pressures unseen before. It was no surprise then that the spark of the uprising was rural – mainly in Dera'a, Idlib and Douma.

#### **4. The deepening crisis**

Capital is a social relation that creates the necessary condition by which it privately appropriates socially produced wealth (Fine and Saad Filho, 2004). Capital accumulation is the means by which social classes relate to each other in the process of production, exchange and distribution to produce commodities. Capital accumulation remains the fundamental dynamic of capitalism and the capitalist class since its inception (Bottomore, 1983, p. 272). A crisis of capital accumulation is the failure of the social class in charge to reproduce the necessary social conditions

for increased production and growth. Under capitalism, accumulation crises manifest themselves in crises of overproduction.

The Syrian investment rate, the quantitative measure of growth in the fixed capital formation, remained volatile and low for many years. Its highest plateau was achieved in the years between 1976 and 1980 at an average of 33.1 per cent (WDI, various years). The increasing trend of the investment rate during the 1960s and 1970s was driven by growing industrial investment. Not only did public investment contribute to the bulk of total investments (more than 60 per cent) each year during 1975–1979, but a decomposition of investments for these years shows that mining and manufacturing constituted the highest share (absorbing 45 per cent of investment for the period between 1974 and 1979) (Central Bureau of Statistics of Syria, 1987). This period fell under the ISI programme, whose aim was to establish economic independence by enhancing the economy's productive capacity. External aid and geopolitical rents, which were forthcoming in the mid-1970s, were channelled to finance productive investments. Industrial output grew at an average rate of 11.6 per cent per annum during 1970–1978. This is compared to only 5.6 per cent during 1960–1970 (Chatelus and Schemeil 1984, p. 254). Local production, especially textiles and clothing, expanded to the former USSR and East European markets. Unlike the case of East Asia, Syria could not sustain the competition from abroad because the state bourgeoisie itself forfeited its commitment to national industry.

As reviewed by Amsden (1989) and Wade (1990), the now-developed East Asian states selected key industrial sectors and specific private enterprises, and provided them with financial subsidies, state-sponsored technological know-how and tax breaks. Amsden (1989) describes South Korea as a 'guided market economy', in which the priority to industrialise preceded all other market considerations. The state intervened and distorted prices by introducing reduced rates of interest on long-term credits and conditional subsidies. The latter promoted the desired levels of investment in strategic sectors. Likewise, Wade (1990) supports the argument of 'getting the prices wrong'. He agrees that the governments of East Asia built the industrial nucleus by controlling trade and foreign exchange, providing export and tax incentives, and channelling resources into new growth industries whose performance criteria met international standards at a later stage. However, the geopolitical context of a nuclear China and advancing communism prompted the US to boost the cordon sanitaire and the security of its Eastern allies by industrialising them. The case of Syria is exactly the opposite.

Deindustrialising Syria and weakening its security serves the US-led imperial interest in the Middle East.

During the 1980s, the investment rate in Syria dropped off sharply, falling to 15 per cent in 1988, as a result of the fall in geopolitical rents following the decline in international oil prices. After investment liberalisation Law 10 was introduced in 1991, the investment rate slightly increased in the first half of the 1990s, because consumption items were recorded as investment goods in the accounting books (Matar, 2013). The investment rate averaged 23 per cent during 1991–1995, before dropping off to 20 per cent in the late 1990s, a period which was described by the Syrian Planning Commission as the ‘lost years’. The average of investments during 2000–2007 was not better than the preceding period, settling at 21 per cent (Central Bureau of Statistics of Syria, 2011). Other countries that witnessed successful industrialisation experiences, such as Singapore, Malaysia, South Korea and Thailand, achieved an average investment rate not less than 30 per cent during the 1990s. In particular, value-added industrial production in Singapore, Malaysia and Thailand grew at an average growth rate of 7.5 per cent, 7.8 per cent and 6.1 per cent respectively during the early 1990s (World Bank, various years). In comparison, Syria’s industrial output grew at 2.6 per cent per annum in the 1990s (UNIDO, 2014). Syria’s manufacturing output did not exceed 5 per cent of total value-added production in the period between 2008 and 2012 (UNIDO, 2014), and was concentrated in light textiles, agro-food, chemicals and pharmaceutical products (AMF, *Joint Arab Economic Report* 2011). For a developing economy like Syria that suffers from deficient productive capacity, a high investment rate is indispensable for raising productivity, wages and wealth.

Economic liberalisation, which started during the Hafiz regime and intensified later during the Bashar regime, failed to boost investment, especially industrial investment. The average investment rate in Syria during different periods during the 1970s, 1980s, 1990s and 2000s were 28, 24, 22 and 21 per cent respectively (WDI, various years). In the 2000s, private investments remained concentrated in short-term or speculative activity – real estate speculation and service and commercial projects. The investment reform law, Decree 8 of 2007, enabled private investors – especially wealthy merchants – to abuse incentives and conduct profitable short-term investment projects using their linkages to the state security apparatus (Hopfinger and Khadour 1999, p. 66).

Trade openness had an uneven impact on the price system. On the one hand, prices of locally produced industrial products suffered as a

result of the lifting of protection and the importing of cheap products. On the other hand, prices of the non-locally produced consumer goods that were initially imported by the state rose as a result of the chartered hold on import licences by merchants. Eventually, the merchant class – who was in control of the market through state licences, monopolies and quasi-monopolies – raised prices, so the beneficial impact of lower imported goods prices to the consumer, following trade liberalisation, was a short-lived phenomenon. By the time of the uprising, poverty was plain to see, but was hidden in the official records.

