One year after the revolution swept through a number of countries in the Arab world, we can begin to comprehend the factors that caused it. Overall, there is an understanding that these popular uprisings were caused equally by a rejection of authoritarian regimes and anger at economic injustice. While they were taking place, another Arab country, Iraq, was witnessing similar economic frustrations and anger at decision-makers’ inability to solve the issues confronting the population. Yet, there were only a few demonstrations in Iraq – an outcome of the continuing traumatic violence that has enveloped the country since the U.S.-led invasion in 2003. Given that Iraqis have experienced relatively democratic elections, it would be instructive to analyze the economic lessons of an Arab country emerging from an authoritarian regime and to assess the pitfalls that other Arab countries might encounter with their nascent democracies. This article will focus mostly on Egypt and Tunisia, as the Syrian people are still battling against the tyranny of their autocratic regime.

Countries that emerge from the iron grip of authoritarian regimes after decades of deprivation and an inability to participate in political and economic decision-making tend to have high and unrealistic expectations of a bright future. Thus, whether in Iraq or Egypt, the clash between expectation and reality develops into a serious hurdle that needs to be overcome. Socioeconomic discontent burst to the surface, and the people at large have demanded a swift solution to their long-standing suffering. The new parliament in Egypt and Tunisia’s Constitutional Assembly will articulate those difficulties, but it will be difficult to rapidly solve the key economic
The Middle East Program was launched in February 1998 in light of increased U.S. engagement in the region and the profound changes sweeping across many Middle Eastern states. In addition to spotlighting day-to-day issues, the Program concentrates on long-term economic, social, and political developments, as well as relations with the United States.

The Middle East Program draws on domestic and foreign regional experts for its meetings, conferences, and occasional papers. Conferences and meetings assess the policy implications of all aspects of developments within the region and individual states; the Middle East’s role in the international arena; American interests in the region; the threat of terrorism; arms proliferation; and strategic threats to and from the regional states.

The Program pays special attention to the role of women, youth, civil society institutions, Islam, and democratic and autocratic tendencies. In addition, the Middle East Program hosts meetings on cultural issues, including contemporary art and literature in the region.

- **Current Affairs:** The Middle East Program emphasizes analysis of current issues and their implications for long-term developments in the region, including: the events surrounding the uprisings of 2011 in the Middle East and its effect on economic, political and social life in countries in the region, the increased use of social media, the role of youth, Palestinian-Israeli diplomacy, Iran’s political and nuclear ambitions, the drawdown of American troops in Afghanistan and Iraq and their effect on the region, human rights violations, globalization, economic and political partnerships, and U.S. foreign policy in the region.

- **Gender Issues:** The Middle East Program devotes considerable attention to the role of women in advancing civil society and to the attitudes of governments and the clerical community toward women’s rights in the family and society at large. The Program examines employment patterns, education, legal rights, and political participation of women in the region. The Program also has a keen interest in exploring women’s increasing roles in conflict prevention and post-conflict reconstruction activities.

- **Islam, Democracy and Civil Society:** The Middle East Program monitors the growing demand of people in the region for the transition to democratization, political participation, accountable government, the rule of law, and adherence by their governments to international conventions, human rights, and women’s rights. It continues to examine the role of Islamic movements and the role of Islamic parties in shaping political and social developments and the variety of factors that favor or obstruct the expansion of civil society.

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issues after decades of neglect. The correlation between the economic problems of the Arab countries and their political structure is quite high. All these nations endured administrations whose reforms failed to remedy economic conditions and where the main objective of the regimes was to stay in power. Economic policy, in general, was seen as a tool for distributing rewards to groups close to the regime and then to its general supporters, rather than tackling the huge problems that were accumulating without fundamentally attempting to change them.

The reforms failed for three main reasons, all of which were interrelated. First, the regimes were reluctant to yield their economic powers to outsiders, even though some of the reforms were originally intended to benefit certain groups close to the ruling elite. Second, corruption and cronyism dominated these reforms, preventing real success. Finally, there was no emphasis on accountability or on reforming the decision-making process. By examining some of these economic hindrances common to countries such as Iraq, Tunisia, Egypt, and Libya, we can gain a better understanding of their situations and then attempt to draw some lessons from the experiences of Iraq. Obviously, each country has its own set of obstacles and some, such as Iraq and Libya, are resource-rich, but their wealth has not been exploited properly for the benefit of their populations.

