



the Hollings Center  
*for international dialogue*

**Dialogue Snapshot**  
***The Economies of the Arab Spring***  
**October 27-29, 2011**

Until recently, the economic dimensions of the Arab Spring have played second fiddle to high-order political issues. Policymakers and pundits have focused much more on the posturing of the Supreme Council of the Armed Forces (SCAF) in Egypt or on debating whether *an Nahda* will upend the secular order in Tunisia. Less attention has been paid to the fiscal crisis states face and to the plight of citizens who have to cope with the economic scarcity and uncertainty that are part and parcel of political upheaval. But as the transitions wear on, the focus on the Arab Spring's political economy is taking its rightful place among the headlines and policy debates.

What shape will the economic transitions take in Egypt, Tunisia, and a post-Assad Syria? Who are the likely economic winners and losers? How can states provide public services, social safety nets and a business-friendly environment? Given a choice between international donors and economic development models, who are Arab governments and publics likely to turn to?

*It is not clear to what extent the disenfranchised social class represented by Mohamed Bouazizi will be meaningfully incorporated in the political transitions.*

To address these and other questions, the Hollings Center for International Dialogue convened a three-day Regional Policy Dialogue in October 2011 entitled *The Economies of the Arab Spring*. Held in Istanbul, Turkey the dialogue brought together a group of Americans, Egyptians, Tunisians, Turks, and Syrians that included foreign policy and political economy experts, academics, journalists, activists, private-sector leaders, think-tank representatives, and former politicians and advisors.

This report presents a snapshot of the dialogue and implications that policymakers, practitioners, and private-sector individuals may find essential in understanding the ongoing transitions in Arab states. Four recurring themes ran throughout the dialogue sessions:

- *Arab states are unlikely to tread the same economic path.* Arab states are in unique transition phases, and Western aid may play out better in Tunisia and post-Assad Syria than in Egypt.
- *Cronyism has a penchant for revival.* New governments will have to work hard to prevent corrupt and nontransparent economies from reviving themselves.
- *There is a lack of a clear economic vision for the future.* Neither political parties in the region nor donors have a clear vision.
- *The search for models is at best elusive, at worse distracting.* The much touted Turkish model has its limits.

## Tunisia Lurches Forward

The dialogue took place in the wake of Tunisia's Constituent Assembly elections. The election results, which delivered a resounding victory for *an Nahda*, triggered lively debates. Given the party's Islamist sensibilities, some participants debated whether this will shift Tunisia away from some of its progressive and secular roots and possibly discourage European and American investment. While there was no consensus on the subject, the Islamist issue was quickly and tellingly relegated to a secondary status in the discussion. As one participant noted, "*an Nahda* already did much to reassure Tunisians and the international community that it is not going to be a radical force."

Part of the subsequent discussion hinged on whether the past will be a harbinger of things to come in Tunisia's future political economy. It is well known that the previously-ruling Ben Ali family rolled up many of Tunisia's lucrative industries and ventures into their portfolio of ownership and influence. One participant argued that big business had been grumbling privately about Ben Ali for a good decade and that a large segment of this sector may be open to creating dynamic partnerships with the new government. However, none of the parties, including victorious *an Nahda*, have a clear platform for the economy, development, and welfare. As one participant noted, "I have read their platforms and they are full of broad similarities that are pitched at such a high level that it makes it impossible to object to them. They are slogans not economic platforms."

To prevent a resurgence of cronyism, participants offered a number of different thoughts: First, the new government and business associations will have to draft a plan to develop the disadvantaged south and east of the country and create incentives to activate small and medium-sized enterprises in the region. The importance of the south and east should not be underestimated, since large protests in those areas preceded the fall of the regime by a number of years. Second, the government should move ahead decisively to write the constitution and enact crucial regulatory reforms that can underpin a sustainable business environment. Third, public works projects (funded by the United States and the EU) may be a good way to temporarily reduce unemployment. Indeed, the poor infrastructure in the country had been an enduring gripe of the public and the business sector.



