Misr Spinning and Weaving employees demonstrate in Mahalla al-Kubra in 2007. ASMAA WAGUIH/AP PHOTO

Understanding the Political Economy of the Arab Revolts

Omar S. Dahi

The revolts sweeping the Arab Middle East and North Africa in early 2011 have been characterized as uprisings against neoliberal economic policies as well as authoritarian rule. But while there is widespread agreement on the political dimension of the revolts, there has been some confusion regarding the role played by economic grievances. The confusion is due not merely to the pace of events, but also to the fact that the region's actual economic record is somewhat contested.

On the critical end, the annual Arab Human Development Reports, launched in 2002 by the UN Development Program, have painted a picture of stagnation, rapidly increasing poverty and inequality, as well as gender and other disparities. Alternatively, several Arab countries have repeatedly been described as success stories by institutions like the International Monetary Fund, which as recently as September 2010 praised Tunisia's "sound policies and reforms" for helping the country weather the global downturn. Even with the uprisings underway, a column in *Politico* argued that similar "reforms" were behind the revolution in Egypt, which had become "the eighteenth easiest nation in which to start a business."[1]

The reality is that there is some truth to both narratives, but that neither fully captures the course of economic development in Arab countries over the last 25 years. The explanation for the uprisings is better found in the political economy of regime consolidation than in aggregate statistics, whether one glosses them favorably or unfavorably. In addition, key policy decisions taken in the early 2000s hastened the demise of the Tunisian and Egyptian regimes—and perhaps others to follow.

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By the late 1990s, several countries in the Arab Middle East and North Africa had reached a difficult impasse. On the one hand, their economies were stagnating, and gross domestic product (GDP) growth rates were in decline. They had launched major programs of economic liberalization, depending on the country, in the late 1970s, 1980s or early 1990s. Despite the results, the governments were under pressure from emerging forces inside the regimes (as well as from outside) to expand the programs. As late as 2004, the IMF was urging "significant acceleration of the pace of structural adjustment." On the other hand, this process had undermined the particular autocratic model that the regimes had spent years refining, or perhaps in their minds, perfecting.

The regimes' response was twofold: First, they embarked upon further liberalization with the primary goal of attracting foreign direct investment from Europe, North America and China, including the signing of bilateral free trade agreements with the European Union and United States and a massive program of privatization. Second, after the al-Qaeda attacks of September 11, 2001, they adopted the Bush administration's framework of a "global war on terror," enabling them to dedicate more resources to repression of escalating dissent. These two choices, however, further weakened the grip of the regimes, the first causing splits in the business elite and the second alienating the educated middle classes with increasingly arbitrary state behavior, lack of rule of law and rising corruption. The regimes were able to hang on for another decade, but it was clear that they were living on borrowed time. The ruling cliques of Zine El Abidine Ben Ali and Husni Mubarak were finished off by the worldwide financial crisis beginning in 2008, when there were few if any social forces to come to their defense.