The first and most serious challenge is how to deal with corruption. In Iraq, while violence has been reduced to a level that allows a semblance of normality, Nouri al-Maliki’s government, according to the International Crisis Group (ICG), has “allowed corruption to become entrenched and spread throughout its institutions.” As the ICG report clearly indicates, the Iraqi government’s interference in and manipulation of corruption cases for its own political advantage has led to a serious deterioration in the running of government institutions. The report characterized the spread of corruption within the country’s institutions as a virus, and warned that the government’s paralysis is contributing to “the proliferation of criminal elements and vested interests throughout the bureaucracy.” Today, corruption permeates every facet of decision-making in Iraq, thus preventing the country from taking advantage of the huge oil wealth accumulated in the last few years due to rising oil prices. Corruption existed in Iraq under Saddam Hussein’s Ba’th party and gained momentum during the sanctions, but at no point during the 35 years of authoritarian Ba’th regime was corruption as rampant and endemic as it is today. Because of the bureaucratic officialdom that has developed in these countries, corruption further aggravates the labyrinth of bureaucracy faced by citizens and makes it harder to start businesses or to reach decisions on economic grounds rather than through favoritism.

In Egypt and Tunisia, corruption has been a curse due to the crony capitalism that the rulers built to serve their interests. In fact, the private sector in both these countries exhibited the worst combination of capitalism allied to government procurement and licensing that favored a small number of business families who were close to the rulers. In Egypt, a few dozen families controlled most of the large businesses in the country, while in Tunisia the new government will face tricky political and legal challenges as it grapples with the legacies left by the families of the previous president Zine al-Abidine Ben Ali and his wife. A year after his January 2011 departure from Tunisia, a vast portion of his family-related investments still remains out of the reach of the country’s new government. Estimates put these assets in the billions of U.S. dollars, and it is thought that they are locked away in 12 nations around the globe. The families associated with Ben Ali had acquired large stakes in almost every industry and had created joint venture firms with foreign companies to control other sectors of the economy. In both countries, unraveling this crony capitalism in a just and legal manner without further damaging the local economies and reducing exports will represent an enormous challenge. The Muslim Brotherhood, which recently gained the highest number of seats in the Egyptian parliament, is not tarnished by corruption, and there is a high possibility that—at least within the upper echelons of the Egyptian government—corruption will decline.

How to tackle corruption is thus the challenge for all the Arab countries transitioning from authoritarianism to democracy. The clear lesson from Iraq (and other countries such as Russia after the collapse of the Soviet Union) is that the disappearance of authoritarian rule is no guarantee for corruption to vanish. In both Iraq and Russia, the fear of despots evaporated, but corruption seems to have replaced Ba’thist and Communist ideologies as the dominant political philosophy. In Iraq, one group of clientele was replaced by another, and under the pretense of encouraging entrepreneurship, corruption became entrenched. According to Transparency International, which publishes the Corruption Perception Index, Iraq came toward the bottom of all countries (175 out of 182 countries). Today, after nine years of so-called
neoliberalism intended to encourage entrepreneurship, no real private sector has emerged in Iraq and most contracts are obtained through government patronage. Sectors such as construction, which is witnessing a boom due to the enormous oil revenues, are closely connected to the government. Another factor contributing to the spread of corruption in Iraq, which hopefully other Arab countries will prevent, is brain drain. The emigration of hundreds of thousands of competent and educated Iraqis fleeing the sectarian violence that erupted after 2003 led to a degradation of the civil service and a serious impairment of public services and of economic functioning overall.

In spite of the brain drain, Iraq, like most other Arab countries, is suffering from unemployment. Ranging from about 10 percent in Iraq to 16 percent in Tunisia, unemployment has undoubtedly been one of the ingredients of the uprisings. In all these countries, unemployment among the youth and college graduates is very high. In Egypt, for instance, it has been rising since 2008 and now hovers around 12 percent (and among college graduates, roughly 35 percent). In most countries, unemployment figures do not account for the informal economy, so the real unemployment rate is much higher. Each year, the Egyptian government needs to create almost one million jobs to meet the demand of the more than 700,000 new entrants who are added to the labor market annually. The concern about the “youth bulge” is not restricted to the Arab Spring nations. Saudi Arabia, for example, has even more severe challenges with its proportion of unemployed young Saudis, aged from 15 to 24, hovering around 39 percent. The unemployment picture in most Arab countries is very bleak; it is structural rather than cyclical and stems from decades of neglect of education and training, so that job seekers cannot be matched with job vacancies.

