Protests in Lebanon over the economic crisis, October 22, 2019. Photo: Wikimedia Commons

Demographic and Economic Developments in the Arab World, 2010-2020

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Some 100 million people live in the Middle East in countries that have been been affected by civil wars or are failed states. One of the results has been high unemployment, especially among the young, a phenomenon that has severe economic, social, and political consequences in oil-rich states, as well as in the much poorer states with little or no oil. This article examines economic and demographic developments in the Arab world between the beginning of the Arab Spring in late 2010 and the onset of the COVID-19 pandemic in 2020, and reviews the causes and consequences of the conflicts that began in the Arab Spring.

Keywords: economic development, oil, demography, war, displacement, political power

This paper examines economic developments in the Arab world between the beginning of the so-called Arab Spring in 2010 and the onset of the COVID-19 pandemic in 2020. During those years, the Arab world experienced a series of dramatic developments that resulted in the deaths of hundreds of thousands and huge economic losses.

The Arab Spring began in Tunisia at the end of 2010, and resulted in the downfall of the

Tunisian, Egyptian, and Libyan leaderships. Civil wars erupted in Syria and Libya, and the conflict in Yemen deepened. Early in 2014, the organization that became known as the Islamic State drove Iraqi government forces out of key cities, captured Mosul, and massacred thousands of Yazidis in Sinjar. At its height the Islamic State controlled 30 percent of Syria and 40 percent of Iraq. Conflict continued in Darfur throughout most of the decade, although tensions in Sudan eased with the removal of Omar al-Bashir as President in 2019. The massive explosion in August 2020 at the Beirut port deepened Lebanon's economic and humanitarian crisis.

Between 2011 and 2020, up to 1.3 million people were killed as a result of conflicts in the region, including an estimated 585,000 in Syria, 93,000 in Iraq, over 200,000 in Yemen, 380,000 in Sudan and South Sudan, and 50,000-100,000 in Libya (Iraq Body Count, 2020; Specia, 2018; Beaumont, 2019).

Political unrest brought economic growth to a standstill, and wars resulted in huge losses. Despite this, the population grew (with the notable exception of Syria), with the net effect of a decline in income per capita, which increased poverty levels and public health risks. This was compounded by deteriorating environmental conditions, including water shortages.

Wars and economic conditions within the region and in surrounding areas, such as Afghanistan and the Sahel, have resulted in the movement of people into Arab countries and from there to Europe. This immigration was frequently illegal and has resulted in numerous deaths as well as major political problems for those countries receiving migrants and for those trying to prevent their entry. The region was affected by the international financial crisis of 2008-2009 and is now suffering as a result of the COVID-19 pandemic.

Leading Up to the Arab Spring

The Arab Spring occurred as a result of increasing frustration among many sections of society, first in Tunisia and then in Egypt. In those countries, the rulers were toppled, though in Egypt military rule was restored in 2013. In Libya, Syria, and Yemen revolts against dictators resulted in civil wars that have continued over the past decade. In Bahrain, a revolt by the majority Shia population against its Sunni rulers in 2011 was put down by the government with Saudi military aid.

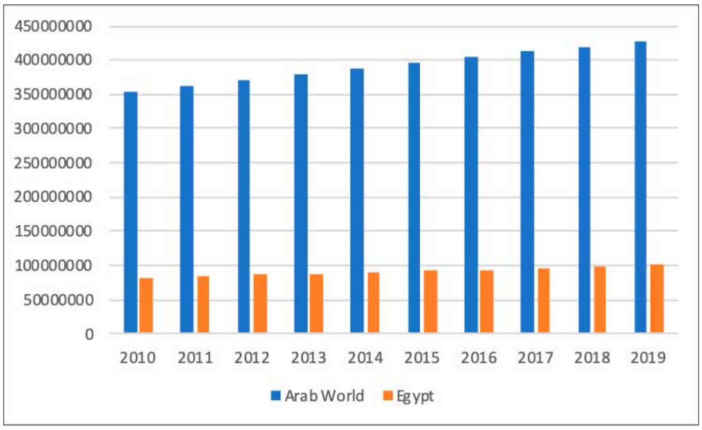
According to the World Bank, the Arab Spring uprisings were preceded by a decline in life satisfaction from what were already low happiness levels, despite economic and human development progress in the 1990s and early 2000s. This "unhappy development" paradox was accompanied by rising social discontent due to poor or deteriorating standards of living, labor market conditions, and crony capitalism. While objective conditions contributed to discontent, subjective awareness of shortcomings in these conditions played a major role. The increasing awareness of social ills was partly due to the modernization process in which society was no longer seen as a moral order ordained by God. In addition, an increasing number of educated people called for government based on democratcy and meritocracy rather than autocratic rule (Arampatzi, Burger et al., 2015).