Rise and Fall of the Social Contract

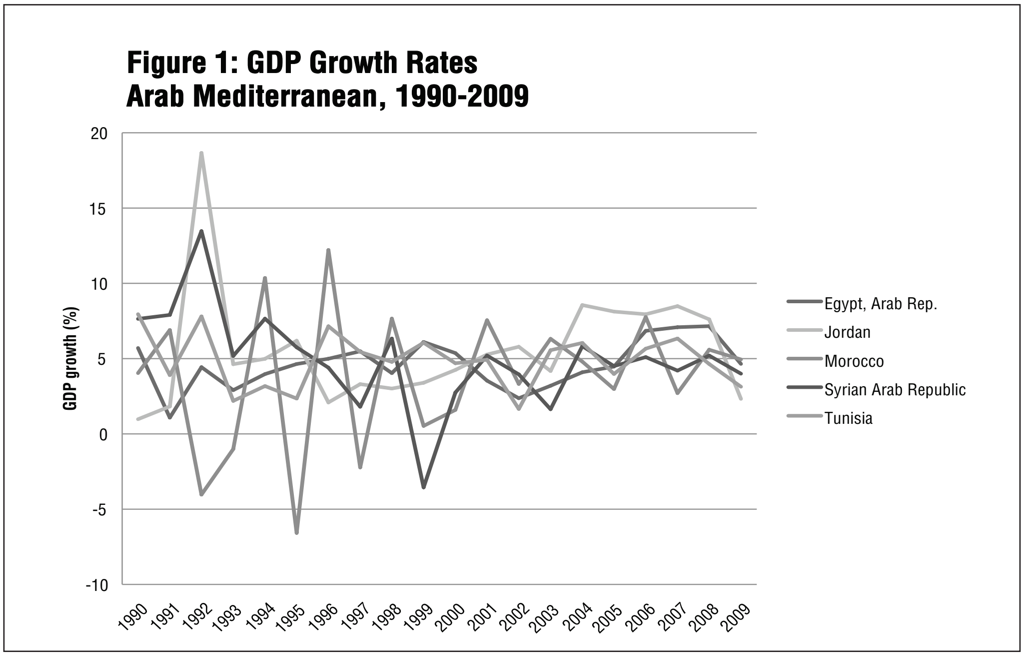
After independence, the most populous Arab countries combined authoritarian rule with a redistributive welfare state served by a large bureaucracy. The state owned industrial and other enterprises employing an urban work force, provided agricultural support to the peasantry and supplied extensive subsidies for basic consumer goods. This corporatist model—called "authoritarian populist" by political scientists—consolidated power by trading development for the political loyalty of key social forces, such as workers, peasants, professionals and others in the educated middle class. Not all citizens accepted the tradeoff, of course; many resisted and paid a hefty price. Particularly in the early post-independence years, however, the Arab regimes built their legitimacy on aspirations for a developmental state.

The development outcomes in the Arab world were substantial. The economists James E. Rauch and Scott Kostyshak divide the region into three categories: the Arab Mediterranean (Egypt, Jordan, Lebanon, Morocco, Syria and Tunisia); Arab sub-Saharan Africa, including Yemen; and "fuel-endowed countries," encompassing Iraq and the Gulf monarchies, as well as Algeria and Libya.[2] The Arab Mediterranean is the focus here: These middle-income Arab countries are similar to post-colonial middle-income countries elsewhere in having large peasantries alongside urbanization and a manufacturing sector and having initiated substantial state-led development followed by liberalization. Unlike their counterparts elsewhere, the middle-income Arab countries have not undergone democratization. Second, unlike the pure rentier states in the region, they have relatively small oil and natural gas endowments and are thus constrained in their expenditures. Taking issue with the Arab Human Development Report's dismal prognosis, Rauch and Kostyshak argue that most of these countries inherited abysmal conditions from colonial times and have nevertheless made dramatic progress. Many Arab countries have increased both life expectancy and rates of education by a greater percentage than other developing regions, or even the world, since 1970. For example, life expectancy in the Arab Mediterranean countries was 52 years in 1970 and 71.4 in 2007, an increase of 19.4 years, while the comparable numbers in Latin America were 60.4 and 73.1, an increase of only 12.7 years. From 1970 to 2007, the average number of years of education went up from 1.4 to 5.5 in the Arab Mediterranean, an increase of 4.1 years, whereas for Latin America the number rose from 3.4 to 5.7, an increase of 2.3 years. In fact, the Arab Mediterranean outperformed southern Europe and the rest of the non-Arab world in both of those categories over the same time period.

None of these regimes, however, were able to build a truly developmentalist state. Such states are able to use public investment to create an economy characterized by "a set of assets based on knowledge, exploited by skilled labor"[3] with "highly selective meritocratic recruitment."[4] Key to these efforts are the establishment of a non-politicized bureaucracy that is able to enforce accountability and quality control on the private or mixed sector and technological upgrading that allows industry to compete on international markets. The Arab countries were able to seize the commanding heights of the economy, raise protectionist tariffs, expand infrastructure and undertake huge investments in human as well as physical capital development, with success in simple manufactures as well as some more sophisticated and heavy industry. In almost all cases, however, the development bureaucracy was politicized and not technocratic as were its counterparts in the Asian tigers. In those countries, the political incumbency of the ruling elite was not contingent on inclusion of labor, peasants or particular business sectors. The state was therefore able to "discipline" these social elements in order to facilitate capital accumulation. In countries like Syria, on the other hand, regime stability was tied to shielding labor and peasants rather than subordinating them to the exigencies of capitalist development.[5]

