

## Understanding the Political Economy of the Arab Spring

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### Abstract

This article examines the main causes of the Arab Spring from a political economy perspective. In that regard, the major argument is that the driving force behind the uprisings is the lack of economic opportunities and jobs chances for the people, and particularly the youth of Arab countries. In this context one can come to conclusion that the economic structure that builds the ground for the flagrant corruption of the authoritarian elite in the Arab World should be transformed. Thus, the Arab economies will be able to meet the challenges of demographic transition, private sector development, regional economic integration and neoliberal transformation.

**Key Words:** Arab Spring, Political Economy, Rentier State Theory

## Arap Baharı'nın Ekonomi Politliğini Anlamak

### Özet

Bu makale Arap Baharı'nın temel nedenlerini ekonomi-politik bakış açısından incelemektedir. Bu bağlamda temel argüman, Arap halklarının, özellikle de genç nüfusun ekonomik fırsatlar ve iş imkanlarından yoksun olmasının ayaklanmaların arkasındaki itici güç olduğudur. Bu bağlamda Arap dünyasındaki otoriter seçkinlerin aleni yolsuzluğuna zemin hazırlayan ekonomik yapının değiştirilmesi gerektiği sonucuna varılmıştır. Böylece Arap ekonomileri demografik değişim, özel sektörün gelişimi, bölgesel ekonomik bütünleşme ve neoliberal dönüşüm gibi sorunlarla başa çıkabilecektir.

**Anahtar Kelimeler:** Arap Baharı, Ekonomi Politik, Rantiyeci Devlet Teorisi

In Tunisia, when Mohammed Bouazizi, who was a street vendor selling fruits and vegetables, set himself on fire, he was protesting corrupt practices and the lack of economic opportunities in his country. It was claimed that he had already applied for several other jobs but he had been refused for all of them and he had no other employment chances.<sup>1</sup>The centrality of economic grievances among protesters during the Arab spring, as seen below, indicates that economic factors have played a significant part in inciting protests. As Sika emphasizes, a major slogan of the Egyptian uprising "Food, Freedom and Human Dignity" exemplifies the deep-rooted problems of the prevailing political economy in the Arab region.<sup>2</sup>Therefore, apart from the level of democracy and degree of repressiveness, the interaction between the political and economic variables in the Arab countries is worth investigating in order to analyze the factors leading to the Arab revolts of 2011-2012. Additionally, it was observed that "neither

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<sup>1</sup>Gao, Eleanor, "Economic Underpinnings to the Arab Spring", POMEPS Briefings: 12, [http://pomeps.org/wp-content/uploads/2012/06/POMEPS\\_Conf12\\_Book\\_Web.pdf](http://pomeps.org/wp-content/uploads/2012/06/POMEPS_Conf12_Book_Web.pdf), (29.04.2013), p. 25.

<sup>2</sup>Sika, Nadine, "The Political Economy of the Arab Uprisings", European Institute of Mediterranean, [www.euromesco.net/images/papers/papersiemed10.pdf](http://www.euromesco.net/images/papers/papersiemed10.pdf), (29.04.2013), p. 7.

the poorest nor the richest of the countries in the Arab world (in terms of Gross Domestic Product [GDP]) experienced uprisings but that most protests occurred in the middle income countries".<sup>3</sup> It indicates that it is not the absolute level of economic growth that matters but how government resources are used is the main issue at stake. Therefore, it is required to stress the importance of economic variables rather than GDP—such as economic inequality, unemployment level or the lack of food security. In that respect, the level of population growth and governments' provision of social services such as the existence of a national health care system, access to decent education, and investment in public infrastructure should be taken into account as well.

This paper aims to explore the economic underpinnings of the Arab Spring to analyze its causes from a political economy perspective and to understand the changes in the economic structure since the beginning of the uprisings. It is argued that the main reason behind the Arab uprisings is the economic practices of the past that brought about economic inequality and put heavy economic burden on the people. Furthermore, it is maintained that greater political representation should be coupled with a greater access to economic opportunities in order to produce effective change. The Arab countries should basically cope with a number of challenges such as the demographic transition, private sector development and the implementation of the neoliberal reforms properly to succeed in this change. In the next chapters, following the section introducing the background and theoretical framework of the study, in which the rentier state theory is discussed, major issues in the economies of Middle East and North Africa (MENA) countries, and lastly, the future prospects of the new regimes will be discussed.

