

Economic Evolution in the Mediterranean Countries in a Changing World

Georges Corm

Professor

Saint Joseph University, Beirut

Former Finance Minister of the Republic of Lebanon

South Mediterranean economies have evolved positively over the past twenty years when viewed from the perspective of the classic evaluation criteria used by international financial institutions such as the International Monetary Fund (IMF), the World Bank or similar institutions. Growth rates have generally been maintained, local stock exchanges have generally demonstrated good performance despite fluctuations due to the international economic crisis, public finance deficits have been well held in check and the balance of payment equilibrium has been favourable. However, these classic criteria for evaluating the health of the economies of South Mediterranean countries have proven illusory in light of the popular revolts massively affecting Tunisia, Egypt and Libya, and, to a lesser degree, Algeria. These revolts have revealed strong protest based just as much on the desire for political freedom and changes in the exercise of power – confiscated by a corrupt, authoritarian oligarchy – as on the social distress of both urban and rural youth. By burning himself to death in December of 2010 in protest against the constant infringement of his human dignity, young Mohammed Bou Azizi, a Tunisian from a poor rural area, set off the spark that triggered all of these revolutionary movements. The simple, clear slogans of protesters from Tunis to Benghazi and Cairo, and reaching as far as Yemen and Jordan, primarily focussed on issues of socio-economic dignity: decent wages, job opportunities, doing away with the multiple forms of corruption and clientelism.

The proof has thus been supplied that the form of development followed by the South Mediterranean

countries has been far from satisfactory and that the criteria used to judge these countries' economic performances were hardly pertinent. Rarely has there been such massive blindness, except with regard to the performance of major American and European banks and their directors, whereby the behaviour of these banking systems in the most long-industrialized countries has led to the most serious financial and economic crises since the 1930s. Youth in the Southern Mediterranean countries have managed to make remarkable usage of the changes occurring in the world of computing and electronics to quickly lend protest movements repercussion, allowing their amplification and resistance to police repression. This constitutes a remarkable example of grasp of the useful effects of world transformations in the communications sphere, whereas until now the societies concerned seemed to have remained sheltered from major world changes. One could consider that South Mediterranean economies have to date only passively experienced the major changes of the world economy without using them to improve their performances.

Whereas a significant number of third world economies have managed to adapt to the economic changes of the past half-century and use them to their advantage, South Mediterranean economies have largely remained lethargic, dominated by diverse forms of rentier economy in which the authoritarianism of political regimes has developed and vast circuits of corruption have prospered. As we have demonstrated in a previous study, the production base of these economies has remained weak despite all of the structural adjustment programmes applied under the guidance of the IMF and the World Bank. Over the past few years, the European Union has also granted substantial budgetary aid to South Mediterranean countries to bring up to standard or modernize their economic, financial and educational

institutions. Certain countries have even been considered very good pupils, such as Tunisia, whereas Egypt seemed to have a vibrant economy attracting a great deal of foreign investment.

It is therefore important to attempt to identify the economic and social problems that made the growth of South Mediterranean countries a “bad” growth, entailing very high unemployment rates, increasingly blatant social inequality and multifaceted corruption reaching mammoth proportions at the level of elite economic and political decision-makers, all of this stimulating a migratory surge to leave these countries, including both poor workers without decent jobs and intellectuals and skilled professionals seeking jobs that cannot be found in their countries, the brain and skilled labour drain moreover aggravating the vicious circle of bad development.

A Liberalisation of Economic Structures that Has Not Revitalized Economies

South Mediterranean countries experienced a brief period of State and public sector domination of the economy, a period that lasted from their accession to independence over the course of the 1950s and 60s to the crisis of the 1980s, characterised by excessive indebtedness of these economies, in particular in Egypt, Jordan, Morocco and Algeria, not to mention Turkey. This crisis, which corresponded with the general crisis of third-world country indebtedness breaking out in 1982, was also characterised by the increase in public deficits and foreign trade. It then entailed the implementation of structural adjustment programmes under the aegis of the IMF and the World Bank in those countries as well as in many other third-world economies that experienced insolvency problems in repaying foreign debt. These programmes were not implemented without leading to food riots in certain capitals following the decrease of State subsidies of staple foods.