The countries that experienced Arab socialism in the 1960s created inclusive economies and exclusive political systems. While they generated large-scale public sector employment, they were ruled autocratically. The socialist experiment led to serious economic difficulties, and as a result financial assistance from the International Monetary Fund (IMF) and the World Bank was necessary. In return for assistance, reforms under what subsequently became known as the Washington Consensus were imposed. Reductions in public spending and privatization were among the measures demanded, which resulted in the sale of public sector assets to those in the private sector who were close to the rulers. In this way crony capitalism developed and helped to fuel resentment among those excluded—

the vast majority of the population—of deals signed without public scrutiny (Diwan, Malik et al., 2019). The spread of education and the availability of social media increased dissatisfaction with the status quo.

These revolts, with the exception of that in Tunisia, were not based on strong coalitions. Those who opposed the regime were unorganized, and demonstrations developed spontaneously. Divisions in the Arab world were largely between religious and military forces, and the middle class has long been known for its weakness. Political parties were frail and failed to act as representatives of different sectors of the population. Millions of people in rural areas did not take part in the protests, as their immediate concerns were food, electricity, and safe water supplies. For them, democracy was a much lower priority (Avineri, 2012). The fact that power has been in the hands of the military, or monarchs supported by the military, has been at the root of the weak performance of most Arab countries since their independence. This distribution of power was not, however, their invention. The reliance of rulers on religious and military forces has been a feature of Middle East politics for hundreds of years and was adopted by those who came to power, including the Ottomans, European colonialists, and more recently, Arab rulers. The development of the middle class and the role of the intelligentsia were restricted, and the results were economic as well as political (Kuru, 2019). It is this political economy that is central in explaining how Arab economies have performed in the last decade.

Figure 1. Population of Egypt and Arab World, 2010-2019



Source: World Bank data

Demographic Trends

In the decade since the start of the Arab Spring in late 2010, the population of the 22 member states of the Arab League has grown from 355 million to an estimated 436 million. While the rate of population growth has declined, absolute increases rose. In 2000-2009, the average annual rate of growth was 2.29 percent and the absolute increase was 64 million; in 2010-2019, the growth rate was 2.13 percent but the absolute rise was almost 74 million (Figure 1). These increases pose huge problems for social and political stability as well as food and water supplies. They also contribute to formidable environmental pressures.

Between 2010 and 2019, Egypt, one of the poorer countries in the region, accounted for almost 24 percent of the increase in the Arab population. In 2010, its population was 83 million and by 2019 it had exceeded 100 million. Egypt's population is currently growing at 1.94 percent, a rate that adds nearly two million people to the population annually. In Saudi Arabia, between 2010 and 2019, the total population rose from 27.4 million to 34.3 million. The native Saudi population increased from 19 million to 24 million, an average annual increase of 2.9 percent.

The Arab population is very young. Despite a small decline in the percentage of young people in the total population, in 2010, there were 120 million people age 0 to 14 years, while in 2019, there were 140 million. This is the group that comes onto the labor market and requires jobs, but the ability of economies in the region to generate those jobs is limited. When a large proportion of the population is young (the so-called "youth bulge") there is the potential for a demographic dividend. This means that there are more people at working age and fewer very young and elderly to support. When income is unevenly divided and a number of young people cannot find employment, the youth bulge becomes a demographic bomb, because a large number of frustrated youth may become a potential source of social and political instability (Lin, 2012).

The increase in population over the last decade was mainly due to the sharp decline in the mortality rates, improved life expectancy, and the less-rapid decline in the fertility rates in the Arab region. Between 2010 and 2018, the infant mortality rate declined from 31.8 per 1000 live births to 26.5 per 1000 live births, life expectancy at birth increased from 70.35 years to 71.81 years, and fertility rates decreased from 3.47 to 3.23 births per woman.