### Background and Theoretical Framework

In order to understand how contemporary political economy of the Middle East has been shaped, it is firstly necessary to examine briefly the background conditions of the Arab Spring in terms of economic practices. It is obvious that narrow arguments about the uprisings that describe them as a reaction to decades of authoritarian rule do not help us to understand why they occur now<sup>4</sup>, and therefore, we need a clear response to the “why right now” question in order to understand the path to 2011. In order to reach such a response, at the outset, it should be noted that protests infused with socio-economic grievance have a long history in the Middle East. Such kinds of protests were responded violently by central authorities because of the historical inability and unwillingness of Arab rulers to extract and redistribute resources domestically.<sup>5</sup> Concerning the failure of the centralized and bureaucratic system, it was observed that “neither socialism of the 1960s and 1970s nor the neoliberal economic reform of the 1990s has been able to dismantle this system of centralized control, discretion, and privilege”.<sup>6</sup> The related strategy of “purchasing political security with decades of boom and bust,

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<sup>3</sup> Gao, *ibid.*, p. 26.

<sup>4</sup> Haddad, Bassam, “Syria, the Arab Uprisings, and the Political Economy of Authoritarian Resilience”, *Interface: A Journal for and about Social Movements*: 4 (1), <http://www.interfacejournal.net/wordpress/wp-content/uploads/2012/05/Interface-4-1-Haddad.pdf>, (29.04.2013), p. 113.

<sup>5</sup> Moore, Pete W. “Understanding the Political Economies of the 2011 Uprisings”, *POMEPS Briefings*: 12, [http://pomeps.org/wp-content/uploads/2012/06/POMEPS\\_Conf12\\_Book\\_Web.pdf](http://pomeps.org/wp-content/uploads/2012/06/POMEPS_Conf12_Book_Web.pdf), (29.04.2013), p. 41.

<sup>6</sup> Malik, Adel and Awadallah, Basem, “The Economics of the Arab Spring”, *CSAE Working Paper, WPSE 2011-23*, Oxford and Jeddah 2011, [www.csae.ox.ac.uk/workingpapers/pdfs/csae-wps-2011-23.pdf](http://www.csae.ox.ac.uk/workingpapers/pdfs/csae-wps-2011-23.pdf), (29.04.2013), p. 5.

but little economic growth”<sup>7</sup> touches upon the issue of rentier states and whether subsidies and economic benefits can be used to purchase citizen loyalty.

The rentier state paradigm, which was first proposed by Hossein Mahdavy<sup>8</sup>, has been used to explain the political dynamics of oil producing countries<sup>9</sup> despite the rentier state is not necessarily linked to oil production.<sup>10</sup> According to Mahdavy’s definition of rentier states, they “receive on a regular basis substantial amounts of external economic rent”.<sup>11</sup> It should firstly be noted that there is no such thing as a pure rentier economy because each and every economy has some elements of rent.<sup>12</sup> Therefore, a rentier economy is defined as “one where rent situations predominate”.<sup>13</sup> As Beblawi argues, in such situations, the origin of the rent is external, and additionally, the majority of the people are involved in its distribution and consumption rather than its generation. Thus, in contrast to a pure internal rent, an external rent can sustain the economy without a strong productive domestic sector.<sup>14</sup> Furthermore, the role of the government as the principal recipient of the external rent results with the concentration of rent and political power in the hands of the few. Therefore, it is not surprising that the regimes established a corporatist system favoring the small group of autocratic rulers and their cronies.<sup>15</sup>

The rentier state theory establishes the link between rentier economy and the lack of economic and political development observable in the countries classified as rentier states. It is maintained that in the case of rentier states, contrary to the “production states”, the state is financially independent from the society because it is not supported by the society through taxation. Rentier states have the ability to spend more domestically by paying higher salaries or by providing more profitable government contracts. As a result, “[the state] does not have to offer concessions to society such as a democratic bargain or a development strategy.”<sup>16</sup> With respect to economic practices, the point here is that the resulted welfare policies as part of the mechanisms of the rentier economy for redistribution of part of the oil revenue to the people make it possible for them to participate in activities that have either a secured income or extremely high profitability, without contributing much to productive work.<sup>17</sup>

<sup>7</sup> Ibid.

