Strategic Sectors | **Economy and Territory**

# Economic Effects of the Arab Revolutions: How Can the Transition Be Fostered and Confidence Restored?

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The historic events in the Mediterranean Region since January 2011 constitute a true message of hope, on both the political and economic levels. Triggered by an educated youth in contact with Western society, these revolutions were considered by Arab public opinion as the reconquest of their dignity and the means of erasing decades of political and social frustration that had accumulated through a sidelining of globalisation and the consequences of 11 September 2001 (Marty-Gauquié, 2011). Nonetheless, like all revolutionary processes, that of the Arab World escaped the control of its instigators: thus, as the "conflict of impatience" generated by these revolutions gave rise to disenchantment and the bulk of voters expressed themselves, certain movements of Islamist orientation gained a hold over the least educated social sectors of the population, as demonstrated by the elections of October 2011 in Tunisia and Morocco and the presidential elections in Egypt in June 2012.

Far from clearly establishing balances that are fluctuating and complex, these elections revealed, on the contrary, that the transition process would be longer and more chaotic than Western opinions would wish. Thus, post-October 2011 Tunisia is organised around a tripartite distribution of power that has induced a sort of political paralysis heightened by the incompetence of part of the newly elected personnel and the ambiguity of how the transition process is being conducted by the State's main magistrates. Egypt's situation is likewise particular: economic omnipresence of the army and rapprochement at the time of the first constitutional referendum in March 2011 between the Muslim Brotherhood and the Salafist movements (both massively supported by certain Gulf monarchies) explain a situation of impasse that President Morsi will have a hard time overcoming. Given these situations, two pitfalls should be avoided by both opinion-makers and European economic actors: impatience and rejection.

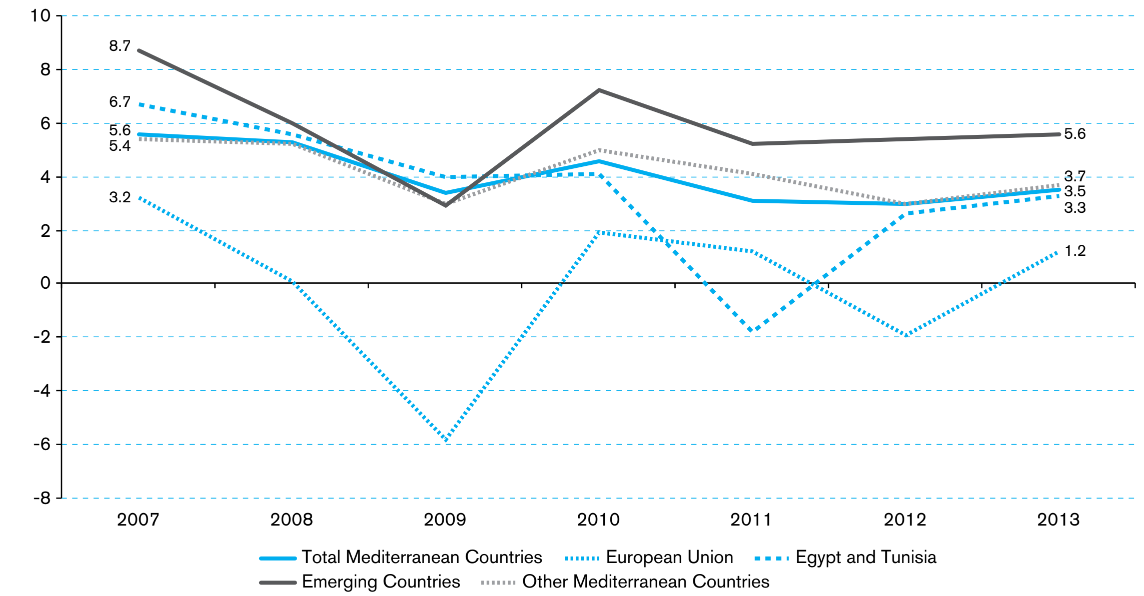
## Review of the Economic Situation after the Global Crisis and Revolutions

It is worth recalling that the financial crisis of 2008 did not spread to the South Mediterranean countries, but they have deeply felt the recession of Western countries, particularly in Europe, upon which they are heavily dependent in terms of trade flows, investment and purchase of services (Reiffers, 2011). The great resilience that southern countries have demonstrated since 2010 proves that they retain a capacity for growth (see Chart 21), although budgetary leeway and foreign exchange reserves have been substantially reduced by the crisis.