Over the years, the authoritarian populist social contract began to unravel; along with it, the impressive developmental accomplishments began to stall and, in some cases, retreat. GDP growth rates that averaged around 6 percent per year in the

1960s became less than 1 percent in the 1980s. Total factor productivity, which measures the contribution of human and physical capital, was a robust 3.4 percent in the 1960s, but sank to -1.5 percent in the 1980s and stagnated throughout the 1990s.[6] While the Arab Middle East had one of the lowest incidences of poverty and income inequality among peer countries from the 1960s to the early 1980s, the 2009 Arab Human Development Report projected that about 40 percent of Arabs or approximately 65 million people live in penury. Meanwhile, new social forces, particularly the emerging merchant-manufacturing class, began to find the social contract to be a burden. In many cases, these merchant-manufacturers had enriched themselves through mere business or kinship ties to the ruling apparatus. They exploited this proximity to become even richer in the era of structural adjustment. When some of the regimes ran into macroeconomic problems, the IMF, World Bank and other institutions reinforced the neoliberal message.



SOURCE: WDI

The Fateful Decisions

By the late 1990s, much of the region had gone through two decades of structural adjustment characterized by the trinity of economic liberalization, deregulation and privatization. The economies of most countries, however, were not growing as rapidly as hoped.

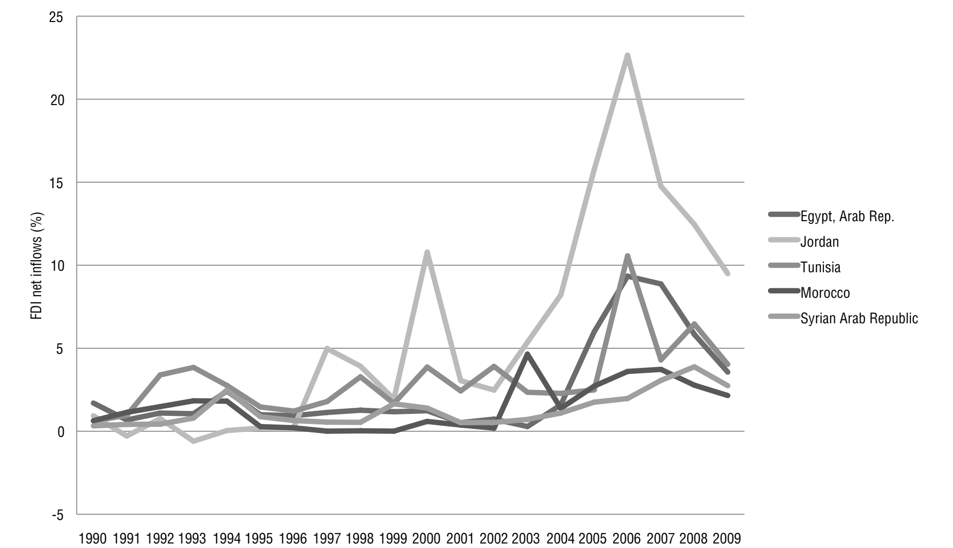
Figure 1 shows the yearly rates of GDP growth per capita in the Arab Mediterranean (excluding Lebanon) from 1990 to 2009. The data shows a growth rate through the early 1990s, then a decline by the first few years of the new millennium, followed by a rise in the mid-2000s until the worldwide financial crisis hit with full impact in 2008. The rise of GDP growth rates in the mid-2000s, however, hides the mechanism through which they were achieved: a policy decision to open the floodgates to private capital, foreign and domestic.

Figure 2 depicts the same countries and time periods but this time charts net inflows of foreign direct investment as a percentage of GDP. The whole graph shows an upward trend, but in the 2000s there is an obvious quantitative increase—in some cases quite dramatic—across the Arab Mediterranean. GDP growth rates and inflows of investment dollars jumped beginning in 2004 after the "reform government" of Ahmad Nazif took power in Egypt. In particular, the pace of privatization of state-owned enterprises picked up, after a slowdown around the turn of the millennium (see figure 3), as more companies were sold off in full or in part. Markets were ecstatic at this turn of events. "If privatization was the test, then [the Nazif] government has proved its mettle," gushed one investor newsletter. "Investor confidence in the country has skyrocketed. The future looks bright for Egypt."[7] The Hermes stock index raced upward.