Another reason is that the governments in these countries dominate the labor markets and are the prime source of demand for labor. Historically, governments’ control of labor markets was another means of ensuring that supporters of the system would have priority in job-hunting. When demonstrators talked about their sense of lack of dignity, many were also complaining that they were left with no jobs and, worst of all, with no opportunities for the future. Humiliation of the Arab masses stemmed not only from direct actions of autocratic governments, but also from the helplessness felt by many who were unable to support their families in reasonable and dignified jobs. The brother of the Tunisian fruit and vegetable vendor, whose self-immolation triggered the Arab revolution, when asked what his brother’s sacrifice would lead to, told one journalist “that the poor also have the right to buy and sell.” Reducing unemployment, particularly of youth and the educated, will be the litmus test for the new governments. Paying lip service to this challenge without positive action will not ameliorate the situation, as we have seen in Iraq, where the government continues to rely heavily on the oil industry without making serious efforts to support or encourage other industries that would be more labor-intensive. Although unemployment is high, all these countries will have to reduce bureaucracy in the long run and desist from artificially employing thousands of educated graduates (Saudi Arabia announced an increase in state hiring to reduce demands for employment).

Lack of employment opportunities has led to widespread poverty in most of the Arab world. In both Egypt and Tunisia, the impact of last year’s events on tourism has been disastrous and has created more unemployment. The economic agenda of the new governments has to focus on poverty alleviation and raising living standards by improving the quality of education and health. In Iraq, in spite of the vast reserves accumulated by the state, living standards continued to decline after the invasion in spite of the glowing promises of a new era. Individuals have few opportunities to prosper from professional or entrepreneurial activities, and social services and economic infrastructure continue to deteriorate despite the country’s wealth. In Iraq, about 23 percent of the population is considered poor, similar to Tunisia but higher than Egypt, which lacks vast natural resources. In rural areas, poverty is now more than 39 percent, and nearly the entire population receives food rations, which make up about 85 percent of the minimum average calorie requirement. Indeed, there are few signs of an improving quality of life for millions of Iraqis, despite the National Strategy for Poverty Reduction, a campaign launched in late 2009. The economic success of Latin America should serve as an example to the Arab world: its middle class has been steadily growing while its poorest class is shrinking, thanks to economic growth and an economic policy that has reduced reliance on cronyism and opened opportunities for many poor and middle-class citizens to have small but prospering businesses.

Poverty and unemployment leads us to examine education in the region. In countries such as Egypt or Iraq, poverty is directly correlated to education, and a vicious cycle has been
created that the decision-makers are not breaking because of their policy priorities. While enrollment in schools has increased throughout MENA countries in the last 30 years, the quality of education has stayed low. Participation in the knowledge economy is still relatively restricted, as teaching and curricula remain traditional. The preponderance of state employment dampens the urge to acquire higher education, and even for many of the educated, there is nowhere to go. The result is a high dropout rate and continuing brain drain from most of the countries, including those that experienced the Arab Spring. The issue of state employment was and is still political, as it represents part of the system of rewards that these governments bestow on their supporters or to secure the acquiescence of the educated youth. Iraq is a case in point as the system did not change radically after the invasion; both Saddam Hussein and the governments that followed him continued with this policy, as it provided strong leverage over the youth. Overall, there has been very little emphasis on technical education, and the majority of graduates are still in humanities and social sciences at a time when Latin America, India, and Southeast Asia have pushed the boundaries in technology and engineering.

The education and employment of women is another important topic that must be addressed. In Iraq, for instance, there has been a regression in the number of educated women and a sharp decrease in their employment. According to a World Bank report, “households have little incentive to invest in more schooling, especially among low-income families and for girls in rural areas.” This trend, which began during the sanctions period in the 1990s, gathered momentum after the invasion in spite of promises given by the American administration under Paul Bremer to encourage female education and boost the role of women in the economy. Unemployment of women in the region is much higher than that of men, whether in rural or urban areas, and in both the educated and less educated categories. In the long run, it is difficult to see how countries can grow and develop without the active economic participation of half their population.

Debt is another challenge for the countries of the Arab Spring. Here, Iraq has recorded a success in reducing the sovereign debt that it accumulated mostly during the Iran–Iraq War, and thanks to U.S. pressure most debt was forgiven or rescheduled on easier terms by a wide number of countries, with Kuwait being the only one that has refused to participate. From levels of more than 200 percent of gross domestic product (GDP), debt as percentage of GDP will drop this year to around 35 percent only. On the other hand, the country that has a serious issue of debt given its lack of resources is Egypt, where debt as a percentage of GDP will reach more than 82 percent this year. The debt itself is not unsolvable but is exacerbated by the fact that subsidies, wages and salaries, and interest payments account for 75 percent of the total spending of Egypt, preventing it from investing in infrastructure and essential services. It seems inevitable that there will be further devaluation of the Egyptian currency, which, in turn, will lead to soaring prices of food and other imported goods.

