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COMMENTARY

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A New Approach to Development in Arab Countries

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Since the beginning of the Arab Spring uprisings, the question of carving out a new way forward for the region's future has been the key. But in many countries that are now undergoing political and economic transformations, development has struggled. The growth rate in countries that are going through a transition has been very modest, estimated at about two per cent.

Economic growth was recorded in countries such as Tunisia and Egypt, but it did not reflect qualitative changes in living standards. Income gaps widened in a number of countries, while unemployment rates, along with poverty rates, rose, especially in rural areas. At the same time, certain groups saw their income increase, and a handful of success stories came to pass.

Given these mixed results, the question remains—how can Arab countries undertake a new approach, based on the transition from rentier states to productive states, in which all citizens are guaranteed equal opportunities?

A new report by the International Labour Organization (ILO), in cooperation with the United Nations Development Program, entitled *Rethinking Economic Growth* outlines the features of this new approach. It requires the adoption of a new social contract between the state and society. This social contract should reflect the new conditions created by the political transformations witnessed in a number of Arab countries.

A number of reports that emerged in the wake of the Arab Spring uprisings focused on traditional notions of development, but the new report focuses on the supply and demand aspects of production and the labour market. Problems in the labour market, for example, are not primarily the result of the quality of university graduates but are actually related to the nature of the production process and the quality of manpower required by that process. The report also uses supporting data to argue that the proportion of youth in Arab countries is not very different from the demographic situation in many other parts of the world, thereby refuting the argument that high unemployment rates should be blamed on youth bulges in Arab societies.

This analysis illustrates the nature of the development model used in the region in the past that focused on trade liberalization, not production. Statistics collected across the region on a yearly basis by the national authorities show that exports of goods did not exceed a modest five per cent of the total exports of these countries. Key sectors such as agriculture were also neglected by policymakers on the pretext that competition in global markets would not allow for any significant successes.

When analyzing economic actors, including the government and the private sector, it is clear that governments spend more on aid and social assistance than on the health and education sectors. However, social spending suffers from low efficiency rates and increases waste.

Moreover, privatization was accompanied by a climate of corruption in many cases. The government bodies that oversaw privatization efforts, drafted laws, and executed transactions enjoyed close ties to certain businessmen, which meant that the process served certain groups with links to decision makers in government. That came at the expense of the fundamental principles governing privatization and the transfer of ownership of public sector properties.

The quality of growth was thus ignored for a long period of time. Growth figures were hailed without regard for their actual implications for different social groups. For example, despite the higher growth rates achieved in certain countries, the share of wages and consumption in GDP, which reflects improvement in welfare levels, grew at very low rates. In addition, the gap between urban and rural regions did not receive sufficient attention.

In short, the development model that has been prevailed for several decades is outdated, even though traditional and old-guard beneficiaries of the system prefer to keep it in place. A progressive approach, which seeks to provide equal opportunities, has begun to make headway, although it will confront a number of difficulties according to the ILO report. The new development outlook focuses on the notion of progressive growth, which provides equal opportunities to all categories of society.

New policies must ensure consistency on a macroeconomic level; they should include fairer tax policies and contribute to an improvement in income distribution. The new policies must also expand social coverage and adhere to better-defined mechanisms in order to reduce wasteful spending. New industrial policies should be implemented in order to revive certain sectors, such as the manufacturing and agriculture industries. It is important to set a time frame within which challenges, such as education and public sector reform, can be addressed.

Proposed changes will be met with resistance from those who have benefited from the previous approach and who realize how such a change could harm their interests. For the new approach to succeed a collective political framework based on wide social base, high levels of integrity, sound application principles, and commitment to change must be put in place.

The old policies were not completely wrong, but their misuse by those who took advantage of them for their own benefit meant they fell short of their objectives. A new development model must be based on reform of the economic system as well as the political system, which oversees and guarantees the results of economic development. This means that the process of building and implementing a new development model will be both time-consuming and challenging.

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