In any case, whereas the 1980s crisis pushed certain countries to enter the virtuous circle of economic growth based on a strong dynamic capable of reviving the major industrial sectors and keeping them under control, South Mediterranean economies sunk into diverse forms of rentier economy. Structural adjustment and economic liberalization programmes were carried out so as to progressively transfer a large part of activities of a rentier type from the public sector to a few privileged companies of the local

private sector, often associated with European multinationals. No efforts have been made to begin a process of accumulation and appropriation of modern technologies allowing economies to diversify and take advantage of the globalisation of markets, taking up a position on them as dynamic exporters. The contrast with the performance of South-East Asian economies or those of certain Latin American countries, in particular Brazil, is striking. The causes need to be reviewed.

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By activities of a rentier type, we understand the activities whose profit rates are essentially based on the absence of manufacturing or technological efforts, with no entrepreneurial risks and whose main source lies in the exploitation of raw materials, archaeological or tourist sites attractive in and of themselves or strategic transport routes or means such as the Suez Canal or the passage of oil or gas pipelines through national territory, as well as the simple activity of commercially distributing imported goods, which is devoid of risk. In addition, other sources of rentier profit are capital gains on real estate and the exportation of labour force, whether qualified or not, which ensures the national economy a regular, abundant flow of external resources without local productive effort.

A quick glance at South Mediterranean economies shows that these activities, with a low innovation and production content, are those that dominate the formation of their Gross Domestic Product (GDP). In the first place are energy exports (Algeria, Libya and, to a lesser degree, Tunisia, Egypt and Syria) and exports of other raw materials, such as cotton or phosphate (Syria, Egypt, Tunisia, Morocco). But we must also consider that mass tourism is a very low value-added activity and creates only low-qualified, often seasonal jobs, and in addition, it contributes greatly to degrading the environment and the limited water

resources. The only investment risk in this sector is political, when wars or acts of violence of a terrorist nature decrease the arrival of European tourists. The same is true of investments in the large-scale retail sector, namely for numerous imported products. The risks are low, the jobs created are low or medium-skilled. The same applies to the real estate sector, where a high demand continues due to the high population growth rate in South Mediterranean countries; the luxury construction segment has, moreover, been fuelled by the new fortunes made thanks to privatisations and extremely high profit rates of these low-value-added activities.

Insofar as emigrant remittances, note that they are the result of productive activity located outside of the national economy and that they entail additional consumer spending, most often to the benefit of foreign imports or spending consisting of investment in the real estate or tourist sectors. According to World Bank statistics, the ensemble of Mediterranean third countries – including the countries bordering the Adriatic – received 564 billion dollars in remittances from 1970 to 2009. This impressive inflow of foreign resources hardly seems to have contributed to revitalizing the economies receiving said remittances or reducing the very high unemployment rates. In addition to this inflow, foreign aid to the amount of 170 billion dollars was also received for the same period.

In reality, the structural adjustment programmes and EU aid programmes showed little concern for the real economies and their revitalization, but rather were much more concerned with institutional modernization of a free trade nature, involving the withdrawal of the State and the public sector from economic activities. As we have written elsewhere, some twenty years ago, these programmes should have been complemented by structural adjustments targeting in the private sector and designed to break the rentier economy and reorient private investment towards high value-added, innovative sectors, in the manner of what has been successfully accomplished in South-East Asian countries. The programmes deployed by international financial institutions or the EU exclusively focused on the disengagement of the State from the national economy through privatisations, balance of public accounts and fiscal reforms reducing the proportion of direct taxes and increasing that of indirect taxes, under the pretext of stimulating private investment, but also the liberalisation of domestic and foreign trade and the reduction of cus-

toms tariffs. It is therefore not surprising that these programmes resulted in a considerable increase in private wealth, which has been massively invested in rentier-type activities, including those of privatized companies with a high profit rate, in particular mobile telephony.