The effects of the crisis are compounded by those of the revolutions. In fact, where there has not been massive destruction, as in Libya or Syria, the collapse of exports and foreign investment as well as the crash of entire sectors of economic activity have severely affected competitiveness: there has been balance of payments deterioration, significant budget deficits[2] due to weakening tax revenues and ur-

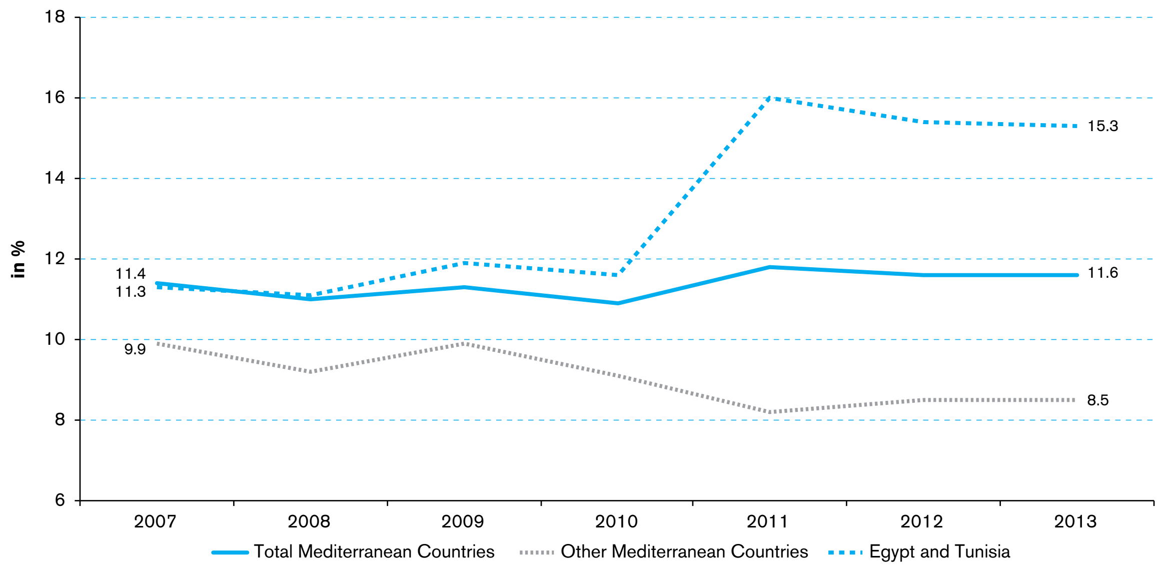
[1] This article is written in the author's personal capacity.
[2] Between 2010 and 2012, Egypt's budget deficit went from -8 to -10.5% and that of Tunisia from -1 to -8.5%.

CHART 21 **Growth in Mediterranean Partner Countries as Compared to the EU-27 and Emerging Economies (%)**




Source: 2012 FEMISE Report.

