

“Arab Development in a Changing World”

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Food security needs to be assessed in a broad context of global and regional risks. Food security risks now are ranked for instance by the Wharton Risk Center’s assessment 2012 among the top global societal risks in terms of likelihood and severity of impact. Much of the food and nutrition security problems in the Arab regions are determined outside agriculture, but still strongly relate to people in rural areas, i.e. their lack of access to land, water, jobs and entrepreneurial opportunities.

While the conference is on food security, this presentation will address the broader background issues of “Arab Development in a Changing World” as these are now of fundamental relevance for food security in the region. Thus this presentation takes a broad development strategy and economics perspective.

I also note up front that only at a superficial level we can speak of “Arab development”, as there are highly diverse patterns in the region - political and economic – i.e. Gulf and Saudi Arabia, Syria and Iraq, North African countries politically diverse among themselves, Yemen and Sudan, Lebanon and Israel.

1. What Changing World around the Arab regions?

- We can note that the world is increasingly politically multi-polar and that may be an advantage for diverse partnerships of the Arab region; partnership with Europe will be of particular importance.
- Features of the changing world are also to be informed by free media and social networks, with middle classes of higher aspirations.
- Volatile commodity markets (oil) and financial markets, with internationally highly competitive manufacturing and services sectors are another determining feature.
- FDI has more global alternatives and is driven by competitiveness. The Arab regions have lost FDI in the short run. Finance in an insecure context is limited, as are development aid resources. But the region contains countries with lots of disposable investment funds from oil; there are lots of intra-regional opportunities, i.e. Arab-Arab investments.
- Typically, post-revolutionary governments experience that the cost of the transition is much more than anticipated. Financial backing from the international community often does not materialize.
- At the same time, Arab economic recovery has been hurt by the recent global economic situation. The global economic environment is not conducive of Arab economic development. Still, the change in the world sets important framework conditions for the development in the diverse Arab regions and countries.

2. A Selective Review of “Arab development” Challenges and Opportunities

Political challenges and opportunities

- Arab identity is a historical theme of new relevance. The problem of identity was historically expressed in terms of relationship between the heritage of the past and the needs of the present. Heritage and renewal are in a tense and complex and even tragic relation in Arab regions (Albert Hourani 1991). Social institutions and culture are interconnected with politics, economics and power. Perception of identity is a precondition for unity. The current change may offer chances for Arab unity, an old theme as well.
- The current political and societal change in many countries of the Arab region offers opportunities for development - with “development” understood as expanding opportunity with improved real wellbeing of the people. Rule of law and participation, and sustainable economic growth with employment expansion are important aspects of this, but it also matters, how people *feel* about their situation and their future.
- The power shifts occurring across the Arab regions have revealed structural problems and altered the relationship between key social, economic, and political stakeholders. The change process in the region creates new winners and losers and leaders and that determines political instability in the transformations. New leadership is emerging in the region, formal, moral, traditional, and authoritarian leadership. As Ibn Khaldoun conceptualized it, the stability of a regime depends on three factors: 1) a cohesive ruling group, 2) able to link its interest with those of powerful elements in society, and 3) alliance of that group expressed in a political idea which makes the power of the rulers legitimate in the eyes of society (Albert Hourani 1991). This concept is relevant today again. Finding own destinies in that context is a challenge, but necessary. Arab nations will largely depend on themselves and actually want to and will identify their own paths into a future.
- The current “Arab spring” is more a revolution of minds than of regimes and classes. It is hopefully broadening participation, but many old structures and elites will remain. In that context the diverse roles of religious groups do matter, as does the inclusion of previously excluded Islamic forces that had been suppressed before. However, the proper separation of religion and state is of essential importance; the process to get there is part of power change and not just a good governance principle.
- Short-term policy actions for political and developmental change – necessary for buy-in due to societal demands for quick results - need to be taken in a long run framework, because fundamental political change takes time, as we learned from other transformation processes in history. Bridging the short term with the long run is a mayor challenge for elected policy makers.

Economic challenges and opportunities

- Poverty and inequality are high – not just in terms of income poverty like 1\$ a day, but in terms of lack of opportunity to acquire education and skills. And social policy is often part of ineffective subsidy policies, including for food. Many segments in the Arab society are marginalized; marginality has a complex set of causes and addressing these goes far beyond poverty reduction (Gatzweiler, von Braun 2011).