<sup>8</sup> Mahdavy, Hossein, “Patterns and Problems of Economic Development in Rentier States: The Case of Iran”, Cook, Michael (ed.), *Studies in the Economic History of the Middle East*, Oxford University Press, Oxford 1970.

<sup>9</sup> Luciani, Giacomo, “The Political Geography of the Arab Private Sector”, Hunter, Shireen T.; Malik, Huma (eds.), *Modernization, Democracy and Islam*, Praeger/CSIS, Westport, Conn. 2005, p.147.

<sup>10</sup> Rents provided by diamonds and other precious raw materials, drugs and other illicit traffic, foreign aid as well as control of logistical bottlenecks or religious or strategic assets can exemplify the other forms of rents that the rentier states rely on.

<sup>11</sup> Mahdavy, *ibid.*, p. 428.

<sup>12</sup> Beblawi, Hazem, “The Rentier State in the Arab World”, Luciani, Giacomo, (ed.), *The Arab State*, University of California Press, Berkeley, 1990, p.87.

<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

<sup>15</sup> Ardiç, Nurullah, “Arap Baharı’nı Anlamak: Adalet, Onur, Din ve Küresel Siyaset”, Duran, Burhanettin; İnâat, Kemal and Usul, Ali Resul (ed.), *Türk Dış Politikası Yıllığı 2011*, Seta Yayınları, Ankara 2012, p.98.

<sup>16</sup> Gray, Matthew, “A Theory of Late-Rentierism in the Arab States of the Gulf”, *Center for International and Religious Studies, Occasional Paper No.7, 2011*, [www12.georgetown.edu/sfs/qatar/cirs/MatthewGrayOccasionalPaper.pdf](http://www12.georgetown.edu/sfs/qatar/cirs/MatthewGrayOccasionalPaper.pdf), (06.05.2014), p. 1.

<sup>17</sup> Abdelkarim, Abbas, “Change and Development in the Gulf: an Overview of Major Issues”, Abdelkarim, Abbas (ed.), *Change and Development in the Gulf*, Macmillan Press, London 1999, p. 10.

Countries such as Egypt, Syria, Algeria, Morocco, Jordan, Yemen and Tunisia that do not have significant rents from oil are dependent on less reliable rents such as foreign aid, migrants' remittances and private investments.<sup>18</sup> In these countries, responses to the historical and institutional evolution of taxation, labor rights and property rights as important elements of fiscal politics in the last decades laid the groundwork for 2011.<sup>19</sup> For example, the link between the rapid spread of protests among workers and decades of intra-regional labor migration is of great importance in that regard. It implies that as a result of decreasing employment opportunities in “destination countries” such as the Gulf Cooperation Council (GCC) countries, increasing numbers of migrants returning to the country of origin face problematic economic circumstances that may reduce the capacity of labor markets in countries of origin to absorb returnee migrants.<sup>20</sup> Furthermore, Malik and Awadallah consider the roots of the region's long-term economic failure in “a statist model of development that is financed through external windfalls and rests on inefficient forms of intervention and redistribution”.<sup>21</sup> The point here is the inability of the Arab world to develop a private sector that is independent, competitive and integrated with global markets as will be stressed in this paper. To conclude, in order to understand the political economy of the MENA in general before focusing on the Arab Spring process in particular; the model of rentier state, intra-regional migration and the statist model of development that prevail in the MENA region should be examined.

## Major Issues

### Demographic Transition

Among the major socio-economic issues that affect the Arab revolts, the first problem that should be tackled is the demographic transition that the Arab countries experience. It should be underlined that the Middle East has witnessed an unprecedented youth bulge over the last few decades. The second half of the 20<sup>th</sup> century witnessed an explosive population growth within the MENA countries, and the region's growth rate reached to a peak of 3 percent in a year around 1980.<sup>22</sup> Moreover, an annual growth of some 2.7 percent between 1980 and 2008 is among the highest rates of population growth observed around the world.<sup>23</sup> It is closely related with the high rate of youth unemployment in the Arab world because the economic structure is unresponsive to the needs of growing population. It is observable that the local systems of governments offer limited economic mobility to the region's youth. It should also be remembered that the Middle East is not the only region to have witnessed such demographic changes. However, while other emerging market economies in Asia have successfully

<sup>18</sup>Sika, *ibid.*, p. 10.