CHART 22 **Overall Unemployment Rates in Mediterranean Partner Countries (%)**

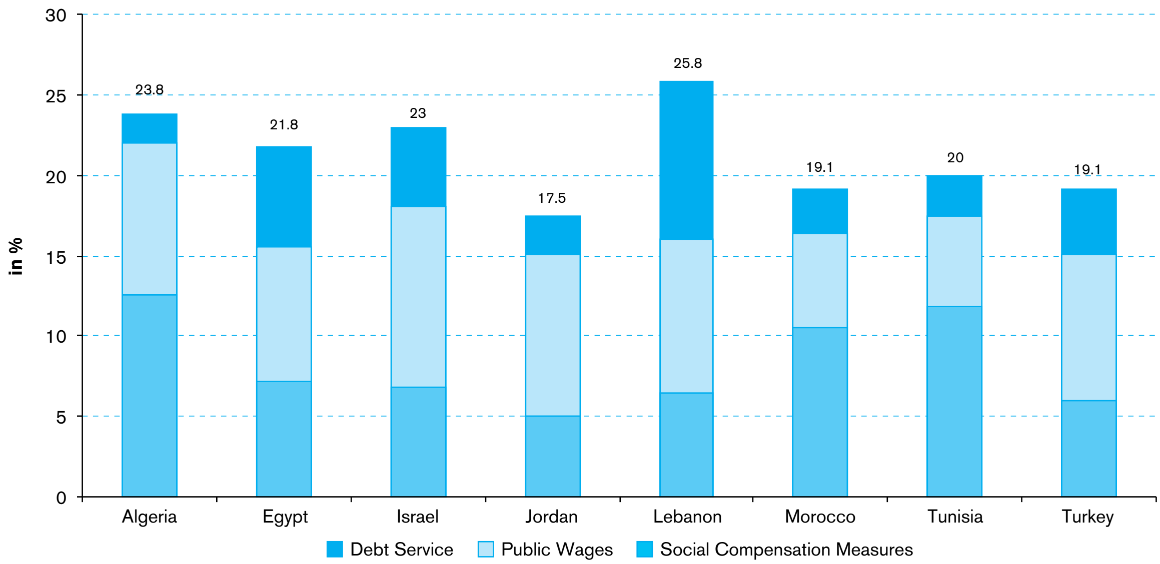



Source: 2012 FEMISE Report.

gent social measures, and a sharp rise in unemployment (see Chart 22).

Given this situation and the absence of structural and social policies characterising Arab countries before the revolutions, transition administrations have had massive recourse to compensation measures designed to contain prices of staples (cooking oil, sugar, flour, energy), raise public employee wages and massively recruit the unemployed into the ranks of the public sector. This policy of support to domestic consumption has raised public debt, increased the share of the budget in the GDP and increased the weight of current expenses in the budget, thereby reducing the share dedicated to investment (see Chart 23). In Tunisia and Egypt, this led to a serious recession in 2011-12 (much worse

CHART 23 **Current Expenses in Mediterranean Partner Country Budgets in 2011 (in % of GDP)**




Source: 2012 FEMISE Report.

than the one in 2008-10); nevertheless, the perspectives for 2013 once again indicate a potential for growth some three times greater than that in the European Union (EU).

The economic crisis and the Arab revolutions thus illustrate that there is no automatic link between growth and quality of life or job creation. On the contrary, they reveal that more political and social equity should have been ensured before aspiring to elevated growth rates and regional integration. Hence, the political revolt of 2011 was an expression of protest against four factors:

- First of all, the disastrous effect on public opinion of collusion – whether desired or imposed – between the business world and a political class ever more confiscatory and isolated from the population;
- Secondly, the natural instability produced by opening up too quickly to the world economy unless compensated by serious social and territorial policies ensuring the equilibrium of society;
- In the third place, the practice by autocratic South-shore governments of leaving entire regions out of general economic development for political reasons; such policies have led to the accumulation of pockets of poverty in isolated areas and an acceleration of exodus to peri-urban slums;
- And finally, the accumulation of sentiments of frustration and humiliation felt by youth kept from decision-making and economic integration processes.

## The Need for Renewed Growth in the Mediterranean Region

Indeed, the challenges of the post-revolutionary period are many. In the first place, growth must be organised so as to meet the aspirations so strongly expressed by the people. A more *inclusive* growth ensuring better distribution of wealth and greater territorial balance remains the key to youth employment and the reduction of poverty. At the same time, a more *innovative* growth (based on renewed educational systems, a selective policy of direct foreign investment and support to business innovation) is essential for enriching the qualitative content of jobs for graduates, whose unemployment rate has continually grown worse over the past ten years (reaching 30 to 46% depending on the country and categories).