The Nazif government solved one problem while creating others, however; arguably, it caused irreversible damage to the remaining political base of the regime. While the newer capitalists close to the regimes were beneficiaries, the dramatic opening angered many of the business elite who still had vested interests in a semblance of a national market. Signs of these conflicts can be traced through anxiety in the business press. As early as September 2007 the *Emerging Markets Monitor* had identified growing worker strikes and sit-ins as a threat to the campaign of privatization. More important, it identified the campaign, "No to Selling Egypt," launched by a former state-owned enterprise manager, as gaining traction in the Egyptian parliament. This campaign came not merely from the "leftist opposition" or others "informed by the populist view," but extended to groups like the Muslim Brothers that, in principle, support privatization. The winning argument, the *Monitor* reported, was that the Mubarak regime had "undersold Egyptian assets."[8] By 2010, the divisions over the economic program had spread into the upper echelons of the policy elite. The *Monitor's* January 2011 political and economic outlook tied this split to Gamal Mubarak's hoped-for succession to the presidency, but noted that it was expressed through opposition to economic reforms.

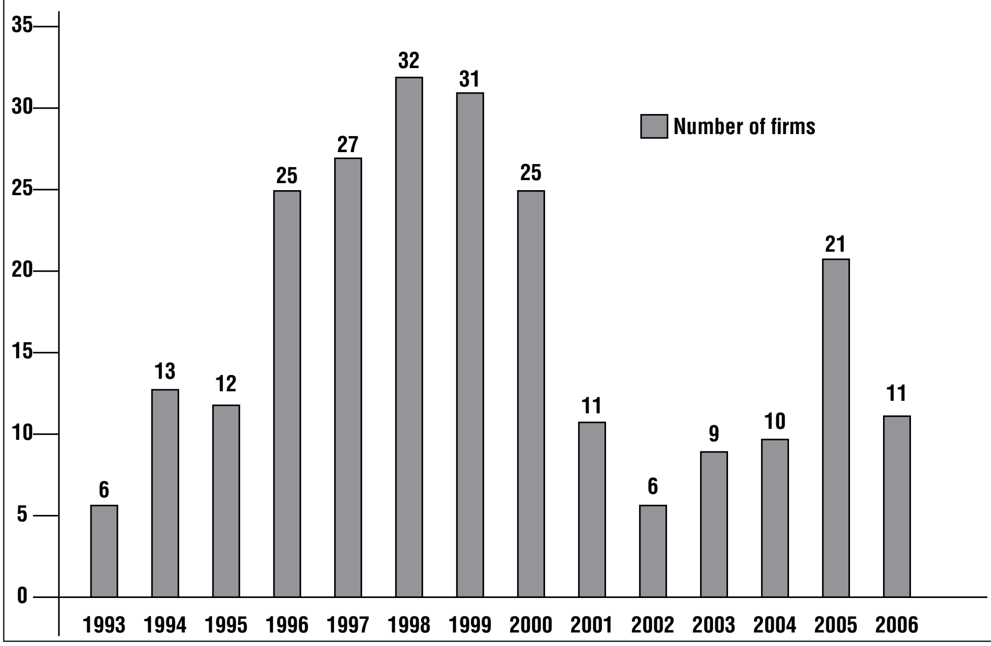
Meanwhile, structural adjustment in the 1980s and 1990s had seen the states of the Arab Mediterranean largely abandon their legacy of support for workers and peasants. The very language of "peasants and workers," once a prominent prop of the authoritarian populist model of rule, disappeared from the lexicon of regimes unable or unwilling to abide by the social contract. Alongside the shifts in policy and rhetoric, uprisings based on economic (and political) grievances erupted across the region: Egypt in 1977, Morocco in 1981 and 1984, Tunisia in 1985, Algeria in 1988 and Jordan in 1989. The increase in global food prices since 2007 contributed to another wave of such "bread riots" in several countries, including Mauritania and Morocco, lasting up to the outbreak of the Tunisian revolution. In Egypt, some 1.7 million workers took part in over 1,900 strikes between 2004 and 2008, before the financial crisis, when the number of strikes and work stoppages reached into the thousands.[9] The laboring classes were reacting in fury not only to their higher cost of living, but also to the mounting extravagance and conspicuous consumption of the elite.