## 5. Pernicious policies

In the post uprising period, the conflict itself has become an economic enterprise funded mainly by external sources. Its output is the destructive process and the shifting power landscape, which is the service that is produced in return for the war rent to local landlords. Unless the ‘services’ that the conflict emits to imperialist players become of no value, the conflict is unlikely to abate. That is the historical contingency one must grapple with when the current crisis in socialist-internationalist ideology is as deep as it is. Talk of future policy and reconstruction at this time – especially if it springs from the mainstream literature – is meant to mislead. Yet some in the opposition to the Syrian regime foresee a swift economic and political transition. As of 2013, the Syrian Centre for Political and Strategic Studies (SCPSS), an American-based think-tank, has already undertaken plans for future monetary and fiscal policies and for economic reconstruction for post-conflict Syria. The salient stance from the opposition calls for further market liberalisation. The SCPSS report calls for Syria to adopt perfect competition and remove the barriers to entry (SCPSS, 2013, pp. 197–198). This language is delusional, even in the most democratic societies. No market is an even playing field with social controls avoiding waste, especially if raising profits by cutting costs are the dynamic of the system. Efficiency, scarcity and competitiveness are the product of class balances, but, in actuality, the objective tendency of the market is for a concentration of power and wealth.

Markets are social platforms that include value circuits that channel resources to rulers or ruled. There is no market that is free or enslaved: markets simply chart circuits of value or what it takes to reproduce a social formation. Policies and regulations either free the delivery of resources to one class or the other. The outcome of that is determined by the class struggle. The ‘Economic Vision for New Syria’, to which the

Syrian opposition generally refers, presents no fundamental changes to the macroeconomic policies that were pursued by the Assad regime. The experts behind it are ignorant of the extent of the free market shock therapy to which Syria was subjected during the second half of 2000s. The only reason one would want to free a market that is already free and replace the old rulers is because one wants to take over as the new kleptocrat.

As the fighting continues between the regime forces and Islamist factions, and as each side tries to wrest more territorial control, the war in Syria becomes, anew, a national liberation war that requires odd alliances to repel the imperialist-sponsored Islamist reactionaries. Real Syrians are caught between a rock and a hard place: between a regime that has held the population for ransom against its hollow rhetoric and seized the wealth of the nation, and an imperialist–Islamic state model for whom the drudgery of worldly life is justifiable before the altar of the gods. The calamity of the conflict is doubly serious, because the conflict has built up a momentum of its own and appears unstoppable. But the conflict has an international dimension, as the capture of Syria by the US or its complete collapse tilt the balance of power globally in favour of finance/war-inclined imperialism. From an internationalist standpoint, Syria as state and social formation should be salvaged.

## 6. Closing remarks

There are few facts that have surfaced about Syria after four years of war:

1. The violence of the Syrian conflict is being fed by the differences between the US–Europe and Russia–China.
2. At the time of writing, the Syrian opposition has come to be dominated by Jihadist groups, which feed off imperialist funding and ambitions.
3. There are probably no strategic resources of significance in Syria, but it is strategically located and its control imparts strategic gains to whichever imperialist power holds it in the end.

The US-led imperialist assault on Syria is serious, relentless and assumes various forms. Although one cannot have access to intelligence operations, one can state with the utmost certainty that it is naive to suppose that imperialism has not seized the opportunity to militarise the peaceful uprising since day one. Social classes cannot be deemed ignorant, but

there are definitely sections of the ruling and working classes that are unaware of the historical moment, the balance forces and the unlikelihood of peaceful transition. Sections of the regime thought that the US-led imperialism was interested in the poor prospect of trade with Syria and not in the destruction of the Syrian social formation to bolster its own power position. Sections of the working class estimated that they could seize power peacefully in a country which is targeted by wars of aggression and at a time of collapse in the internationalist socialist movement. Their assessments were wrong and the war is proof of this. But social classes are only subordinately personal, and are essentially impersonal and objective relationships. These latter characteristics of classes imply that imperialism extended itself into Syria's class formation prior to the conflict in the way it (imperialism) abetted neoliberalism, and, post-conflict, in the way it fuelled the war. Classes go through a process of self-generation, sacrificing certain sections of itself and re-engaging others. US-led imperialism (the violent social class), is disposing physically of some of its Syrian partners to possibly emerge stronger. In this calculus, the position of the Syrian working class should be nationalist, anti-Jihadist and anti US-led imperialist first and at whatever cost – any internal aim of wresting state-power should be postponed until national liberation is complete.

## Note

1. The actual inflation rate is several times the official rate. Dr Mohammed Jamal Barout, who, for a long time, was a high-ranking state official in Syria, affirms that the inflation rate is the item that is subjected to the worse forms of doctoring by the Syrian authorities, for lowering the inflation rate embellishes the economic performance of the regime (Barout, 2011, pp. 103 and 104).