Certainly, greater *regional integration* is still necessary to foster growth and include the economies of the South in the Euro-Mediterranean value chain: South-South integration will encourage trade based on product differentiation and thus the improvement of quality in traditional manufacture; moreover, technology transfer through partnerships between companies in the North and South will allow moving from a system of relocation to one of co-contracting[3] (or, to use a newly fashionable term, co-location). If well conducted, regional integration would thus eventually offer improved job security in the South and more balanced North-South relations. Yet *this goal is necessarily a long-term one*, not only because it entails redefining regional co-operation systems, but also because it first requires qualitative improvement of competitiveness in the South.

### Fostering the Transition: Three Stages and a Lever – Democracy

From the economic standpoint, the transition in the Mediterranean Region calls for targeted aid focussing on three objectives: in the first stage, aid for adjusting public accounts and gradually eliminating the system of compensations; immediately thereafter, stepped-up support to the private economy, the only long-term job creator, in particular through microenterprises and SMEs (small and medium-sized enterprises), and strong support to the modernisation of public policy through targeted technical assistance actions;[4] and finally, in the medium term, a substantial increase in repayable aid, oriented as a priority towards job-creating projects, as well as greater services to the population at large and improved territorial balance.

From the political standpoint, the transition is also a process of reconstruction and improving the ethics of society, that is, of defining a *new social contract*. Though growth is obviously necessary to foster options, in and of itself, it is not enough to ensure an evolution that is above all political and whose driving force consists of instilling democracy on all echelons of societal and economic governance. Here the role of civil society is essential: its vigilance and monitoring will allow regulations for production and wealth distribution mechanisms to be defined that respect the needs of the community in all its diversity and ensure greater generational, social and spatial equity.

All of this implies profound societal (education, family, fiscal system, justice…)[5] and political changes (balance of powers, decentralisation, participative dialogue, etc.). To support these choices, which can only be made by the countries themselves, public policy on the major economic sectors (urbanisation, energy, water, transport, the financial sector, development of a concession-based model and public-private partnerships, etc.) should be modernised, an objective towards which the international institutions and European countries can contribute financial and technical support. Indeed, though the people who triggered the transition are first and foremost entitled to conducting it, without rapid reestablishment of economic prosperity and job creation, there can be no political consolidation in countries in transition.

The European Investment Bank (EIB) is already quite active in these domains, as illustrated by its initiatives to promote urban development and public-private partnerships (PPPs) in the South Mediterranean Region (Marty-Gauquié, 2012), and its action together with the World Bank through the Marseille Center for Mediterranean Integration (CMI), which the two banks founded in October 2009 with the support of six governments: France, Morocco, Tunisia, Egypt, Jordan and Lebanon (see: www.cmi-marseille.org).

### From the European Union to the Deauville G8 Summit: An Effective yet Fragile Dynamic

Weakened by a decade of state deterioration, the rise of populism and a Franco-German axis ceaselessly under reconstruction, since 2005, the EU is having difficulty mobilising on issues that are not endogenous. In fact, since December 2008, the new forms of intra-European co-operation have been structured around the response to the global eco-

[3] As has been undertaken over the past few years in Morocco and Tunisia in the aeronautics and automotive sectors, and more recently, the railway and high-quality handicraft sectors, for instance.

[4] Apart from financing, improving the legislative, fiscal and regulatory framework of enterprises is essential. Note, however, that 18 months after the October 2011 elections, some 65 bills of law containing economic reforms and authorisations of international loans are pending decision by the Tunisian National Constituent Assembly, which remains focused on the constitutional debate to the detriment of economic modernisation.

[5] As is the case in Morocco, which has accelerated social and constitutional reforms under the aegis of Mohamed VI: family and women's codes, sector plans (Emergence, Green Morocco, etc.) and regional revitalisation policies.

nomic crisis and its corollary, the public debt crisis. Thus, in the face of the Arab revolutions, Europe appeared unprepared and disunited in the first quarter of 2011; and though, by the spring of 2011, it had managed to modernise its offer of support to the countries undergoing the Arab Spring, it can nonetheless go no further. First of all, the effects of the public debt crisis have led many countries (including Germany) to reject Europe's exposing itself too much in the Mediterranean Region and, moreover, a long-term political offer is impossible to define, the enlargement of the European Union being incompatible with the perceived European public opinion.