Many Arab countries are experiencing large population movements from rural to urban areas. In 2010, 56.4 percent of the population lived in urban areas; by 2019 the share reached 59.2 percent. This meant that the urban population rose by 58 million, which is nearly 30 percent of the total population. The population of Cairo, the largest city in the Arab world and one of the largest in the world, rose from 17 million in 2010 to an estimated 21 million in 2020 (World Population Review, 2020). The growth of cities in the poorer Arab states resulted in the loss of agricultural land, more overcrowding among the poor, and a greater threat to social and political stability. It is therefore not surprising that the Arab Spring broke out in the cities and towns of the region.

Economic Growth

The Arab region includes both countries with among the highest GDP per capita levels in the world and countries with the lowest. In 2019, GDP per capita in the Arab region averaged \$6,580 compared to the global average of \$11,428. The range within the region is striking: Qatar had one of the highest GDP per capita levels in the world (\$64,782) while Somalia had the lowest (\$127).

Oil and natural gas have played a significant role in the divergence among states and in the structure of the respective economies. Oil revenues constituted 47 percent of government revenues in Yemen and 97 percent in Iraq, with Gulf Cooperation Council (GCC) countries ranging between those two figures. Sudan and Libya were also highly dependent on oil and/or gas in their economies. The share of oil rents to GDP in the Arab region is the highest in the world, with an average of 23 percent, compared to the global average of 2.6 percent in 2018, peaking at 41.3 percent in Kuwait, 43.4 percent in Libya, and 45.7 percent in Iraq.

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In oil-importing economies, the indirect effect of remittances created by oil rents reveal another aspect of oil and gas rents: in 2019 personal remittance inflows in Arab states were equal to 2.4 percent of GDP compared to a world average of 0.8 percent. Their volume had risen from \$38 billion in 2010 to \$59 billion in 2019, a much faster rise than in the previous decade. They are estimated to have fallen sharply in 2020.

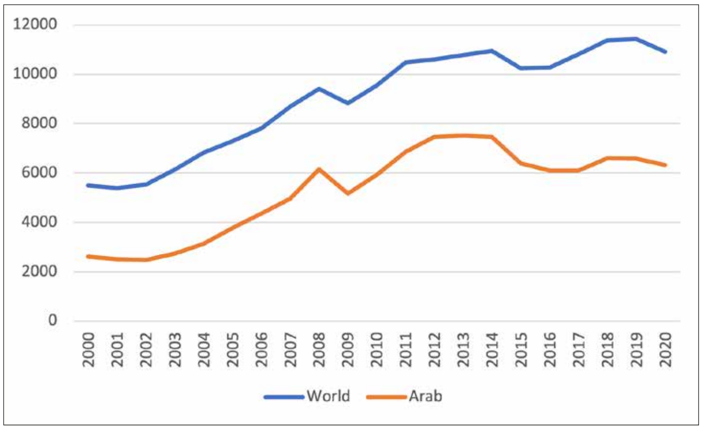
Between 2010 and 2019, economic growth in the Arab countries averaged 2.8 percent a year, compared to 5 percent in the previous decade. GCC countries averaged 3.8 percent, while eleven other Arab countries averaged 1.7 percent. The latter include Libya, Syria, and Yemen, which all experienced years of negative growth because of war. In the period 2010-2017, income per capita in the GCC fell by an annual average of 0.1 percent; in the other 11 countries it fell by 0.8 percent. Projections for 2020 are given in the final section.

Figure 2 shows that between 2000 and 2010 the economies of the Arab region narrowed the gap with world income per capita. Since 2010 that gap has widened as a result of their weak economic performance.

Figure 3 shows that economic growth decelerated between 2012 and 2019, barely kept up with that of the population. In 2020 it is projected to be negative as a result of the COVID-19 crisis.

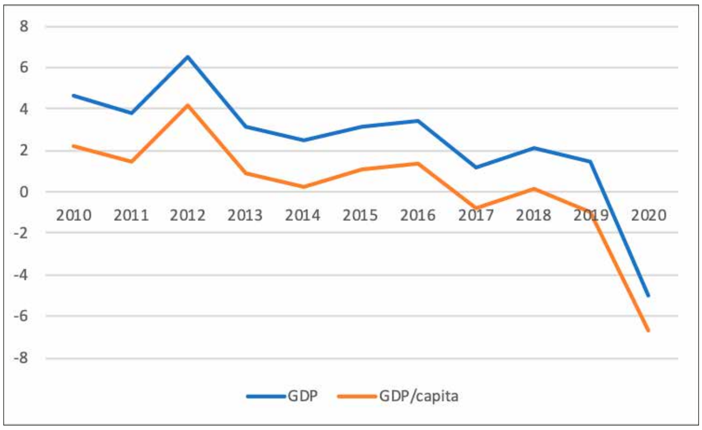
The slow growth rate has been the main factor behind high levels of unemployment. The other reason has been the pattern of growth:

Figure 2. World and Arab GDP per capita, 2000-2020* ($ current prices and exchange rates)



*2020 projection
Source: World Bank Data; IMF World Economic Outlook, October 2020; IMF Regional Economic Outlook: Middle East and Central Asia, October 2020; and author's calculations

Figure 3. Arab Countries: GDP and GDP/capita growth rates, 2010-2020*



*2020 projection
Source: World Bank Data; IMF World Economic Outlook, October 2020; IMF Regional Economic Outlook: Middle East and Central Asia, October 2020; and author's calculations

growth has not occurred in sectors that generate employment because it has often been capital-intensive. This has been true in countries rich in labor and poor in capital such as Egypt, as well as countries rich in capital and less rich in labor (Diab, 2017).

Low and heavily subsidized fuel prices throughout the region have resulted in a bias toward investment in capital equipment, including vehicles, rather than in employment intensive sectors or technologies (International Monetary Fund, 2014). In 2019, Saudi Arabia spent almost $29 billion on energy subsidies, equal to 3.7 percent of its GDP; Egypt spent nearly $16 billion, or 5.2 percent. In Iraq, $7.4 billion or 3.3 percent went to energy subsidies (International Energy Agency, 2020).

Prior to the COVID-19 crisis, the fiscal position of Arab states was weak as a result of falling government revenues. Between 2008 and 2018, public revenues fell as economic growth declined in both the oil-rich and oil-poor countries of the region. The impact was short-lived as growth revived with the rise in oil prices in 2010. Since 2014, the negative effects of the oil price drop on growth and revenues have been longer lasting. During 2017 and 2018, following the Organization of Petroleum Exporting Countries (OPEC) decision on production cuts, there were some signs of improvement in oil prices, but the recovery was slow. The oil-poor middle income countries have continuously faced decline in economic growth since the global economic slowdown in 2008, followed by crisis in several parts of the region, including Tunisia, Syria, and Egypt. Other countries in the region were also adversely affected due to regional conflicts and population displacement and migration. The nominal growth of GDP declined from the peak in 2008 to a nadir in 2017. Economic growth in low-income countries fluctuated with an overall declining trend as well. Overall, the region has not been able to recover from the declining trend of 2008-2018. Consequently, it lost significant revenues, whether in the form of oil revenues in the oil-rich countries, or tax revenues that would have been generated following the pre-2008 trends.

With low performance of growth and revenues, the gap between expenditure and revenues, as a share of GDP, has increased over time. The oil-rich countries had surpluses until 2014. Thereafter, they started running deficits as spending exceeded revenues. The middle-income countries had deficits that widened between 2008 and 2016. While they improved fiscal balances slightly during 2017 and 2018, deficits remained. The deficits in low-income countries also increased, resulting in increases in debt (UN Economic and Social Committee for West Asia, 2020a).

Arab economies include some of the largest public sectors in the world. The average share of public sector jobs in total employment in the 2000s was 25 percent in Egypt, 31 percent in Algeria, and 40 percent in Jordan. This compared to 15 percent in Turkey, 17 percent in Malaysia, and 29 percent in China. In the GCC countries, the public sector was the main employer of nationals, ranging from 72 percent in Saudi Arabia to 87 percent in Qatar. Indeed, public sector employment has been a central part of the social contract in the region, known as the "authoritarian bargain," whereby authoritarian regimes provided public sector jobs and access to subsidized services and commodities in return for citizens' political quiescence. In Egypt and Tunisia, these guaranteed and socially protected lifetime jobs went to those who achieved a minimum level of education; in Jordan, they went to members of Bedouin tribes and other groups critical to the political survival of the regime; and in others, including the GCC states, all nationals were eligible.

As a result of overstaffing and the lack of incentives for good performance, the expansion of public sector employment was at the expense of budgetary sustainability, administrative efficiency, and accountability (Monroe, 2020; Assaad & Barsoum, 2019).