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## **Part V**

### **Closing Comment**

# 11

## Arab Disintegration and the Right to Development

*Ali Kadri*

Every line of the covenants on the right to development invariably spells out equity as a necessity (UN, 1976). The delivery of life's basic needs is not an option that only wealthy states can provide because they can afford to do so. Under the provisions of the right to development, all those nations that ratified the agreement, that is, nearly all the world, should contribute to ensuring the safety of person and basic subsistence in every country, no matter how poor. This is a far cry from the way things are done. The logic of capital accumulation necessitates the making of misery before the making of profit. This can be reduced and argued on two interrelated planes for the sake of illustration: the first is the cost-cutting measure by which unions are broken up or Third World nations are bombed to cheapen wages or grab raw materials; the second is a sociological relationship in which the exercise of power, often by means of violence, buttresses imperial rents and financial grab. In the AW, imperial booty is carried out by the use of force and the debilitation of the state, which may potentially serve as a platform for Arab working classes to enhance their negotiating position in the global integration process.

The supporting empirical data are numerous: the Arab region exhibits the highest rates of conflict globally (SIPRI, various years). In early 2015, there are several rich Gulf countries bombarding Yemen (possibly the poorest country on earth), with wars in Sudan, Iraq, Libya, Somalia, Lebanon, Palestine and Syria, in addition to significant Jihadist attacks in Algeria and Egypt. The scale of humanitarian disasters in the AW could possibly compete with those of the Congo. The rising insecurity of Arab formations after the invasion of Iraq also intensifies the rate of

resource usurpation from the region. With Jihadists already opposing sectional/sectarian regimes, the Arab working classes hold less and less control over their own destiny.

Together, the AW is a financial-capital-rich region. However, the Arab world exhibits huge discrepancies in income and wealth. The rich Gulf economies represent 5 per cent of the total Arab population, which is around 350 million, but earn 1.6 per cent of world income (WDI, 2012). The rest, the less-oil-endowed economies, earn 0.9 per cent of world income, of which the labour share is estimated at less than 0.3 per cent of world income (WDI, various years). The labour share has plummeted over the past 30 years under neoliberal reforms, and income inequality has moved into the highest ranks globally.<sup>1</sup>

While deindustrialising and slowing down the rate of decent job creation, employment in poverty-informal jobs swelled. Laid-off working people or new entrants had no other source of income apart from informal-poverty work. Between 1970 and 2010, the shares of manufacturing in Syria, Egypt, Algeria and Iraq went down, respectively, from 19 to 5, 21 to 15,<sup>2</sup> 10 to 2 and 12 to 4 per cent (UNIDO, various years). It is not easy to measure unemployment in least-developed or war-torn Arab countries. Where unemployment has been measured, the official rate may appear to be somewhere around 10 per cent, but in actuality, with absolute poverty (below two dollars) being higher than 50 per cent (AMF, 2011), the true unemployment rate is closer to 50 per cent mark (AMF, 2005). The unemployment impasse has become insurmountable: there are now too many idle people available for the spare capacity to be employed in decent jobs.

The AW often exhibits negative productivity growth rates, and, in oil states where financial capital is abundant, small national markets are prohibited by imperial fiat from mobilising real resources in knowledge-based and security enhancing industrial projects. In this strategic region, the culture of industrialising boosts national security at the expense of imperialist hegemony. Much of regional oil revenues, especially in the Gulf, fly abroad in US T-bills, affluent consumption, and military and regime security spending (defence spending alone is twice the world share from GDP, according to the World Bank, with American military aid to the Arab region ranking highest). In 2004, the Inter-Arab Investment Guarantee Corporation (IAIGC) estimated that Arab assets abroad were at US\$1.4 trillion. These are very rough estimates. In the same year, the Union of Arab Banks (UAB) estimated the figure at US\$21 trillion. Apart from demographics, death tolls and balance-of-payment records, Arab data is generally unreliable.

In the immediate post-independence period, the AW accomplished strides in industrialisation and development under a combination of dirigisme and protectionism. After several war defeats and the adoption of neoliberal policy, beginning roughly in 1980, the process was reversed. Privatisations, the rolling back of land reforms and inequitable growth have characterised things so far. The policy questions are many. First, one may ask how the AW could re-experience an employment substantive and sustainable rate of economic growth while narrowing the degree of income inequality within a transparent and publicly accountable institutional framework. However, before that reification of the issues, one may ask whether a rights-based state enshrining the rights of labour, as opposed to the present charitable functions masquerading as welfare, can come into being in the AW. Can social and economic reform do more than superficially replicate the Western welfare state model and go further in revamping the despotic social relationships that have so long exhibited forms of suppression in the service of imperialist capital?

In this concluding chapter, I do not intend to go over the points that were adequately covered by the contributors to this volume. I simply would like to add a few points regarding Arab integration and the right to development, and the way a positive transformation cannot happen because of the near absence of the representation of the working class in the state. According to the International Trade Union Confederation (2007), Arab workers rank lowest insofar as union rights. This alone voids the intermediation between private and public wealth. After all, this is not so difficult to spot. The 2002 UNDP AHDR pointed to three deficits that characterise Arab development: democracy, knowledge and women's rights. But the diplomatic constraint under which the policy framework of international organisations is produced tends to dilute the prioritisation of the causes of underdevelopment in an analytical context, missing the reality of historical determination. In real history real people organise and implement policies because of an overriding motive, usually the interests of the social class. Neoliberalism and its institutions do not provide choices of good or bad policies; they provide the one choice by which social conditions are remade to boost profits: 'neo-liberalism is a mere description of a whole set of measures that are associated *necessarily* with the hegemony of globalised finance' (Patnaik, 2015). Underdevelopment is a holistic condition in which nearly all social variables are lagging or underperforming. However, by splitting the problematic analytically as such, progress in one area – say the primary schooling of girls – becomes progress in development. The case is

such that schooling itself, and the type of knowledge that is passed to students, solidifies regime stability by stultification and religious inculcation parading as knowledge. Moreover, democracy culminating in a balloting process situated in a biased context returns the same class to power again and again. What I mean by the representation of the working class in the state is its degree of commandeering the circuits of value: from the minimum caloric intake, to purchasing power, to universities and hospitals.