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The G8 Summit in Deauville, held on 26-27 May 2011 under the French EU Presidency, seems to be the most pertinent platform: it reassured the Europeans by bringing in the United States and the Bretton Woods Institutions (including the IMF); this allows President Obama to adapt his Arab policy to a multilateral framework; it also opened debate on the Mediterranean Region to Russia. Thus, the G8 has provided the countries in transition a platform for dialogue – the Deauville Partnership – as an alternative to a divided Europe and a powerless Union for the Mediterranean.
At a meeting in Marseille on 10 September 2011, the G8 Finance Ministers obtained *quantified commitments from the IMF and the international financial institutions (IFIs)* in response to the four national development plans presented by countries in transition: Morocco, Tunisia, Egypt and Jordan. In this regard, one must distinguish between aid commitments for *economic reconstruction* of the four countries, which will amount to $38 billion by the end of 2013, and those for *structural adjustment of public accounts* which will be supplied by the IMF and the African Monetary Fund (AMF) and may ascend to $35 billion. However, this framework has some weaknesses: in the first place, that of being an intergovernmental initiative based on consensus, driven by political dynamics, whereby President Sarkozy was succeeded by President Obama in January 2012, for whom the Arab world was no longer a priority in an election year. The Partnership thus went from a political dynamic in 2011 to technical governance as of mid-2012, a trend that was accentuated in 2013 under the British G8 Presidency.
The second weakness is that of having taken the audacious step of involving the Gulf States in supporting Arab democracy, which has proven ambiguous in practice since the conservative Gulf monarchies have held diverging positions on the countries in transition; moreover, tension soon appeared between the Gulf States and Russia on the Syrian question.

## Tangible Results, though Less than Promised and Unequally Distributed

In any case, the *aid to economic development* implemented was significant: in late 2011, a list of priority investments and technical assistance measures was established by the IFIs, corresponding to nearly 75% of the aid announced in Marseille. Though there is no aggregated data on the funding actually awarded, for the 2011-2012 period, one can estimate international aid for economic reconstruction granted the four countries in transition at $15-16 billion; which is a significant amount, though less than half of what was planned and above all, very unequally distributed due to political characteristics and the different degrees of democratic progress in each of the countries concerned. Thus Morocco and Tunisia took the lion's share, with over half of the aid awarded, the main donors being the EIB ($3.3 billion), the World Bank ($3 billion), France ($2.8 billion) and the EU ($2 billion).
Moreover, the IFIs' technical platform likewise allowed significant progress in the implementation of measures for improving access to credit in countries in transition: US guarantee for loans taken out by the Tunisian government to the amount of $480 million in May 2012; regional guarantee funds for SMEs to the amount of $400 million (of which 150 were subscribed by the EIB and 40 contributed by the EU budget through the Neighbourhood Investment Facility) implemented in October 2012. Finally, a Tran-

sition Fund was created in order to fund technical assistance to countries on the road to democracy; endowed with some $165 million contributed by the US, the United Kingdom, France, Japan, Canada and Saudi Arabia, these funds could rise to 250 million if other donors confirm their commitments. This instrument – which approved its first operation in December 2012 in assistance to Jordan – is essential, for assistance for public policy reform is crucial for accelerating transition.

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Another factor that should be mentioned is *aid for structural adjustment of public accounts* (budget and trade deficits, erosion of reserves). Scalded by the social revolts induced by the reform support programmes established by the IMF and the World Bank in the 1980s, the new governments of the countries in democratic transition have naturally expressed strong reticence to calling for IMF support,[6] despite the pressing needs of their economies insofar as foreign cash flow, necessary to compensate for the effects of their Keynesian economic support policies. Hence Egypt and Tunisia have preferred to turn to the solidarity of regional institutions or "friendly countries"; in this regard, Tunisia has enjoyed greater success than Egypt – the former appealed to the African Development Bank and the World Bank in 2011 (twice for $500 million each time), France (€180 million) and the EU (€100 million); this arrangement was renewed in 2012. In contrast, Morocco and Jordan, countries that did not undergo revolutions, have had massive recourse – beyond their quotas – to the IMF since 2011, obtaining credit facilities of $6.2 billion for Morocco (700% of its quota, of which 3.5 billion were immediately available) and $2.06 billion for Jordan (800% of its quota, of which 385 million were immediately available). In any case, budgetary adjustment needs still prove substantial and in August 2012, the Egyptian government opened negotiations for a credit facility of 4.8 billion, whereas IMF support to Tunisia, whose conclusion is scheduled for May 2013, will amount to $1.75 billion.