<sup>19</sup> Moore, *ibid.*, p. 42.

<sup>20</sup> “Intra-Regional Labour Mobility in the Arab World”, International Organization for Migration, [www.egypt.iom.int/Doc/ALO-IOM%20report%20on%20Intra-regional%20labour%20mobility%20English.pdf](http://www.egypt.iom.int/Doc/ALO-IOM%20report%20on%20Intra-regional%20labour%20mobility%20English.pdf), (29.04.2013), p. 6.

<sup>21</sup> Malik and Awadallah, *ibid.*, p. 1.

<sup>22</sup> Assaad, Ragui and Roudi-Fahimi, Farzaneh, “Youth in the Middle East and North Africa: Demographic Opportunity and Challenge”, Population Reference Bureau, 2007, [www.prb.org/pdf07/youthinmena.pdf](http://www.prb.org/pdf07/youthinmena.pdf), (29.04.2013), p.1.

<sup>23</sup> Dyer, Paul D., “Demography in the Middle East: Implications and Risks”, Pandya, Amid; Laipson, Ellen (eds.), *Transnational Trends: Middle Eastern and Asian Views*, The Henry L. Stimson Center, Washington 2008, [http://www.stimson.org/images/uploads/research-pdfs/Stimson\\_ch4\\_1.pdf](http://www.stimson.org/images/uploads/research-pdfs/Stimson_ch4_1.pdf), (29.04.2013), p.63.

controlled their youth bulges for development<sup>24</sup>, the youth unemployment rate in the MENA countries is more than twice that of South Asia.<sup>25</sup> This fact also brings about the limited export presence of the private sector in the MENA countries. While the region holds less than one percent of world market share in non-fuel exports, this share is 10 percent in East Asia and 4 percent in Latin America.<sup>26</sup> It indicates that the lack of qualified workers as a result of the failure in the attempts to develop population policies in order to sort out the problems of human resource development contributed to the ineffectiveness of private sector in general. Thus, it can be observed in the region that a growing proportion of young people are not only unemployed, but also unemployable.

In order to emphasize the demographic issues, Sika, from a broader perspective that involves a socio-economic point of view, claims that the prevailing social contract within the region where population resigned itself to a lack of political freedom in exchange for the provision of certain services has come under pressure in the 1990s due to increasing inability of the state to co-opt the educated youth into the public sector.<sup>27</sup> This perception is a result of the fact that the market could not absorb the increasing number of unemployable people. Additionally, an increase in the literacy and education levels led to an increase in the percentage of educated employees into the market. Together with the success in expanding access to education and closing gender gaps in educational attainment, a greater female participation in the labor force was observed. For instance, since 1960, the proportion of women in the paid workforce has increased in Egypt and Morocco to different degrees. In 2013, women make up 14 percent of the non-agricultural work force in Egypt, and around over 25 percent in Morocco.<sup>28</sup> However, the participation of women in the labor force increased labor-supply pressures. It should also be emphasized that together with the sharp rise in food prices, the high percentage of youth in the population has stretched existing welfare system beyond capacity. However, Arab governments continue to provide subsidized food items because they are massively dependent on food imports. According to IMF estimates, countries in the MENA region spent \$212bn in 2011 on food and energy subsidies, equivalent to more than seven percent of the region's GDP.<sup>29</sup>

### Private Sector Development

The second issue that should be addressed is the challenge of the development private sector. Due to the fact that the states in the region regard income generated by resources rather than the rent streams as a threat, developing a private sector is viewed as a challenge. Additionally, the collective action problem of the Arab world that has been in existence since the fall of the Ottoman Empire caused by the Arab world's economic fragmentation into isolated

<sup>24</sup> Malik and Awadallah, *ibid.*, p. 3.

<sup>25</sup> The Millennium Development Goals Report, United Nations, 2006, <http://mdgs.un.org/unsd/mdg/Resources/Static/Products/Progress2006/MDGReport2006.pdf>, (01.05.2013), p.24.

<sup>26</sup> Malik and Awadallah, *ibid.*, p. 8.

<sup>27</sup> Sika, *ibid.*, p. 17.

<sup>28</sup> Courbage, Youssef, "Democratic Change in the Arab World: The Impact of Migration, Education and Taxes in Egypt and Morocco", *Middle East Report* 24(4), 1994, [www.merip.org/mer/mer190/demographic-change-arab-world](http://www.merip.org/mer/mer190/demographic-change-arab-world), (29.04.2013).