- Employment and demographic dividend – i.e. the growth dividend from a large share of young people rising in the labor force – can potentially to be tapped but so far is not, as the high youth unemployment shows in Arab countries; the elasticity of employment with respect to growth remains depressed. In Egypt for instance, the political turmoil has pushed up unemployment, widened budget and balance of payments deficits and drained foreign reserves. Notwithstanding the opportunities for the future, Arab countries will have to deal with a generation that in the past 2 -3 decades was not properly prepared to reap the benefits of the demographic dividend.
- Jobs and labor mobility occurs in segmented labor markets, where much of the employment growth was generated in the already overextended public and informal sectors, with the latter accounting for most of employment growth in the previous decade. As a result, many of the new jobs created are precarious, low-skilled, and low value-added. Arab governments must match employment, entrepreneurship and education outcomes with the aspirations of their young populations. The question is how? The demand side of the labor market by firms may be more important than the supply side from job seekers: Capital needs to get to these unemployed, and that partly depends on opportunity and risk assessments by investors. On the supply side, many things have been tried in the past 2 decades in Arab countries. An important part of the answer lies in the quality of education. This includes the technical and mental readiness for competitiveness, language skills; curricula reforms; and overcoming various forms of mobility barriers: of people, and knowledge.
- Lack of fiscal transparency is structural in government operations: insufficient budget tracking is a general governance deficiency, no single account, but typically thousands combined with poor taxation systems offer points of entry for corruption; ill-targeted taxes reinforced the incentives to operate in the informal sector. Military establishments and their large expenditures are significant factors in this.
- Natural Resources and people can be viewed as the two pillars of the economies. They are very un-evenly distributed in the region. Natural resource management is extremely important in the context of severe limitations of some natural resources, such as water, and further risks from Climate Change. Energy remains the key. Traditional oil and gas, but increasingly developing profitable new and renewable energies. Morocco is already going heavily into this. Green growth opportunities can be explored further by the region.

3. Theory and strategy for setting priorities in the change process

- There is no comprehensive theory of political and economic change on which the region could draw. Rather than relying upon traditional economic growth theories, carefully handled context specific “growth and development diagnostics” is called for in this complex situation (Rodrik 2007, Hausmann et al. 2005, 2008). Clarity of goals is to be determined in societal dialogues and political process: is it growth with fairness and social coherence and what would that mean in practice? The initiated political processes of change must be permitted to prevail, as long as security, human rights and peoples’ participation are protected.
- Most relevant will be lessons from theories of institutional innovation. In order for economic reform to be successful, it must be matched by a sound institutional framework. Such a framework is characterized by independent judiciary and rule of

law, well-defined property rights, and effective regulatory institutions, and institutions for sound macroeconomic management. Developing sound economic institutions is an involved and ongoing task. That is easier said than done in a context where new social contracts need to be found among newly established contract partners, i.e. on both sides: civil society and government.

- Institutions that foster social coherence with its determinants of social inclusion, social capital, and social mobility will be essential for growth and political progress in the region. Not only wealth and per capita income differ a lot in the region, but also social cohesion. Actually if one looks at the ranks of Arab countries by income per capita and by a social cohesion indicator the gap between the two rankings is the wider the richer the country, especially with the oil rich countries. And while Egypt, Morocco, Tunisia rank better in terms of social cohesion than income; Syria, Lebanon, Iraq, Algeria and Yemen rank worse in terms of social cohesion than income (OECD 2012). An opportunity may rest in traditional institutions that foster equity and sharing such as zakat and communal work. Can they be remobilized for broader public goods delivery with effectiveness?
- The simultaneities of relevant changes are the big challenge. Technical sequencing of reforms has now chance. A theory of transition relevant for the Arab regions has yet to be written.

4. Lessons for Arab countries from political and economic transformation processes elsewhere

- Awareness of powerful historical and cultural forces in the region is essential in the change processes. While no blue prints from history can be invoked partial lessons from experiences might be relevant: the saying applies, that “intelligent is who learns from ones’ own mistakes” and “wise is who learns from others’ mistakes”. There is a lot of wisdom in the Arab worlds.
- Economic history does teaches lessons, especially about how to (not) deal with institutional challenges (Cameron and Neal 2003): economic consequences of wars, the large contractions, the Marshall plan, the origins and evolution of the European Union; and more specifically: lessons from transformations: e.g. the collapse of the Soviet bloc, Latin America after the end of military dictatorships, Turkey’s recent successful development, Indonesia’s policy and economic change and progress. All these are relevant for the Arab region and Brazil in Latin America and Turkey are probably particularly relevant.
- There are also lessons from the European Union’s formation and expansion: The disciplining role of the European Union in overcoming dictatorships (Portugal, Spain, Greece) and the Eastern European countries’ inclusion is an interesting case. Lessons from the powerful incentives of integration and institutional effectiveness (such as demonstrated in EU with Rumania, Bulgaria and now Balkan – e.g. Croatia) with strong disincentives for violation of principles of civil rights and social and economic institutions.
- The past frameworks of European-Arab cooperation (i.e. Barcelona Process; European Neighborhood Policy; Union for the Mediterranean) have failed in terms of vision and effectiveness; the focus on oil and security was far too limited; the lack of attention to political change, human rights and participation was short sighted. The separation of development policy and political development was inappropriate and