This behaviour was fully rational in the absence of any public policies aiming to imitate the example of joint efforts between the State and the private sector, as deployed in South-East Asian countries. Private investors, often several family groups close to the political power centre or emerging from this political elite, turned to sectors with very high profit rates, entailing very little technological risk or no costly efforts insofar as research and development and human resource training. The result has been a reinforcement of the perverse dynamic of the rentier economy in these countries, offering but few opportunities to young university graduates increasingly entering the labour market; moreover, the rentier economy has strengthened the authoritarian structures of power and facilitated corruption among leaders, taxing national wealth at the highest levels. It is these young people who are playing the key role in the major popular protests of Egypt and Tunisia that are spreading throughout the Arab world.

Changing Economic Paradigms

The recent events in the South Mediterranean should open the doors to the changes most needed in those economies. The idea here would be to immediately put an end to the most glaring social injustices, eliminate corruption and boost productivity. This is hardly an easy task in view of the neo-liberal environment predominating in the Euro-Mediterranean Region. The multifaceted fragility of economies is another problem, namely the huge trade deficits, dependence on remittances from emigrants and tourism revenues, the food deficit and the impact of climate variations, a very weak industrial base and hypertrophy in the real estate, financial and low value-added trade sectors, as well as totally inappropriate taxation systems. Economic policies thus need to be adjusted accordingly to meet these challenges. In order to do so and as a priority, governments must address the need to break the perverse mechanisms of the rentier economy to arrive at the virtuous circle of a productive economy that is innovative and competitive on world markets.

The weakness of tax structures in South Mediterranean countries has been demonstrated. Numerous tax loopholes allow investors to legally escape taxation on their income. Tax incentives established via extremely generous investment codes are not linked to performance criteria insofar as job creation, professional training, improvement of product quality or the establishment of research and development capacities for new industrial procedures. In this manner, the State deprives itself of a modulated and truly incentivizing use of the taxation tool for developing local industrial control.

In addition, certain countries have also set up tax-free zone systems for exclusively exporting industries or systems of corporate income tax exemption for the exported portion of production. This system leads to segmentation or a serious compartmentalization within the industrial fabric and can reinforce the dichotomy between companies benefiting from tax exemptions exclusively oriented towards the international market and companies oriented towards the domestic market and production under the shelter of customs protections. Moreover, controlling the system is particularly difficult

In any case, these generous tax exemptions do not seem to have produced a technological accumulation allowing the firms in the Arab countries concerned to capture or expand market shares in industrial segments of innovative industries, achievements in the textile and clothing sector remaining fragile.

Another sphere of more or less vast tax exemption is that of capital gains on property and real estate, which incur little or no tax, whereas they constitute a very important source of accumulation of wealth for numerous people, who have thus managed to become new rich. Indeed, considering the significant demographic pressure all Arab cities are experiencing, the prices in the real estate sector have increased remarkably since the 1950s. The rent control established in a number of Arab countries under the pretext of protecting tenants has devalued and frozen a significant proportion of real estate, allowing capital gains to grow all the stronger on bare land and new construction put up for sale and not for hire. Real estate investment has thus become a highly profitable type of investment with quick returns.

Moreover, a significant share of the profits and savings gained in oil-exporting countries of the Arabian Peninsula by Arabs of various nationalities has thus

been invested in the so-called luxury real estate sector and major retail distribution centres in all major South Mediterranean cities, increasing the profit rate even more. States, however, do not seem to have benefited, in terms of increased internal revenue, from the significant capital gains brought about by these investments, due both to the low level of taxation, more focussed on property transfer taxes rather than taxation on capital gains, and the underestimation of the price of transactions to at least partially evade property transfer taxes.