Consider the case of Egypt, where employment in government and public sector enterprises in 2010 accounted for 26.1 percent of total employment. By 2018, as a result of changes in policy, this had fallen to 23.5 percent (Central Bank of Egypt, 2020). In 2017, the public sector in Egypt employed 5.9 million workers, or 22.5 percent of the workforce, excluding the armed forces. State-owned enterprises were prominent in such important sectors as infrastructure, construction, energy, mines, and transportation. For years these sectors have been starved for capital and talent and subject to neglect due to tight fiscal conditions. In addition, the weakness of market-based pricing in the public sector dampened investment while lack of incentives discouraged innovation and entrepreneurship. This has resulted in low productivity, a steady deterioration in structures and services, and higher costs of doing business. In 2016-17 the public sector accounted for 31 percent of GDP, which is large in comparison with Egypt's peers.

Public sector employment has been a central part of the social contract in the region, known as the "authoritarian bargain," whereby authoritarian regimes provided public sector jobs and access to subsidized services and commodities in return for citizens' political quiescence.

Conventional analysis does not reveal the full extent of state dominance of the economy, largely due to the oversized role of the military in civilian activities. In Egypt, the armed forces—estimated at 440,000 (Global Fire Power, 2021)—own businesses that produce, inter alia, cement, steel, vehicles, fertilizers, and home appliances. They also own and manage service stations, hotels, toll roads, and travel facilities and services. Moreover, unlike their private sector counterparts they operate under a military-led regime, which accords them special status. They often benefit from cost advantages vis-à-vis the private sector. These included privileged access to land and credit, cheaper inputs of energy, and reductions or even exemptions from some taxes and customs. They were also exempted from the standard requirements of transparency and civilian audit (Abed, Jin, & Markovic, 2019).

In Iraq, the government is the main employer. By 2018, the state was employing 2.89 million (13 percent of the working age population), and salaries accounted for 33 percent of total government spending. If state pensions and social support are added, then half of the government's budget is spent on state employee wages and benefits (al-Mawlawi, 2018).

Table 1. The Competitive Industrial Performance Index, 2015-2017

Country	Global rank 2015	Global rank 2017
Turkey	28	28
Israel	29	29
Saudi Arabia	36	37
UAE	41	42
Iran	53	49
Qatar	50	53
Bahrain	55	56
Kuwait	54	59
Tunisia	62	63
Morocco	63	61
Oman	63	68
Egypt	72	71
Jordan	80	82
Lebanon	91	84
Algeria	94	95
Palestine	110	111
Syria	115	116
Yemen	140	140
Iraq	142	146

Source: UNIDO: Industrial Development Report 2020: Industrializing in the digital age

The main consequences of the dominance of the public sector were low competitiveness and slow economic growth. Table 1 shows how the competitive industrial performance index (CIP) changed between 2015 and 2017. This comprises three main variables: the capacity to produce and export manufactured goods, technological deepening and upgrading, and the country's impact on the world economy. The table includes all the Arab states covered by the United Nations Industrial Development Organization (UNIDO) and three regional comparators out of a total of 150 countries surveyed. Most Arab countries have either a medium or low competitiveness ranking. Four of them rank among the lowest in the world. It is significant that Turkey and Israel score higher than all the Arab states listed, largely because they have large private sectors operating under competitive conditions. Iran has a large non-oil sector that is helping to maintain its economy during the period of oil sanctions.

The Labor Market, Unemployment, and Youth Unemployment

In the 2000s, the main challenge for governments in the region has been to absorb millions of young workers entering the workforce each year. In 2010, the population age 0 to 24 years in North Africa, Iraq, Jordan, Saudi Arabia, Syria, the West Bank and Gaza, and Yemen was 171 million. In 2020 it is estimated at 192 million.

Arab labor markets are characterized by large public sectors, small, weak private sectors, and, depending on the country, large agricultural sectors and informal sectors outside agriculture. When the Arab Spring began in 2010, both youth unemployment and informal employment increased. Since then, rural to urban and cross-border migration has increased, leading to even greater unemployment and informal employment (Chen & Harvey, 2017).

The informal sector accounts for a large share of employment in the Arab world, ranging from 45 percent in Jordan to 63 percent in Egypt and 80 percent in Morocco (ILO, 2018). It is characterized by small or undefined work places, unsafe and unhealthy working conditions, low levels of skills and productivity, low or irregular incomes, long working hours, and lack of access to information, markets, finance, training, and technology. Workers in the informal economy are not recognized, registered, regulated, or protected under labor legislation, and do not benefit from social protection. Productivity is invariably low.