Photo: Will he get his revolution? Courtesy of Başak Er

The discussions on Tunisia were cautiously upbeat. The electoral outcomes enable the transition government to undertake crucial reforms. Yet even the more optimistic participants issued a number of warnings: One participant from Tunisia stated that founding elections are critical but that at least two electoral cycles have to take place to determine whether the transition to stability and democracy has been satisfactory. Second, Tunisia's pre-revolution export sector had certain elements of strength that a new government can build on. But these sectors are low in both value added and labor skill level and now face crushing competition from South East Asia. Third, while investors are lining up to build neighboring oil-rich Libya from scratch, this is not the case for Tunisia (or Egypt for that matter).

## Egypt's Prolonged Standoff

In contrast to the debates on Tunisia, the atmospherics of the discussion on Egypt were heavier and rather pessimistic. Many participants agreed that the transition in Egypt has been extended in a way that is politically and economically destructive. SCAF has for months maneuvered to defer presidential elections and may stay at the helm of the interim government, at least until it can ensure that the military's political and economic privileges will not be eroded by a future government. Many of the political parties have acquiesced, hoping to avoid a sweeping victory by the Muslim Brothers. At the same time, Egypt's labor, associational, and neighborhood movements have resolutely stayed on the street. They fear that the demands at the core of the January uprising will not be met if they pack up and go home.

While most participants expressed concern for Egypt's protracted transition, they based their concerns on different reasons. One participant noted that the revolution, which she characterized as ongoing, had been in the making for 10 years and that it is intimately connected to the failure of the neo-liberal model to meet the basic needs of Egypt's working poor as well as the middle classes. In agreement with this view, other participants noted that the social movements that triggered the uprisings in Egypt and Tunisia are being marginalized and that the same old business elites are lining up to jump, ride, and derail the revolution.

*When asked whether the U.S. should call for SCAF to move faster with the transition, one Egyptian participant replied, "No, this should be something for the Egyptians to figure out and any statements would create the impression that the U.S. is setting the agenda."*

There was substantial disagreement on this point, and several counterpoints were made. Among them was the idea that in Egypt—much more so than in other transitioning states—there is extreme hostility to implementing pro-business reforms and that the country's economy will be damaged for the long term if investors continue to see Egypt as an insecure business environment. Indeed, a representative of the Turkish export sector noted that Turkish factories in Egypt's qualified industrial zones are scaling back given the constant pressures by Egypt's labor groups for higher wages.

Recent headlines have raised alarm about the interim government's expansion of permanent worker contracts and agreement to raise salaries, which will inevitably boost the government's wage bill at a time of major fiscal crisis. One participant played down the increase noting that the country's macro-economic policy remains intact and strong (exchange rates and reserves are still under control). Another participant noted that Egypt is doing better than Greece economically, and a third argued that one cannot expect the interim government not to respond to reasonable wage demands. A former government advisor issued a fascinating counterpoint that used the experience of the Mubarak regime to warn that social spending increases may backfire. Speaking of the Mubarak government, he argued that when it came to subsidies, wages, and pensions, "the regime actually increased spending because it had to outperform itself to compensate for what it saw as its own political de-legitimization...whether that was translated into quantifiable achievement is very questionable."

Participants proposed a series of ideas for moving forward in Egypt. Among them were the following: The transition period needs to be condensed and presidential elections should come sooner rather than later to promote economic planning and to calm scared investors; the country should examine which of the past reforms should be carried forward and which should be abandoned. It may be fruitful to

continue tax reform and reforms that enable the state to shift from provider to regulator. However, the idea that the state should scale back on its role in the economy fueled disagreements. One participant argued that governing elites must first meet the demands of Egypt's long-suffering society before they worry about the needs of business and the private sector. The battle for Egypt's economic soul goes on.

### **Syria's Violent Uncertainty**

The discussion on Syria took place in the shadow of the continuing uprising and violent repression by the Assad government. The discussion was deeply enriched by the participation of Syrians who are highly familiar with the country's political economy. Participants discussed the latest developments on the ground, outlined several scenarios for how the violent conflict between the Assad government and the opposition might play out, and they proposed recommendations for what should be done in the short and long term to cope with Syria's transition.