Another sector with very low taxes is that of trade profits, in particular intermediary transactions carried out by influential individuals between the State and public sector companies and major multinationals exporting goods and services. The payment of commissions by these firms to local intermediaries, a practice that has become generalized in all Arab countries, whether socialist or capitalist, and that is difficult to control, seems to have completely evaded taxation. The significant profits have attracted numerous engineers and lawyers to the sector, who have managed to build significant fortunes immune from all taxation. The systematic recourse of public sectors to major international calls for tenders for State markets, but also for imports of common products via State importation monopolies has allowed these major, influential intermediaries to acquire disproportionate economic positions in local economies.

Even in countries where imports are free, certain individuals have succeeded in becoming trade agents for major foreign companies exporting the most common consumer goods and have managed to impose elevated prices on the local market. The case of Lebanon, despite its ultra-liberal regime, is ludicrous, in particular with regard to products in the agrifood sector, pharmaceuticals and detergents. Considering the greatly limited capacity of local industries to meet the domestic demand, the acquisition of dominant positions on import markets through systems of exclusive commercial representation has turned the activities of a small number of individuals into an oligopoly. In this domain, the State does not receive an appropriate proportion of tax revenue, whether in the form of customs tariffs, where value declarations are significantly minimized, or company tax, where active corruption in the fiscal service is commonplace. In addition, shortcomings in tax legislation allow a great many high-income individuals or businesses to legally evade taxes.

Moreover, no South Mediterranean countries have established any taxation whatsoever on personal fortunes, despite the spectacular multiplication of major personal fortunes over the course of the past few centuries. In reality, insofar as direct taxation, only salaried workers in the private sector and civil servants and other public sector workers have no way of evading tax, which hits them full force, especially since it is levied at the source on a monthly basis, as opposed to the income of liberal professions, corporate profits and other sources of State revenue through direct taxation, levied the year after the reporting year.

In this manner, the majority of income tax is paid by salaried workers and certain large companies, often foreign, holding concessions for exploitation of oil or other raw materials. The personal income tax levied in Mediterranean countries does not surpass 2 to 4% of budgetary resources once the tax on salaried workers has been deducted.

Direct taxation in South Mediterranean countries thus functions as a source of social inequality compounding a series of other mechanisms aggravating inequalities and social tension instead of being a means of attenuating inequalities and ensuring a minimum of redistribution of income with a view to equalising opportunities. Considering the extent of social needs in the sphere of healthcare and education that the State is finding increasingly difficult to meet, the current distribution of taxes is an element aggravating the crisis of political legitimacy and prevents any solution of an economic or financial type for reaching a dynamic macro-economic balance.

Moreover, the majority of programmes neglect reforms of municipal finance, whose proper operation is indispensable for improving urban management, which is undergoing a serious crisis throughout the world and also fuelling protest movements. Real estate tax revenue is generally weak, whereas it should be a major source of revenue for local government. Taxation should be oriented so as to equalize the profit rates between different industries and wholly restructure investment incentive systems to encourage the development of professional training, job creation and technological expertise in certain key industrial segments. This is not the place to discuss in detail the tax reform urgently required to orient the private sector towards activities strengthening the productive base. But it is important to realize that the low economic efficiency and blatant injustice of current systems are two major elements

of the permanent legitimacy crisis of socio-political and economic structures in the South Mediterranean and in the Arab world in general.

In reality, the association between taxation, democracy and the Rule of Law is absent from all economic and political analyses of the Arab world, as well as from the majority of claims made by political parties. However, it seems quite difficult to ignore the fundamental aspect of a just and effective tax system in the genesis of any democracy in economic development, but also to structure a genuine process of collective development allowing all social classes of the population to form part of the world of productive modernity.