This leads to an important subject: cash and financial aid to the countries of the Arab Spring and the role of international organizations. A significant lesson from Iraq’s experience is that cash and financial aid are not the panacea for a country’s structural problems. Because of many factors such as brain drain, the Iraqi government has been unable to disburse its capital budget in full, which means that its fiscal account recorded a surplus of 3 percent in 2010 and more than 11 percent in 2011. Likewise, Iraq’s reserves are estimated to be over $50 billion. In other words, cash alone cannot solve structural problems, and while countries like Egypt—and Tunisia to a lesser extent—will need financial aid, in the long run, the West could help constructively by investing in those countries and creating jobs to ameliorate their plight. Egypt, having dropped plans for an International Monetary Fund (IMF) loan in June 2011 amid popular distrust of international organizations, is now back negotiating a new loan of $3.2 billion, as it is shedding $2 to 3 billion of its reserves each month as a result of the deterioration of the economy and the collapse of tourism. International organizations such as the IMF gave high marks to countries like Egypt and Tunisia prior to the revolutions, as their statistics indicated high growth and the official inequality figures showed an improvement. These statistics do not, however, provide the full picture. In Iraq, for example, inequality in living standards is extremely low, and the Gini coefficient, the most commonly used measurement of inequality, is only 0.309 (and in Egypt it is 0.32). Interestingly, the Gini coefficient in the MENA region is lower than in Latin America, but needless to say these figures do not demonstrate the regressive trends in the region, and in reality there is a huge gap in income distribution. Thus, while some of these indicators used by international organizations might be helpful in understanding certain trends, they do
not necessarily portray the true picture of the utter misery of millions of people. The contradiction between indicators such as poverty and inequality does not alter the economic dimensions behind the Arab revolution. The praise from the World Bank and the IMF for countries like Tunisia and Egypt stemmed from their focus on a top-down economic approach without promoting real change.14

There are, of course, other problems facing all these countries such as inflation and lack of foreign investment. The Arab Spring has undoubtedly unsettled the business climate, and foreign investors are wary of launching new ventures or expanding their current ones given the present uncertainty. In countries like Egypt, it will be at least one to two years before even Egyptian investors living abroad will put money back into their homeland. It is clear, however, that there are direct connections between all the problems presented here and the political structures that have dominated these countries for decades. Cronyism and corruption became entrenched due to lack of serious reforms. This in turn led to stagnation that hampered employment and reduced opportunities for the young and educated, which caused a further increase in poverty, inequality, and scant attention to infrastructure and improving health and education. (See Figure 1)

The nations that witnessed the Arab Spring were engaged not only in uprooting existing regimes, but are and will be undergoing a dramatic shift in their economic ideology. In countries such as Libya, building the economic institutions will take time and effort, but the country has two major advantages: it is wealthy and has a small population. In Syria, much will depend on how long the quasi-civil war will continue. The lesson from Iraq’s sanctions is that they paralyzed the country even after they were lifted. Syria is experiencing a similar phenomenon to Iraq in the 1990s: Syrians are grappling with fuel shortages, a plunging currency, and rising prices; the Syrian pound already dropped from 45 to the U.S. dollar down to 70, and city residents are purchasing gold bars for financial protection. In Iraq, the sanctions caused the demise of the middle class, and it is likely to have the same effect in Syria if the violence and sanctions continue for, say, another year. Even with a cessation of violence, oil production and tourism will take a long time to return to their pre-uprising levels.15 Already, huge assets have been smuggled out of Syria to Lebanese banks, and it will be just a matter of time before waves of Syrians flee their country.

Historically, countries that experience revolutions and fundamental transformation of their economic structures find it extremely hard to develop high economic growth and prosperity in the short term. Therefore, reducing the expectations of the population for the next couple of years is essential to staying on track, rather than lapsing into the destructive ploys
of the authoritarian regimes of safeguarding their interests by sacrificing vital long-term objectives. Fighting corruption and cronyism will demand serious commitment and a willingness to take drastic measures to uproot this curse. Iraq’s experience indicates that once the government allows those close to the regime to embezzle, the virus then spreads swiftly throughout the bureaucracy. The outlook in the next few years is not rosy, but the people of the region have a chance to emerge with a stronger economic base and higher levels of prosperity for the vast majority, and not just for a small minority as has been the case for the last 30 years.

Notes

2 Ibid.
13 The Gini coefficient measures inequality of income; a Gini coefficient of 1 (100 on the percentage scale) expresses maximum inequality among values. For example, Sweden scores 0.23 as it has the least inequality while Namibia scores approximately 0.70.
14 For the conflicting metanarratives about the economic component of the revolts, see Omar Dahi, “Understanding the Political Economy of the Arab Revolts,” *MERIP*, Summer 2011, 2–6.
15 See article of Michael Peel and Abigail Fielding-Smith, “Internal focus can help Syria tough it out, says minister,” *Financial Times*, January 24, 2012.