One of the Syrian participants noted that the Assad regime is engaging in about 30 to 40 targeted assassinations daily as a tool to keep the uprising from spreading further. Despite Assad's heavy-handed use of the police and military, one participant estimated that 40-45% of the country has no government presence. "Where there is no tank, there is no state."

Another Syrian participant estimated that the government has severely depleted its currency reserves and may run out of money sooner than observers have estimated. Few people are paying taxes and many expats have stopped sending hard currency to the country. The political turmoil has also spilled over into the real estate market, with house prices in many cities and towns skyrocketing as people shift their money away from banks and stocks to somewhat more secure real estate havens.

During the course of the dialogue, participants discussed three possible scenarios: 1) that Assad's regime will survive but become an isolated pariah akin to North Korea; 2) that the violence will lead to a civil war that may also pit Syria's ethnic and religious groups against each other; and 3) that the Assad regime will fall and give way to a transition (participants were agnostic on whether the transition would be relatively smooth like Tunisia's or fall into stasis like Egypt's). The discussion indicated the third scenario is the most likely outcome.

Should the third scenario come to pass, Syria will inevitably have to make some difficult choices on economic reform. Participants noted that Syria's economy is a hybrid mix of rampant cronyism (dominated by 20-30 individuals) and a bloated state sector that is concentrated around Damascus. It is estimated that 1.8 million Syrians receive government salaries. As one participant noted about Syria's state-led economy, "in a factory that needed 100 employees, we had 700." An interim government will have to make a decision to either dismiss excess workers or find money to continue paying them; both with serious consequences. Additionally, tensions will arise between Damascus, which has been built heavily on a statist economy and Aleppo in the north, which in recent years has developed an expansive industrial base and trades heavily with Turkey.

*On what the international community should not do to pressure Assad, Syrian participants gave interesting answers: Turkey should not stop trade as a trade embargo will hurt the government's opponents. And there should be no international military intervention; the broad swaths of the country out of Assad's control can be used as self-organizing safe havens.*

Looking ahead to a post-Assad political order, Syria’s economy faces uncertain times. On the one hand, its modest oil wealth may allow the government to gradually streamline state enterprises. On the other hand, the country is sorely lagging in technology transfers and management training. If the country follows the path of market-driven reform, Syrian officials will have to find a way to avoid making the country a dumping ground for foreign goods and a repository for low-skill factories.

### In Search of Models: The Turkish Way?

When it comes to understanding revolutions and political changes, it is tempting for observers and participants alike to discuss whether models exist for transitioning states. One of the most touted models in this regard has been Turkey. Turkey’s political and economic changes over the past decade make for intriguing comparisons. During the course of the dialogue, participants discussed this idea with one another and with Turkish counterparts.

On the whole, participants were very skeptical of the idea that Turkey serves as a model that can be emulated wholesale by Tunisia, Egypt, and Syria. Indeed, a participant from Gallup presented some sobering statistics for advocates of the Turkish model in Egypt. When survey respondents were asked “Which country would you consider to be a political model for Egypt’s future government?” only 8% cited Turkey. Turkey performed only slightly better than the United States, which was cited as a model by 7% of respondents. The dialogue noted that Turkey’s political changes—from the submission of the military to civilian oversight to the AKP’s experience at the helm of government—are frequently cited in Tunisia and Egypt. Tunisia’s *an Nahda* seems to be the party that most enthusiastically promoted a comparison between itself and AKP, although *an Nahda*’s success at organizing seems to have sprung up organically from the revolution rather than through any act of emulation. In Egypt, the Turkish model is often cited rhetorically but it is also a divisive comparison. The Muslim Brothers (MB) may enjoy Turkish Prime Minister Erdoğan’s suggestion that they too can go down the path of AKP, but for Egyptian political actors eager to marginalize the MB—such as SCAF and the liberal parties—the comparison is threatening.