At its very root, this is a matter that hinges on two organically interrelated issues: the limitations to the right to self-determination of the Arab working classes, and the impaired sovereignty of the state. With the predominance of Arab merchant capitalism, it is possible for an individual in this region to be very rich from rent/commercial activity and to transfer the wealth abroad without reploughing savings back into national or regional productive activity. In a cultural milieu that has come to be dominated by the discourse of political Islam, obligations supersede rights. The drainage of resources in the presence of abject poverty could be eerily labelled as shrewd business practice. Moreover, in the absence of smooth means for the transfer of political power, the requisite institutional reform for a rights-based environment in this region may imply that a ruling class, whose financial interests nest in the global dollarised financial space, would have to turn against itself. There is no record of voluntary social class suicide to date, but in many instances where imperialist interests deem the deconstruction of the Arab state to be necessary, numerous Arab regimes have exceeded in their practice what is adequately required to upkeep the state à la Alavi (1972). Because of their subordinate relationship to an imperialist relationship that grows by war, Arab regimes destabilise the distributional arrangement by politically disenfranchising the working class and reducing its share of income to the point where internal violence becomes akin to regime transitions.

## 1. Situating the issue

As elsewhere, welfare in the AW transpires to be a regime-stabilising arrangement. The welfare-maintaining function unfolds in concert with the strength of the post-colonial state in the delivery of social services. Under neoliberalism, the capacity of the state waned and the vacated space was occupied by US–European-funded civil society that often upheld political Islam as an ideology. The state de facto became

many mini states, with allegiance first going to the sect, clan or political grouping that undertook the provision of welfare as the state retreated. A condition of disarticulation between the sectional fashion by which working people think about bettering their living conditions and the universality of their objective immiseration, grew wider. Put in the language of critical sociology, social disarticulation, social beings' departure from social consciousness under capitalism, or the gap between the necessities of survival under market capitalism and resurrected identity-based ideologies from a fantasised non-capitalist past, gaped away.

The historical process, which allowed the welfare state to come into being in the Western hemisphere, is not the same. Whereas European economic crisis and pressure from organised labour brought forth welfare-enhancing regimes that act as countercyclical measures, in the Arab region, the nascent nation states were in crisis or under assault for their strategic value from their very beginnings. In this state of flux, welfare served political stability more than working-class rights, in a way that does not transmute social spending into development. In the case of post-independence Arab socialist regimes (Egypt, Syria, Iraq, South Yemen and Algeria), a redistribution of wealth, through namely agrarian reform, took place. These measures, however, were initiated from the top down, in a way that excluded broad public participation and kept intact patrimonial channels of social control. Later (as of 1980) under neoliberalism, many of the passed-down gains were lost to the same old classes or a reconstituted variant thereof, which maintained its control over the state.

With the mixed Saudi-neoliberal model dominating the development discourse, social rights became charities. Banners raised in Arab cities extol the giving hand of the Saudi king. This happened as the free market policies thwarted job creation, such that the system, in its actual capacity, produced fewer decent jobs, leaving an enormous section of the population in poverty. As working-class political power ebbs, institutional intransigence, rigidly hierarchical forms of control and a resurrection of despotic pre-capitalist relations are constructed and funded in a way to foment divisions. Working-class divisions imply further imperialist strategic control through their comprador, while national income distribution between local labour, and national and international capital, becomes wholly skewed to the interests of the latter group. The 2008 UN report about the Arab region finds evidence of substantive capital flight (UN, 2008). All the while, one must caution

that the politics of imperialist domination and its consequence in imperial rents holds primacy over the puny capital outflows from the region, save the Gulf, with its peculiar non-secure and non-sovereign arrangement. Together, coercion and increased income inequality characterise regional labour process and development dynamics.

Trade treaties, whether regional or international, undermine the development side of exchange. However, because of the region's strategic value, they also erect divisions between the regional states and their respective class orders. The social impact of the unfavourable condition of integrating into the global economy further widens the gap, economically, socially and culturally, between social classes, or groups linked to external markets through oil and those that have become marginalised. In a Fanon-like (1963) situation, the classes left out of the wealth pie will increasingly distinguish themselves culturally from those that develop Western patterns of consumption and values. For the disenfranchised, the symbols of past culture are readily reawakened in the class struggle, but as a result of the general condition of socialist-internationalist perceived failure, a reactionary version of political Islam funded by the Gulf grips the imagination. Governments, in turn, appear to concede to the mounting pressure by placating Islamised public opinion through reasserting repressive mores or habits and delaying overdue progressive reform. However, the dividedness and the regimentation of the labour process sown by political Islam, tally with the destructive bent of the capital relationship. Social reforms, ranging from changing the curricula to rewriting Islamic history as one centred on avoiding the rights of women, for instance, to rolling back the mixed school system, are ironically given boost by imperialist propaganda touting Jihadist Islam as a foe.