<sup>29</sup> Halime, Farah, "Middle East Leaders Cornered by Subsidies", *Financial Times*, 12 September 2012, <http://www.ft.com/cms/s/0/720b87e8-fccd-11e1-9dd2-00144feabdc0.html#axzz2RsZ5YCVB>, (29.04.2013).

geographic units makes it harder to bring together companies, capital and people. From a historical perspective, it could be seen that many of the independent Arab states emerged after the Second World War lacked a solid constituency for the development of private sector. In the Arab world, labor markets remain fragmented at multiple levels and in many countries there is an unbalanced division of labor between the public and private sector. While the private sector runs a competitive job market relying mainly on migrant workers, governments have dominated private sectors. Springborg emphasizes that autonomous, non-governmental political organizations have had few independent sources of capital. He adds from a political-economy perspective that “the balance of economic power has favored government over opposition, authoritarianism over democracy”.<sup>30</sup>

Furthermore, the uninterrupted flow of external windfalls significantly contributes to the state-centered development paradigm. However, the Arab governments need “a new development paradigm that is based on a competitive, entrepreneurial and inclusive private sector”.<sup>31</sup> It is obvious that external rents bolstered the ability of the public sector to provide employment and subsidize public consumption. During the Arab Spring, Arab governments responded to global economic pressures and public revolts by increasing the subsidies on food and fuel and increasing salaries in the public sector. As for the private sector, it has operated as extension of the state. For instance, considerable government shares in large business conglomerates in Saudi Arabia can show how the boundaries between public and private are blurred.

The Arab world should manage to develop a strong private sector that is connected with global markets and generates productive employment for its young population. Thus, the private sector does not remain dependent on a state patronage and it is determined by entrepreneurship. Concerning the issue of how to develop a vibrant private sector, besides economic incentives such as improving investment climate, offering cheap credit, introducing market friendly economic reforms and reducing the cost of doing business; states need to take political measures because these economic incentives are likely to challenge the rulers' position. The development of labour-intensive manufacturing is of critical importance in that regard in order to reduce poverty and unemployment. Furthermore, the fragmentation of the Arab world into isolated geographic units with limited economic linkages between them prevents firms from realizing the benefits of a bigger market.<sup>32</sup> The firms remain dependent on state patronage as a result of their inability to compete for a larger market. Therefore, the creation of regional economic commons in the Arab world is of great importance. However, the overwhelming reliance on rents derived from fuel exports, foreign aid and remittances is described as the “original sin” for Arab economies.<sup>33</sup> In the Arab world, as the state's fiscal reliance on oil and aid revenues increased, it became less dependent on merchants.<sup>34</sup> For instance, in the Gulf

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<sup>30</sup> Springborg, Robert, “The Precarious Economics of Arab Springs”, *Survival* 53 (6), <http://www.tandfonline.com/doi/pdf/10.1080/00396338.2011.636271>, (29.04.2013), p.85.

<sup>31</sup> Malik and Awadallah, *ibid.*, p. 7.

<sup>32</sup> Malik and Awadallah, *ibid.*, p. 4.

<sup>33</sup> Malik and Awadallah, *ibid.*, p. 5.

<sup>34</sup> Malik and Awadallah, *ibid.*, p. 15.

monarchies oil revenues shifted the balance of power from merchants to rulers and made the private sector more dependent on state patronage.<sup>35</sup>

### Arab World's Economic Fragmentation

The Arab world's economic fragmentation which hampers the development of private sector is also among the factors hindering regional integration and economic development in the Arab world. It should firstly be emphasized that internal rivalries, dependence on external powers and the absence of a strong domestic constituency for integration prevented attempts at economic integration.<sup>36</sup> Therefore, the Middle East remains as one of the most fragmented regions of the world in terms of production, trade and economic linkages. It indicates that the share of intra-Arab exports as a share of total exports is considerably low. As Miniesy, Nugent and Yousef emphasize, different Arab countries produce similar goods and “the relative similarity of resource endowments at the sub-regional level has made them competitors in the same product markets”<sup>37</sup> such as oil, phosphates, petrochemicals, and agricultural products. Countries in the Gulf and North Africa trade predominantly within their own sub-regions; and it implies that even this limited trade is geographically clustered. For instance, nearly 58 percent of the intra-Arab exports of the GCC are with other GCC countries.<sup>38</sup>