The Imperative of Developing a Strategic Vision of Knowledge Accumulation and Innovative Technology Expertise

Over the course of the past thirty years, South Mediterranean governments, and more generally, those of Arab countries, have completely given up all visions of a process of industrial development and of the demands that such a process requires insofar as the educational system, research and development and continuous training of human resources. Industrialisation efforts effected during the early years of independence were dropped beginning in the early 1970s under the avalanche of petrodollars and the liberalisations carried out in the hope of attracting foreign investment. These liberalisations were subsequently accelerated under the effects of structural adjustment programmes, giving rise to the emergence of very large fortunes, out of proportion with the productive capacities of the economies concerned.

The planning of the development of educational systems was not done according to the need to accumulate technological knowledge and have the local population master it, but exclusively according to population growth. Technical training, including agricultural education, has remained marginal and has not been anchored in the needs of the real economy. Nor has the rentier-type private sector has felt the need to participate in a collective effort of the State, local authorities and the educational and university system to establish clear goals insofar as recovery and expertise in certain technology fields in the key sectors of economic globalisation. It is this collective effort that has ensured the success of South-East Asian economies and that has

been entirely absent from the economic policies of South Mediterranean countries.

The latter have seen their public policies deeply influenced by international financial institutions and the European Union, which has become the leading supplier of financial aid to these countries. Under the shelter of this influence, modern private sectors have expanded their sources of profit to the benefit of the few without the economy of these countries becoming truly innovative or competitive. The dozens of thousands of small, informal family businesses have not been integrated into the developed industrial fabric. They have thus also continued to have very low productivity and the turnover generated by them has remained more than modest. Insofar as the rural sectors, farmers' income has also stagnated, if not decreased.

It is therefore not surprising in this context that the Barcelona Process aiming to create a Euro-Mediterranean Free Trade Area did not achieve the results sought. Quite to the contrary, the migratory pressure on Europe from the South Mediterranean shore, which EU leaders hoped to reduce, has but grown due to the rise in unemployment and lack of decent job opportunities – in the sense established by the International Labour Organization – in the economies concerned.

Towards a Euro-Mediterranean Economic Area Based on a Common Industrial Strategy

In conclusion, it will be very difficult for the South Mediterranean countries alone to effect the drastic changes in public policy required to begin real collective use of modern industrial technologies, including those relative to high added-value services, namely in electronics and computing, medical and health research, renewable energy, and so forth. If the European Commission bureaucracy continues to refuse to think in terms of industrial strategy, in particular on the scale of the vast Euro-Mediterranean Free Trade Area, there are high chances that South Mediterranean countries will continue to be beset by poor development and brain and skilled labour drain, and therefore racked by political instability, which will but increase migratory flows.

The same is true of the IMF and the World Bank, which are exclusively concerned with the progress of the formal liberalisation of economies and balancing public accounts, but never look into the

causes of the poor performance of the private sectors in terms of technology expertise, research and development, professional training, innovation and increased competitive capacity of their export products.

The major popular revolts that have shaken numerous South Mediterranean countries should lead to revising the simplistic, neo-liberal approach to development that has predominated to date in North-South relations. The European Union itself would gain a great deal if it agreed to consider the future of the European continent through a new approach, for the economic crisis of North shore Mediterranean countries is also very strong and these countries are regularly gripped by vast popular protest movements as well.

The major obstacle, however, to achieving a change in attitude reducing the naive belief in the virtue of the market alone, far from any State intervention, lies in the corpus of neo-liberal dogmas that the EU applies to itself with a vigour existing nowhere else. The prosperity and stability of the Euro-Mediterranean Region largely depends on abandoning these dogmas to the benefit of active policies aiming to make South Mediterranean countries rapidly leave the vicious circle of the rentier economy so it can become an active partner of an innovative economic dynamic creating employment both in the North and the South Mediterranean, and capable of better facing up to Asian competition on the one hand, and that of the North American continent on the other.

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