Hypothetically, the present ruling classes may be able to benefit from merging small national markets in a common industrial project. They would likely earn more as a result of the bigger integrated wealth assets (Seers, 1983). But a time horizon free of war-like uncertainty, impersonal institutions and an industrially based development with rising productivity growth – the building blocks of an integration process – is missing. The integration game pay-offs, had it taken place, would be that, over the long term, a recirculation of income between international/national capital classes and the broad regional working masses base should result in a positive sum game to all. However, persistent uncertainty, as in war prospects, obviate the long term and afford primacy to short-term commercial/speculative gains, hence, making the quest for wealth associated with productivity gains elusive. The missing



stability over the time horizon necessary for long-gestation investment projects is a crucial issue insofar as it determines how the strategies of different players in the region are exercised. Nearly all investments seek short-term returns and lodge into quick turnover capital.

Realistically, the AW exhibits low intraregional trade and, despite an openness rate of 86 per cent (average for the several years before the uprisings, WDI) with the rest of the world, the average intraregional trade proportion remained below 12 per cent, and, in the case of the GCC intratrade ratio, it is as low as 6 per cent (UN, 2011). According to the World Bank, the Arab share of manufacturing in investment is declining almost everywhere, and the share of manufacturing in GDP is lower than that in all other developing regions except Sub-Saharan Africa (World Bank, 2009). The share of high-technology exports from total manufactured exports in the AW is at around 1 to 2 percentage points, below the rank of Sub-Saharan Africa – including South Africa, which is around 5 per cent (WDI, various years).

Apart from the imperialist desire to block integration, the relatively small Arab national market inhibits cooperation because any serious reform in the way of intraregional trade involves heavy losses to both regional merchant capital and the mercantilism of US-led capital. Dividedness reigns, despite the fact that being ‘small’ in a globalising world is itself a disincentive for industrialisation. Remaining uncompetitive and small or missing out on the development of deep chains of value-added products in an era of globalisation is the furthest any country can situate itself from a strategy of sound development. In the present regional merchant capital mode, capital accumulation slows down because moneyed capital is imperialistically prohibited from being put to work in small risky markets and, consequently, it flows out of the region in one form or another under the aegis of international capital.

The relationship of the nation state with national capital in the AW is not a matter of co-habitation: the state and capital are one and the same, with little recourse to conflict-of-interest clauses or a system of checks and balances mediating differences between social classes. The very term ‘national’ requires a certain qualification, for when so much of capital grows through commerce-merchandise trade as opposed to local industrialising, little of the capital formation can be said to be national. But the stock of capital remaining in the national economy, which serves to reproduce the national working class, has to be national. The fact that profits could be made simply by buying anywhere and selling to small-patented markets, or by the export of oil, is a matter

that forestalls any regional market integration. Although there emerge instances where the depth of the crisis has pushed through intermittent reforms that redistributed wealth, because the despotic forms of social control did not change, the situation soon relapsed into its old grab-appropriating mode.

The Arab state's unyielding anti-regional cooperation position is a tributary of the imperialistically imposed resource-allocation mechanism, which is a product of an internal class articulation that finds a cosy niche in the imperialist security arrangement. It is through this meeting of national social relations and extra-regional forces, which underlay the appropriation of the social product and impede integration and industrialisation, that the conditions of dividedness transpire. The dynamics of unconditional trade and capital account openness, and a ruling social class that is ultimately safeguarded by US-led firepower, generate a reality in which the absolute number of the poor and the unemployed rise. For this developmental path to take a different course, before talk of 'prices or price ratios' there has to be an agent of development, a class committed to the national project and a viable market as a social institution; at least one that affords a disciplining of the price system through public participation. In the absence of these preconditions, which arise out of an internally driven working-class demand for reform, development is likely to continue to be the lopsided process it is now.

Can the AW combine equity and development simultaneously? It is almost an impossibility at this time to answer this question in an optimistic way. As the national agents of development integrate with international financial markets, a class emerges whose target is not so much to industrialise and trade with the region, but to gradually dismantle the state. They effectively become part of the international financial class, albeit a subordinate partner in the imperialist class relationship, for whom war is not only a profitable endeavour but also a condition of its very existence as capital. The war economy is a permanent condition under capitalism (Mandel 1975; Baran and Sweezy, 1975). Capital has to release excess surplus, cheapen inputs and crank up its power by the making of war. Although war is persistent under capitalism, the case is more so for the AW. The AW is a peculiar case: the high frequency of conflicts in a strategic region such as this, makes war for the sake of war a medium of accumulation. The Arab wars and their associated war economy are more relevant to imperialism than buying and selling dates, cars and so on are to part of the global working class, whose income is a mere third of 1 per cent of global income. Accumulation by wars of encroachment, as opposed to market realisation,

represents the mode of integration of the AW to the global economy. The implications of war on imperialist power repositioning and imperial rents necessitate the disempowerment of Arab working classes and their states.

In view of the prevailing low capacity, or low output per capital ratio (save oil), faltering capacity (falling and poor-quality investment), the destruction of physical and human assets by wars and the demobilisation of resources by neoliberalism, render a development lift-off unlikely. Under circumstances of peace, the AW should be able to employ millions of additional workers in decent jobs: the increase in labour's share should in itself restructure this path dependence on oil into a higher, steadier demand-driven state. This requires either the issuance of intra-Arab development bonds to finance the long term or the redeployment of existing moneyed capital into real resource mobilisation, both of which are doable had the nature of the ruling classes been non-compradorial. Not to forget that it is the role of an effective demand component, under regulated trade and capital accounts, which should be ideally fuelled by additional productivity gains and rising wages, that would redress the short-term financial shortfall by longer-term efficiency gains. Redistribution of assets is necessary at the initial stage, but alone it is not sufficient. There needs to be a 'big push', à la Nurkse (1952), from the demand and supply side concomitantly, with the vision of superseding the small market and creating decent jobs, which, in turn, requires a reading of development as a right, and regional interdependence as a necessity to establish that right.