supported oppressive regimes. Trade agreements lacked ambition, see for instance the unsatisfactory EU-Egypt trade protocol, which is for high value agriculture as restrictive as 20 years earlier. However, Europe - while being slow in policy change due to needs for consensus based legal policy - can be expected to be supportive of political and economic development in the Arab region, also because of EU security and economic self interests. A different concept of security is called for and actually emerging: i.e. the formation of a soft European security concept that is expanded to instruments like trade and education and science exchange, rather than hard security that focuses narrowly on military peace-keeping and peace enforcing. Below a military security net an economic security net is needed (Weiss, 2011).

- In sum: Arab development economists might like to embrace study of recent economic history more to map out their own historical change pathways.

5. What priorities for Arab development?

Not lists of prescriptions but strong evidence-based diagnostics for the way forward might help. The biggest challenges are: to facilitate political reform jointly with economic reform; the two are inseparable. Among the micro-economic foundations of macro-economy these four should rank high:

- human resources and education and building science system and science landscapes
- employment with unleashing the powerful and creative growth potentials of small enterprises in services and manufacturing, a big asset in the region,
- gender gaps in rights, education and employment being addressed
- upgrading of basic services, water and sanitation, nutrition, health.

And building the information base for evidence based policy: Data and info platforms for transparent decision-making guided by the principles of legitimacy and accountability; transparency.

Two big schemes can be considered carefully: a Marshall-Plan for the region and new Regional Integration and Cooperation.

A Marshall Plan? – often proposed for the Arab region – not just requires finance, but requires acceptance of an external monitor of domestic monitoring of sound plan implementation. That capacity for domestic implementation has yet to be build in most Arab countries, and in view of weak budget and tax systems should be a matter of priority, otherwise the willingness for external investment, for instance in infrastructure and educational institutions, will not be force coming. Short-term policy action is important to avoid systems breakdown (i.e. balance of payment; keeping major broad-based subsidies in place to avoid short-term social unrest etc.). It is already happening (without having a name such as Marshall Plan), e.g. last year the World Bank and the AfDB gave large support to Tunisia for this purpose, and EU pledged sizable funds for social and infrastructure investments.

Toward regional integration in the Arab world? Can this be pursued – not like the EU but in an Arab way? The issue is not mainly economies of scale or tapping comparative advantages in the region. The issue is institutional strengthening and actually getting disciplining Arab-owned institutions in place. May be a start could be made with a “Community on oil and water” (as proposed by Prince El Hassan bin Talal 2011), comparable to the start of the EU

with the Community on steel, coal and a common agriculture policy regimes; or starting integration with some common free-trade and people's labor mobility zones. To make that work, however, requires the willingness to transfer powers to a Union, and that willingness may be low for some time in the Arab regions, due to lack of inter-state political trust, and too early - as too many countries violate too many governance and rights principles. But crises and conflicts can facilitate re-assessment of options by political leaders and can foster investment in trust (such as between Germany and France after the 2nd World war). Establishment of a Regional Organization to Support the Transition should be considered to increase inter-Arab economic interaction to address the structural nature of the problem.

There are five domains of public action that will be fundamental for food and nutrition security, although they are not directly food policy:

- 1. Building Trust between the Citizen and the State and among Citizens:** Such trust requires political freedom, participation, women's equal rights, access to information, and accountability and related mechanisms, and above all freedom of speech.
- 2. Develop Human Capacity:** education, schools and universities to foster labor productivity and innovation in the Arab region.
- 3. Build social security institutions:** access to services, as well as the quality of those services are to be improved as fast as feasible.
- 4. Open trade and regulations that facilitate easy formation of small businesses and access to finance by them** should be cornerstones of economic strategy.
- 5. Political and economic changes are to be combined.** The basics, i.e. security, legal framework and contract enforcement must be assured. Strategy should not be driven by technocratic efforts to "do development" in isolation from political change.

In sum, one would wish that Arab and international policy players would take the following perspectives: let freedom reign, and let things sort themselves out, as long as basic human rights are adhered to; external development support should positively respond to political progress.