Furthermore, fragmentation adversely affects the investment climate and makes business environment particularly risky. For instance, it keeps the market for second hand capital goods smaller and thus makes new investment risky. Fragmentation also affects the scale of defense expenditures in the Arab world and causes, whether directly or indirectly, the wasteful duplication of defence expenditures. It is also interesting that defence spending is even high in countries that are resource-scarce such as Morocco, Jordan, Syria and Lebanon.<sup>39</sup> As an implication, we see that although the level of development and per capita income of Arab states, East Asia and the Pacific was almost at the same level in the 1970s; by 2009, the income level in East Asia and the Pacific was almost two thirds higher than that of the Arab region.<sup>40</sup> Moreover, the regional income differences between a small group of oil-rich countries and the poor ones have deepened as well. For example, in 2010, Saudi Arabia's per capita income (\$ 45,900) was more than ten times that of the neighboring Yemen (\$ 4,300).<sup>41</sup>

### Neoliberal Transformation

Neoliberal reform in the Arab world should also be examined in order to show how the authoritarian nature of the state could not change in spite of the macroeconomic reforms. As Khalidi points out, the current uprisings represent the struggle to end the post-colonial period

<sup>35</sup> Chrystal, Jill, *Oil and Politics: Rulers and Merchants in Kuwait and Qatar*, Cambridge University Press, Cambridge 1990.

<sup>36</sup> Malik and Awadallah, *ibid.*, p. 9.

<sup>37</sup> Miniesy, Ronia S.; Nugent, Jeffrey B. and Yousef, Tarik M., “Intra-regional Trade Integration in the Middle East: Past-performance and Future Potential”, Hakamian, Hassan; Nugent Jeffrey B. (eds.), *Trade Policy and Economic Integration in the Middle East and North Africa*, Routledge, New York 2005, p.59.

<sup>38</sup> Malik and Awadallah, *ibid.*, p. 9.

<sup>39</sup> Malik and Awadallah, *ibid.*, p. 11.

<sup>40</sup> Sika, *ibid.*, p. 11.

<sup>41</sup> World Bank, <http://data.worldbank.org/indicator/NY.GNP.PCAP.PP.CD>, (12.05.2014).

of successive liberal and autocratic regimes in the Arab world.<sup>42</sup> Throughout the past two decades neoliberal reforms were initiated forcefully as part of a process of changing the developmental project in the Arab world. Within the framework of the strategy of the “authoritarian upgrading”<sup>43</sup>, Middle Eastern dictators used the rhetoric of neoliberalism. Thus, they aimed to “jettison the costly developmental promises which had once been key to their legitimation”<sup>44</sup>. As a result, the state began to retreat from the economy, and the indigenous bourgeoisie emerged as the crony capitalists who were a crucial part of the ruling elite.

The steps taken to reduce government subsidies were detrimental to the prevailing social contract in the region. In middle and lower income countries like Egypt, Tunisia, Morocco, Jordan and Yemen; because the government provided for the socio-economic well-being of its citizens in return for keeping authoritarian regimes in power, government subsidies and public enterprises were essential.<sup>45</sup> Although government supporters became unemployed, with the structural adjustment policies, political participation has not been enhanced. Arab governments advocated austerity measures, decreasing tariffs and opening markets. However, “they were not as fervent about advancing good governance, the rule of law and a real democratization process”.<sup>46</sup> As a result, although economic reforms increased GDP growth and human development substantially, the positive results of neoliberal expansion were not felt across the society and open markets embedded authoritarianism within the region. “Markets became capitalist but they were based on cronyism and they were not competitive in nature”.<sup>47</sup> Despite the corollary of the nexus of power between the political and economic elite involves various forms of liberalization, authoritarian rule seems to have been strengthened over the past decades.<sup>48</sup>

Despite the MENA region had an average growth of 4.8 percent per year between 2010 and 2012<sup>49</sup>; Arab countries have based their growth on import-oriented and service-based economies and “this type of economy flourished at the expense of agriculture, manufacturing, and industrial production shares”.<sup>50</sup> Economic reforms have led to the destruction of social safety nets such as welfare, subsidies and job provisions; and it affected basic health and education provisions. Eventually, a dramatic increase of the informal sector was observed. For instance, Springborg links it to the decline in urbanization and industrialization, and states that

<sup>42</sup>Khalidi, Rashid, “Preliminary Historical Observations on the Arab Revolutions of 2011, Jadaliyya, 21 March 2011, <http://www.jadaliyya.com/pages/index/970/preliminary-historical-observations-on-the-arab-re>, (01.05.2013).