## 2. Development as a right

Let us consider the standard definition of development provided by the Human Rights Council:

Development is about unleashing human potentialities and broadening the choices of people. It is a fair and balanced outcome combining the right to food and the right to vote. It is freedom from hunger, from oppression, and all that stands in the way of people [*working class is more fitting*] participating fully and unhampered in shaping their future.

(UNHCR, 1986)<sup>3</sup>

Choosing the appropriate development strategy is not independent of the overall vision for the future of the economy and society, and the context defining the parameters within which the strategy will be

articulated. It is crucial to start with a correct appreciation of the forces shaping the present and the full legacy of the past, without losing sight of the long-term objectives of development. This perspective and thorough assessment of the undercurrents of this particular historical process form the connecting grounds that allow the formulation of policy pursuit of development objectives. It, more decisively, reorients policy in a way that cushions the costs of short-term economic experiments with liberalisation, fosters an agenda that cuts across the divide of economic efficiency and social values, and promotes the idea of development as a human right.

Yet, in every aspect of the development criteria, such as output, capital formation, employment, technology and institutional transformation, the AW has underperformed (UN, 2006). Working people cannot realise their rights on two counts: curtailed civil liberties and the meagre level of real wealth creation. Poor productivity and inequitable distributional conditions place the realisation of the right to development at a disadvantage from the start. When war is factored in, the picture of development worsens. Wars of encroachment erode the security and sovereignty of community and person. These two are 'inalienable human rights by virtue of which every human person and all peoples are entitled to participate in, contribute to, and enjoy economic, social, cultural, and political development, in which all human rights and fundamental freedoms can be fully realised'.<sup>4</sup> The social individual, and his or her community, are beneficiaries of the right to development, which imposes obligations both on individual states – to ensure equal and adequate access to essential resources – and on the international community, to promote fair development policies and effective international cooperation (UN, 1986). The claim for regional cooperation by individuals and states is itself a measure towards the fulfilment of human rights.

In the AW, economic policies are concentrated in the competence of the state. It is the efficacy and practicality of public policies that should be accounted and come under independent public scrutiny. The role of economic policy and, more specifically, fiscal policy, is to find the appropriate regime that mediates disparate developments and puts interests of bourgeois classes back in the national and regional economies. The AW is interlocked with the global economy such that it would not be possible to lock in resources for development without international cooperation and regulated capital accounts. The international community, comprising countries and institutions at the international level, has the responsibility to create a global environment conducive for

development by virtue of their acceptance and commitment to the legal instruments, and is ideally obliged to monitor the income-cum-wealth allocation channels.<sup>5</sup> Without locking in resources in a strategy designed to raise productivity and reduce unemployment simultaneously, it is unlikely that any economic programme of action can meet the basics of development as a human right. The difficult contradiction to reconcile is not the productivity–employment nexus, which can be engineered by reducing reliance on labour-saving technology and a Minsky-like employment plan (1986) – the irreconcilable contradiction lies in the scramble of imperialist powers to position themselves in the region.

The real impediment to Arab development is that the region's strategic value is held as collateral against the expanding dollar supply globally (Patnaik, 2008). The oil–dollar nexus and, in particular, the dollar-priced barrel, bolster the power of the US-led capital class, which underwrites the credit needed to maintain the stable dollar as the world currency (Patnaik, 2008). This is all the more relevant when financialisation and earnings through financial channels have come to represent more than half of corporate profits by 2010 (Fine, 2010). The US-led capital class overstretchers both its military reach and its financialisation and, for this, it has to re-empower itself. The debts of the US are not solely state debts. They are the sum of private and public debts, and the global transaction guarantees that the US backs as the sole holder of virtually risk-free assets, which include much of the global money supply, which has come to represent threefold the global output (Fine, 2010). The hegemony of the US over several strategic areas, particularly in the AW, offers its leading class, which is not necessarily American by nationality, a vantage point in terms of collateral against the future; the Federal Reserve rate policy sets the tempo of global money transactions. Pricing oil by the dollar, and calibrating the level of instability of the AW to a degree at which the US-led class assures itself increasing power, allows the leading US-led financial class to snatch a higher share of the global financialised rents. The issue of stability or instability, its implication on power balances, has a bearing on financial grab just as oil control does. The control of the circular flow of Gulf petrodollars for T-bills or weapons sales is only secondary to the much more significant category of imperial rents through financial grab; but because such regional control is key to the value snatch from the working classes globally, aggression against the AW becomes the mainstay of US foreign policy, otherwise imperialism would lose its material grounding.