And finally, in the longer term and in line with the observations made at the Marseille G8 Finance Ministers' Meeting on the need to facilitate access of countries in transition to developed country markets, two *initiatives on trade liberalisation* are being developed: first, negotiations on deep and comprehensive free trade agreements (DCFTAs) between the EU, Morocco, Tunisia and Jordan; and second, the implementation of the conclusions of the study on facilitating trade and investment flows in the Mediterranean Region, carried out by the Marseille Center for Mediterranean Integration (CMI) at the request of the G8 Finance Ministers' Meeting in September 2011.

### Which Long-Term Support for the Transitions: the G8 or the Euro-Mediterranean Partnership?

Democratic transition is a long-term process, as demonstrated by the Iberian and Central European experiences. The Spanish transition, for instance, took seven years (1975-1982), relying on exceptional individuals (King Juan Carlos, Adolfo Suárez, Felipe González, Santiago Carrillo), the Moncloa Pact and seven legislative elections to overcome two terrorist movements and a coup d'état!

The Deauville framework has allowed significant progress, such as remobilising Europe to support transition in the South Mediterranean Region. Yet the Arab economies must still weather the double blow of domestic political uncertainty and the crisis in Europe. While confidence is first of all conditioned by the political stabilisation that only the people involved can effect, it likewise depends on the revitali-

[6] In June 2011, Egypt rejected a 3 billion-dollar plan offered by the IMF and the World Bank.

sation of Euro-Mediterranean relations to meet the expectations expressed in 2011 in the long term.

On the economic level, indeed, the four countries in transition are still closely tied to Europe to quite a substantial degree of dependence. Trade deficits ($40 billion/year) and capital deficits ($10 billion/year), revealed even before the revolutions, have a European basis; and it is on this European basis that transfers of savoir-faire, capital and interpenetration will be restored, for only they can contribute the employment levels and quality of life expected by the population. Moreover, the objectives of poverty reduction and territorial balance in the South (which are the main lines of action for inclusive growth) poses the crucial question of agricultural sector modernisation and thus access to developed markets. Once again, the solution will emerge through relations with Europe.

On the political level, one cannot but note that the Arab democratic uprisings bear a striking resemblance to South European youth revolts against the crisis. The two movements question the State's impartiality, demand more social and generational equality and seek greater responsibilities of the political elite. This on a common background of cross-cutting issues in the region: management of essential resources, adaptation to climate change, territorial and urban balance, mobility aspirations, etc. This political and material concordance indicates that economic progress is nothing unless it is based on a logic of convergence and a vision of transition on the regional scale.

Whatever the name it is given, Euro-Mediterranean relations thus remain essential, for one thing because they are the only ones to set a purely democratic conditionality and are sufficiently disinterested to manage to withstand the uncertainties accompanying any post-revolutionary stabilisation process.

This awakening of the Euro-Mediterranean Region will call for political efforts on both sides of the shared Sea. For it is ultimately a question of closing the sequence of events in this region that began on 11 September 2001 and releasing the significant economic potential of the Arab countries, not only for their well-being and successful inclusion in a global economy, but also to accelerate the sluggish growth of European countries.

If our politicians realise it, the European Union and its Member States have a unique opportunity to restore European "soft power" in full measure in order to establish more productive, legitimate relations with their Arab partners, who have become democratic, more productive and legitimate because they are respectful of mutual knowledge and the region's specific characteristics.

*(Text completed in April 2013)*

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