Figure 2: Foreign Direct Investment, Net Inflows (% of GDP) Arab Mediterranean, 1990–2009



SOURCE: WDI

Figure 3: State-Owned Enterprises Totally or Partially Privatized in Egypt, 1993–2006



SOURCE: OMRAN 2007 AND BMI 2007

Pyrrhic Victories

The second fateful decision came shortly after September 11, 2001, when Washington's newly aggressive neoconservative orientation presented both a threat and an opportunity. Having launched one war in Afghanistan and telegraphed another in Iraq, the Bush administration constrained the ability of regional allies to pursue independent foreign policies. On the other hand, the Arab regimes quickly learned that by casting their internal enemies as those of the US as well, they could attract more resources to dedicate to repression. Many of the regimes projected the image of "liberalized autocracy" by making and reversing concessions depending on the degree of internal and external pressure. Pleasing the West took the additional form of what can only be described as public relations campaigns, as regimes (and first ladies) spoke the language of civil society, anti-extremism and modernization, all winks at the liberal sensibility.

Coupled with the heightened belligerence of the security services, the policy decisions of the political elite were clearly losing friends for the regimes. Even segments of the

April 2011 textile workers' strike in Shibin al-Kom. HOSSAM EL-HAMALAWY

professional and managerial class that hitherto had been explicitly non-political began to chafe at the outlandish behavior of the secret police, in particular. The politically minded among the educated middle classes were struck with an iron fist. Amnesty International has documented the long series of grievances, including torture and "disappearances," which afflicted these people, even as corruption intruded more and more upon the daily lives of everyone. In Egypt, the appearance of the Kifaya and April 6 movements, along with Ayman Nour's Ghad Party, reflected the political and economic decline, as shown in April 6's solidarity with striking textile workers and Kifaya and Ghad's protests against dynastic succession and lack of rule of law. For large swathes of the Egyptian populace, the brutal murder of the Alexandrian youth Khalid Sa'id by state security officers in June 2010 epitomized the arrogance and cruelty not only of the regime's henchmen but also of the regime itself. And the story could be retold about most other regimes in the region: By the late 2000s, the Arab states had become virtual oligarchies with an isolated and hated ruling elite.

Understanding the political economy of regime consolidation helps one to understand the Arab revolts better than a simple focus on deprivation or economic success. In a way, the regimes succeeded in solving their immediate problems. They were accepted by the West as partners, and cast their domestic cruelty as an honorable fight against terrorism. They managed to bolster the rates of economic growth, in some cases quite significantly. But these victories proved to be Pyrrhic, as the regimes also succeeded in alienating whatever social base they had left. Perhaps it would have been possible for the regimes to make other decisions, for instance, to engage in meaningful political reform and relax emergency law. They could have rethought the model of economic development and attempted to rewrite an inclusive social contract with workers and peasants. They did not, and perhaps could not, do so. It is clear, however, that the reforms they tried to initiate after the uprisings broke out came almost a decade too late. ■

Endnotes

1 Ian Ayres and Jonathan Macey, "Did Egypt's Rising Economy Lead to Hosni Mubarak's Fall?" *Politico,* February 18, 2011.

2 James E. Rauch and Scott Kostyshak, "The Three Arab Worlds," *Journal of Economic Perspectives* 23/3 (Summer 2009).

3 Alice Amsden, *The Rise of "The Rest": Challenges to the West from Late-Industrializing Economies* (Oxford: Oxford University Press, 2001), p. 2.

4 Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton, NJ: Princeton University Press, 1995), p. 12.

5 David Waldner, *State Building and Late Development* (Ithaca, NY: Cornell University Press, 1999).

6 Tarik Yousef, "Development, Growth and Policy Reform in the Middle East and North Africa Since 1950," *Journal of Economic Perspectives* 18/3 (Summer 2004).

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9 Solidarity Center, *The Struggle for Worker Rights in Egypt* (Washington, DC, 2009), p. 14.