### 3. Lost interdependence

In 2009, the share of oil constituted nearly 40 and 55 per cent of AW and GCC GDP respectively (OPEC, 2010). But, despite a solid growth performance in 2003–2010, unemployment rates responded poorly to economic growth and remained high. There was roughly a 1 percentage point drop in unemployment over a seven-year period (2003–2009) that witnessed a cumulative growth rate of 35 per cent (WDI, various years). Apart from the weak response of job creation to economic growth, most of the new jobs created were created in the poverty-wage informal sector (UNDP-ILO, 2013). Under the decent employment criterion, people who are employed at wages that do not provide adequate subsistence would still count as unemployed, which means that the real unemployment rate is much higher. This otherwise chronically low-income elasticity of labour demand vis-à-vis other regions springs from the fact that much income is derived from oil revenues that buttress affluent consumption; such income does not get reploughed back into the productive side of national economies. It also points to deep-seated class reasons associated with the nature of the ruling merchant–comprador class, whose material reproduction only secondarily involves national industrial recapitalisation. With the national merchant-class relationship being a subordinate extension of the US-led imperialism relationship, it infuses the necessary debilitation that undervalorises national assets or lets natural and human resources lie idle as material for capital (the natural and human resources are commodities that are not owned by any social entity that capital can grab at will). This class, undermining the state with regard to capital's revalorisation process, is the germane relationship affecting human rights violation.<sup>6</sup>

The high rate of unemployment and rising poverty levels are the accumulated increments of the last three decades. Since the early 1980s, and until 2010, the economies of the AW have been performing far below potential. While the real GDP per capita, for the region as a whole, was growing annually at a respectable rate during the 1970s (4.33 per cent), it declined at the annual rate of 3.43 per cent during the 1980s, and grew at the staggeringly low rate of 0.34 per cent during the 1990s. It has grown since 2002 at about 5 per cent, but the growth was jobless. The war-defeated Arab formations restructured by reformulating their ruling classes into a fully compradorial social class that accepted the neoliberal conditions more as terms of defeat than structural adjustment. The war losses eroded sovereignty. Three decades of declining investment rates (from 30 per cent in 1981 to less than 20 per cent in 2009, as per the WDI), cyclical contraction (average real per-capita yearly growth over

the past three decades is less than 1 per cent), and a production process that is fuelled by imported labour-saving technology, represented a process that was here to stay.

In addition to overdetermination by imperialist politics, oil revenue dichotomises the economy: a highly capitalised oil sector creates fewer jobs relative to the capital invested in it and, in an adjunct manner, decent job expansion occurs namely in the public sector. The latter sector's growth, however, has been constrained by neoliberal policy. In the presence of weak financial intermediation between money assets that accrue from oil and physical capital, and a healthy rise in income associated with rising productivity, the rest of economy leans ever more heavily towards the service and informal sectors.

In spite of their high unemployment rate, the Gulf hires around 20 million extra-regional workers, most at poverty wages. Had the jobs paid out decent wages for regional workers under the guise of an effective regional economic cooperation framework, the domestic demand component alone would have positively contributed to the regional development course. In this region, a demand-driven virtuous circle cannot come into being because profits are drawn from short-term merchant activity tapping into oil revenues, as opposed to an industrially based development path.

Furthermore, working-class differences fostered under imperialist auspices and funding ensure that the present is more valuable than the future. Markedly so for this region, risky small markets with imperialistically-capped absorptive capacity represent the context in which a development strategy has to be addressed. Within the existing institutional context, presumptive redistribution, allowing for lesser concentration of private wealth and greater interest in regional development, is highly unlikely either within or across Arab countries. The forms of social bonding by which state resources are devolved, for example, confessional, ethnic and tribal, were initially given *de jure* status by the colonialist, ebbed and were supplanted by pan-Arabism in the post-independence period, and later rose again as imperialism gained grounds again. The degree of disarticulation between the social and economic conditions rises by the degree of colonial-imperialist hegemony. Unless more of the sovereignty is drawn from acknowledgment of the rights of citizenry, as opposed to the rights of sect, rural versus urban origin or tribe, a common denominator cutting across the various identity forms of the working classes will not take shape. The state cannot be sovereign with the identity section regarded as above the state in *de jure* or *de facto* ways.

The dependence of less-oil-endowed economies on Gulf aid has been turned into a tool of anti-development. Aside from the remittances to the closed socialising economies in the early 1980s, which had the effect of Dutch-like disease,<sup>7</sup> as in Syria and Egypt, Gulf funding to the Islamists, who had occupied the space left behind by the socially retrenching state under neoliberalism, created a breeding ground for obscurantism. The ongoing imperialistically sponsored wars in Iraq, Syria and Yemen, in addition to the financing of the first Gulf War and the refinancing of the second Gulf War, shifted resources from peaceful to security ends. However, one should note that the Gulf States, whose security is US provided, lack meaningful sovereignty and only act as imperialist instruments that strip the Arab masses of their right to self-determination.

Under peaceful conditions, a larger, more integrated Arab market, a defused regional environment and a more socially accountable institution, represent a restructuring policy package that will divorce economic agents from owning the political means of appropriation. An integration scenario associated with a security–sovereignty nexus boils down to a positive sum pay-off for all in the longer term. So why has the cooperation outcome, so far, been disappointing and counter to common sense?

There are overdetermining imperialist–supranational reasons for the intraintra-regional cleavages. At subordinate interface levels, however, the high degree to which regional resources are allocated to private, as opposed to public, interests becomes both a reason for and consequence of reinforcing imperialist hegemony. By private interests, I mean the interests of foreign capital, which are principally US-led financial capital. For national non-comprador capital – of which not much remains in view of deindustrialisation – it is not only the magnitude of the rate at which the future value of assets is discounted that tends to matter when calculating the loss from foregoing present for future gains,<sup>8</sup> it is also the dipping share of wages dampening national demand, and the absence of an export platform arranged by treaties with partnering nations. In the ambiguity surrounding the ownership lines that mix the private with the public, redistribution of income or wealth via taxation or reforms undermines the ruling classes' *laissez-faire* appropriation mechanism, which is the state itself. The state is nearly completely absorbed by a ruling comprador capital that enjoys a chartered status on trade inside and outside national boundaries. The US-led capital protégé state *per se* mediates the divide between capital and labour in favour of the former in all its subdivisions. Resource leakages both deplete the social



formation of the capacity to regenerate and lay the ground for violent outcomes at the expense of the state.