**Table:** Turkey’s Trade with Select Arab States

	TRADE VOLUME (in \$US millions)		BALANCE OF TRADE (in Turkey’s favor)	
	2000	2010	2000	2010
EGYPT	516	3,187	235	1,335
IRAQ	1,862	6,190	-1,779	5,883
JORDAN	127	615	72	529
LEBANON	151	847	107	390
LIBYA	882	2,358	-691	1,507
SYRIA	730	2,272	-361	1,011
TUNISIA	227	995	97	434

**Source:** Turkish Statistics Institute (TÜİK)

The discussion then shifted to the economic dimensions of Turkey’s engagement with Arab states before and after the Arab Spring. One Turkish participant said that Turkey should not be seen as model but

rather as a market/trading state whose dynamic economy and ability to link the government to private initiative can have a positive economic impact on the Arab states. The statistics are indeed compelling: In 2000 Turkey exported \$6.5 billion to Arab countries, and now it exports over \$50 billion. Turkish construction projects in Arab countries total \$70 billion, and there are Turkish business councils in 18 Arab states. Participants also discussed the Levant Quartet, a burgeoning regional economic union between Turkey, Lebanon, Jordan, and Syria that seeks to lower barriers to trade and dynamically merge the four economies.

However, Turkey's ability to lift up the Arab Spring's economies may be overstated. As one participant noted, when Turkish business representatives discuss Arab states, they tend to speak about the need to increase trade volumes. But they have little incentive to correct the massive trade balances in Turkey's favor (see chart on previous page). Whereas many Turkish participants discussed Turkey's "trading state" identity and role as positive factors in the region, some Arab participants expressed concerns that Turkey's economic growth is based on Arab countries serving as hinterland markets that buy much from Turkey, but sell little back.



Photo: "Are you ready to export?" asks an ad of the Istanbul Chamber of Commerce

## An Abundance of Donors, a Shortage of Aid

Despite the global economic crisis, there is an abundance of donors who can potentially assist Arab states in smoothing out their economic and fiscal transitions. These donors include the United States, Gulf Countries, international financial institutions, and the European Union. The problem with aid, therefore, is not a shortage of money but one of politics. And the political sticking points are numerous.

First, some participants noted that Gulf States are more willing to take risks with aid packages and more confident in their ability to influence transitioning countries than the United States, whose aid packages tend to get bogged down by domestic political scrutiny and conditions. Others disagreed noting that Gulf States can be quite tentative and skittish when it comes to aid. Gulf States initially pledged \$18 billion but much of that "aid is still at the pledge stage and speaks to the anxiety of the Gulf States. Saudi Arabia is a sophisticated donor, and they are not going to jump back into Tunisia, Lebanon or Egypt," as noted by a participant.

Second, some Egyptian participants made the point that the United States and the G8 announced their aid packages with little coordination and negotiation; that is, they informed the Egyptians about the specifics of the package but did not negotiate the highly conditional terms with them.

Third, American aid appears to be a particularly toxic and contentious issue right now, at least in Egypt. A new Gallup poll that a participant previewed exclusively for the dialogue revealed stark trends. When Egyptians were asked whether they favor or oppose particular sources of foreign aid, the results were the following: 71% said they favor aid from other Arab states; 30% favor U.S. aid; and just over 57% favor aid from the International Monetary Fund and the World Bank.

Participants differed appreciably on what they consider to be a way forward to the aid issue. One view was that the United States should simply back off and let Egyptians muddle through without interference. Another view was that the United States (and all other donors) should not give any aid until the transition is over and Egypt has a president. Yet another view suggested that international donors should create an international contact group that includes a large and vigorous Egyptian delegation so as to give Egyptians a sufficient say and thereby chip away at the anti-U.S. sentiment in the aid field.



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The Hollings Center for International Dialogue is a non-profit, non-governmental organization dedicated to fostering dialogue between the United States and countries with predominantly Muslim populations in the Middle East, North Africa, South Asia, Eurasia and Europe. In pursuit of its mission, the Hollings Center convenes dialogue conferences that generate new thinking on important international issues and deepen channels of communication across opinion leaders and experts. The Hollings Center is headquartered in Washington, D.C. and maintains a representative office in Istanbul, Turkey. Its core programs take place in Istanbul—a city whose historic role as a crossroads makes it an ideal venue for multinational dialogue.

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