<sup>43</sup> “Authoritarian Upgrading” is identified by Steven Hyderman as a key strategy for regime survival across the Middle East during the 1980s and 1990s. By such techniques; regimes diversify their constituencies and regulate state-society relations. See; Heydemann, Steven, “Upgrading Authoritarianism in the Arab World”, Analysis Paper 13, Saban Center for Middle East Policy at the Brookings Institutions, 2007.

<sup>44</sup> Dodge, Toby, After the Arab Spring: Power Shift in the Middle East? Conclusion: The Middle East After the Arab Spring, LSE IDEAS Special Reports, May 2012, [http://www.lse.ac.uk/IDEAS/publications/reports/pdf/SR011/FINAL\\_LSE\\_IDEAS\\_\\_ConclusionsTheMiddleEastAfterTheArabSpring\\_Dodge.pdf](http://www.lse.ac.uk/IDEAS/publications/reports/pdf/SR011/FINAL_LSE_IDEAS__ConclusionsTheMiddleEastAfterTheArabSpring_Dodge.pdf), p. 65, (15.05.2014).

<sup>45</sup> Sika, *ibid.*, p. 9.

<sup>46</sup> Sika, *ibid.*, p. 7.

<sup>47</sup> Sika, *ibid.*, p. 7.

<sup>48</sup> Haddad, *ibid.*, p. 117.

<sup>49</sup> Regional Economic Outlook Update, IMF Middle East and Central Asia Department, May 2013, <https://www.imf.org/external/pubs/ft/reo/2013/mcd/eng/pdf/mcdreo0513.pdf>, (21.06.2014), p.9.

<sup>50</sup> Sika, *ibid.*, p. 10.



“young Egyptians are increasingly staying at home in rural and semi-rural areas, eking out a living in the informal sector, into which more than two thirds of new employees into the labor market are being absorbed.<sup>51</sup> The interests of social alliance of incumbent political and private economic elites who formulate and organize the legal-institutional framework were promoted.<sup>52</sup> In short, although macroeconomic reforms under the auspices of the World Bank and the International Monetary Fund (IMF) have been implemented since the 1990s, neoliberal reforms were accompanied by corruption and cronyism, high unemployment levels and rising social inequalities as well as increasing incidences of social protests.

### Future Prospects

It will be beneficial to focus on the issue of how the future of these countries seems to be shaped following the uprisings in terms of political-economic considerations. It should firstly be underlined that although neoliberal reforms of the 1980s and 1990s proved ineffective, the post-revolutionary regimes do not seem to have any clear economic vision, beyond the neoliberal orthodoxy implemented by their predecessors.<sup>53</sup> They should reformulate economic policies in order to deliver meaningful growth to the excluded majority of the population. In order to promote inclusive growth and job creation, long-running structural deficiencies should be addressed.

When the economic outlook of the region is examined, it is prospected that GCC economies do not seem to change in the near future.<sup>54</sup> Although transition governments have maintained macroeconomic stability so far, serious short-term risks still exist because of the continued political uncertainties, regional tensions, deteriorating global economy as well as escalating food and fuel prices.<sup>55</sup> Countries such as Tunisia and Egypt have not changed their economy but only took minor measures to increase public sector wages and some subsidies in order to reduce social discontent.<sup>56</sup> Egypt also enacted minor tax reform measures and started negotiations to apply a 20 percent income tax only to individuals who earn more than \$9000.<sup>57</sup> Although the Egyptian government rejected loans from the IMF in July 2011, it conceded to the IMF's 3 billion loans and conditionalities by January 2012. Even in Saudi Arabia, public sector wages and social benefits were increased. Sika claims that the Supreme Council of the Armed Forces (SCAF), which took power in the interim after the overthrow of Mubarak gained direct benefits with the pre-Spring economic order and the same neoliberal projects of pre-Spring economies based on services, privatization of government enterprises and controlling budget deficits.<sup>58</sup> While the interim governments of both Tunisia and Egypt blame the corruption of the previous regime, they do not criticize the rift in the structure of the economy. They only give importance to fighting corruption, developing agriculture and supporting tour-

<sup>51</sup> Springborg, *ibid.*, p. 86.