A representation of labour, whose living security buttresses a national sovereignty around which the sturdiness of the state underwrites the long-term investment horizon, is the a priori development condition. One is painfully aware that proxy Arab wars mediate diametrically opposed international Sino-Russian and US-led capital tensions, but the combined losses to the region have become immense. Boosted by ongoing humanist revival, the depth of the crisis may give rise to a revolutionary consciousness that would lead to a sort of anti-war collective action. The war losses are shared by various Arab working classes to one degree or another, to the extent of subverting class identity under sectarian, ethnic or tribal identity. A single victory of progressive forces, a historical-making event, in which the whole region would experience revival, could be achieved, but this requires yet another ingredient: international solidarity. The collision of various contingencies mediating the joint woes of Northern austerity and Arab-African war-devastation is necessarily building at the objective level.

#### 4. Closing remark

Since the ebbing of the Nasser period in 1980 and the ascent of the Saudi-US model, inter-Arab cooperation has remained minimal relative to its potential. The structure of the game and, particularly, the receding role of ruling social classes with an interest in bridging regional interests, was strengthened by rising income and wealth inequality. There was too much to gain from looting the national economy and dollarising national wealth. The frailty of state institutions followed the path of state descent under war fatigue, became personalised and could not maintain a reasonability that formalises their actions. The laxness of an international neoliberal resource mobility arrangement permitted the net transfer of human, commodity and natural resources at prices brokered by an uneven power structure, from which Arab working classes were discounted. The divide between the 'private' and 'public' widened, the social contract loosened at the seams and outside safe havens physically secured escape routes for the Arab comprador. Investment strategies became one-time hit-and-run mechanisms thriving on a monetary policy that provided liquidity to boost speculative activities on limited assets. It is not only the rules of the game that need be changed; it is the structure of the game itself or the macro context, including a restoration of the social contract. As to the macro picture,

the locking in of resources requires two interrelated concerns: the redistribution of wealth, and the clamping and regulation of the capital and trade accounts. No demand-boosting policy would work with the low Arab wage share without redistribution reforms, while the monetary policy of pegging and stabilising the ruling class gains from grab and speculation in the dollar ends with capital controls.

Arab resources are captive to a game structure that is redeployed in time and space through divesture. Reorganising the regional social formation in such a way that retains resources for the purpose of expansion, entails a shift in the class parameters that defines intraregional, as well as extra-regional, relationships. If politics were to run in line with economics, the hold on the oil/dollar connection defines the decisive moment in the process. The politics of oil, intertwined with war, is more extra-regional than regional. In a context of continuing dependency, deepening national social rifts hollow out the role of the state as the realisation of common will, and accentuate the negative impact of war and neoliberalism. When sovereignty weakens, sovereignty over national resources also weakens. In other words, the national ownership of domestic resources, a rights concept around which there exists consensus, should squarely mean that nationals own their resources and that the institutional context, both national and international, be one that facilitates the process. The latter operational requirement implies that the issue of national development drags with it the role of the international community, especially insofar as the international resource liberalisation regimes (including free capital movement), entail anti-development moneyed and non-moneyed flows. Arab regimes are namely suzerains of a US-led empire, which is itself signatory to the covenant on the right to development and, ironically, a practitioner of war and the leading force behind neoliberal openness. A hegemon that violates human rights cannot furnish human rights.

## Notes

1. University of Texas Inequality Project (2008) *Estimated Household Income Inequality Data Set*. Available at <http://utip.gov.utexas.edu/data.html> (accessed 8 October 2014).
2. The data from Egypt may be too corrupt. National sources cite a manufacturing rate of 9 per cent around 2009.
3. <http://www.ohchr.org/EN/Issues/Development/Pages/Introduction.aspx>.
4. <http://www.ohchr.org/EN/Issues/Development/Pages/DevelopmentIndex.aspx>, accessed 14 June 2015.
5. Review of progress and obstacles in the promotion, implementation, operationalisation and enjoyment of the right to development. E/CN.4/2004/WG.18/2, 17 February 2004.

6. The concerned resolutions are: A/RES/56/150 The right to development, A/RES/55/2 United Nations Millennium Declaration, A/RES/55/110 Human rights and unilateral coercive measures, A/RES/55/108 The right to development, A/RES/54/175 The right to development, A/RES/53/155 Right to development, /RES/52/136 Right to development, A/RES/52/120 Human rights and unilateral coercive measures, A/RES/51/99 Right to development, A/RES/50/184 Right to development.
7. The effect of petrodollars' remittances exchanged illegally outside the official exchange rate for much more than the officially set rate created a parallel affluent economy that undermined the protected economy by creating supply bottlenecks and forcing inflation up.
8. The uncertainty that marks the business cycle forces the business class to invest for short periods of time. There are no guarantees that over the long term the economy and society will be steady enough for investors to recuperate their initial investment costs.

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