<sup>52</sup> Schlumberg, Oliver, “Structural Reform, Economic Order, and Development: Patrimonial Capitalism”, *Review of International Economy* 15 (4), p.634.

<sup>53</sup> Dodge, *ibid.*, p. 65.

<sup>54</sup> Salem, Paul, “The Arab State: Assisting or Obstructing Development?”, *Carnegie Papers*, Carnegie Endowment for International Peace, 2010, [http://www.carnegieendowment.org/files/arab\\_state\\_devt.pdf](http://www.carnegieendowment.org/files/arab_state_devt.pdf), (29.04.2013).

<sup>55</sup> Arab Countries in Transition: Economic Outlook and Key Challenges, IMF, 12 October 2012, [www.imf.org/external/np/pp/eng/2012/101212b.pdf](http://www.imf.org/external/np/pp/eng/2012/101212b.pdf), (16.05.2014), p.3.

<sup>56</sup> Sika, *ibid.*, p. 11.

<sup>57</sup> *Ibid.*

<sup>58</sup> Sika, *ibid.*, p. 12.

ism. Sika underlines that there have been no negotiations concerning industrialization or problems associated with the informal market during Egypt's negotiations with the IMF in January 2012.<sup>59</sup> In conclusion, decision-makers and researchers should discuss the ways to give a concrete economic response in the near future because without it, the hopes generated by the revolutions can easily result with despair, and we might observe “de jure change in political institutions without altering the underlying distribution of economic power”.<sup>60</sup> Furthermore, it must be seen that, as Kuran suggested, the Middle East lost economic standing toward the end of the second millennium because it was late in adopting key institutions of the modern economy for “the mobilization of productive resources on a huge scale within long-lasting private enterprises and the provision of social services through durable entities capable of transformation”.<sup>61</sup>

### Conclusion

The political-economic considerations that have been neglected in some analyzes should be taken into account in order to show the interaction between political and economic variables during the Arab spring process. Thus, it will be well understood that the protests targeting authoritarian regimes were also a reaction to the prevalent economic and social conditions in the Arab world. It should firstly be emphasized that although Middle Eastern countries differ on multiple dimensions, admittedly, both economic and political power is concentrated in the hands of a few all across the Arab world; and external revenues profoundly shape the region's political economy. Such a socio-economic imbalance has created social unrest that resulted in riots. As underlined in the paper, the rentier state theory which analyzes the distribution-oriented strategy of the rentier countries is a useful tool for explaining the socio-economic inequalities and the ineffective economic practices prevalent in the Arab world. It should be stressed that the economic system encouraging the struggle to capture and control the economic rent as a way of enrichment causes the concentration of economic and political power in the hands of a few. Furthermore, productive sectors are neglected because rentier states lack diversification within their economies. Thus, it is concluded that a market-based allocation of resources will contribute to the equitable redistribution of opportunities and power among the excluded majority.

The major issues addressed in this paper are the main challenges to the Arab economies revealed by the Arab Spring. Firstly, it should be emphasized that the youth bulges as a result of the demographic change are fairly common across the region. It indicates a problem that governments have dominated private sectors in the Arab countries. Therefore, Arab countries are mostly centralized states with a dominant public sector. Furthermore, the persistent economic fragmentation of the Arab world is a crucial problem that is regarded as a barrier to private sector development. Besides the failure in developing a robust private sector, Arab states failed at implementing macroeconomic reforms and achieving neoliberal transformation. In such conditions, it seems hard to dismantle the barriers to economic development and regional economic integration. However, if the challenge of demographic change, private sector

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<sup>59</sup> Ibid.

<sup>60</sup> Malik and Awadallah, *ibid.*, p. 2.

<sup>61</sup> Kuran, Timur, *The Long Divergence: How Islamic Law Held Back the Middle East*, Princeton University Press, Princeton 2011, p.5.

development, regional economic integration and neoliberal transformation can be handled successfully, the Arab economies will be able to overcome the problems of unemployment and economic inequality.

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