The Arab world has failed to create enough well-paid jobs in productive industries. There has been a bias toward capital-intensive investments even in the labor-rich (and capital-poor) countries. Coronavirus lockdowns have affected poor people working in the informal economy hardest, and they are the least likely to receive aid or healthcare from the government or heed calls to stay home (Holtmeier & Alami, 2020).

Slow economic growth and the sectoral pattern of growth have resulted in high rates of unemployment, especially for the young who are trying to enter the labor market. Table 2 shows that between 2010 and 2019, the overall unemployment rate increased by almost 1 percent. In 2010, unemployment was 1.2 percent higher than the world average and in 2019 it was 2.6 percent higher. When the age breakdown of the unemployed is examined, the figures are much worse. In 2010 unemployment among males aged 15-24 years was 4.4 percent higher than the world average and by 2019 it was 8.5 percent higher. Among females aged 15-24 years in 2010 it was 21.8 percent higher and by 2019 it was 24.7 percent higher (UNDP, 2020).

An examination of two very different economies, Egypt and Saudi Arabia, reveals that they both suffer from very high levels of youth unemployment. In Egypt, unemployment among 15-24 -year-olds rose from 14.3 percent in 2010 to 17.1 percent in 2019, but declined among young females from 52.4 percent to 41 percent. In Saudi Arabia the young male unemployment rate declined from 23.1 percent to 20.2 percent while the rate among females rose from 52.6 percent to 60 percent, despite attempts to increase employment for women. While the government has tried to increase employment for Saudi citizens, demographic growth has swamped these effects. The very high rates pose threats to the welfare of the individuals concerned as well as to political stability.

Table 2. Unemployment in Arab states, 2010-2019 (percent of labor force)

	Total	Ages 15-24
2010	9.2	23.1
2011	10.3	24.7
2012	10.5	26.3
2013	10.6	26.2
2014	10.7	25.9
2015	10.7	26.9
2016	10.5	26.2
2017	10.6	26.3
2018	10.7	26.1
2019	10.3	n.a.

n.a.= not available

Source: World Bank Data, United Nations Development Programme

Unemployment data measure only the number of people who enter the labor market and do not find work. In addition many do not even enter the labor market, either for cultural reasons (a factor that applies more to women than to men) or because they are discouraged by high levels of unemployment, especially among youth. As a result, in 2019, the Arab labor force participation rate (the share of the working age population that seeks employment) was 48 percent, significantly lower than the global average of 60.7 percent. This was mainly due to the very low participation rate among women of 20.8 percent, down from a height of 21.4 percent in 2013. In 15 Arab countries, less than half the labor force is actively engaged in the labor market. This rate is the lowest in conflict-ridden countries such as Yemen (38 percent), the Palestinian territories (42 percent), and Syria (44 percent). The highest rates are in the GCC countries, where large numbers of foreign workers are included. The labor force participation rates were 86.8 percent in Qatar and 82.1 percent in the United Arab Emirates. In recent years unemployment has increased in Kuwait, Saudi Arabia, and the UAE.

The problem of unemployment, especially among young people, affects the poorer republics and monarchies as well as the oil-rich states of the Gulf. It reflects the failure of development strategies that have emphasized investment in capital rather than labor, as well as restrictions on trade and crony capitalism.

Although youth unemployment is very high, only those who are supported by their families or the state can afford to stay unemployed. The most vulnerable groups are forced to accept low quality jobs in the informal economy or to become self-employed. Youth in Egypt and Jordan were severely disadvantaged with most ending up in vulnerable jobs such as self-employment, unpaid family workers, irregular wage workers, or the informal private sector. These jobs all share undesirable characteristics, including the lack of a contract, benefits such as health and social insurance, and paid leave. They also pay little, and young people who start out in a vulnerable job are unlikely to move to better-quality employment over time (al-Azzawi & Hlasny, 2018).

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Climate Change, Water Supplies, and Food

The Arab states are located in the driest region in the world and boast one of the fastest population growth rates. In 2014 the volume of renewable internal fresh water resources per capita worldwide averaged 5,933 cubic meters, while in the Arab League countries it averaged 292 cubic meters. As a result of climate change, economic activity and demographic growth, the amount of water per capita has fallen sharply. Between 2007 and 2019, there was an estimated decline of 30 percent in Egypt, 41 percent in Iraq, 53 percent in Jordan, and 33 percent in the West Bank and Gaza.

The temperature in much of the Arab region is increasing and precipitation is decreasing, although some limited areas have experienced an increase in the intensity and volume of precipitation. One study suggests that by the end of this century certain population centers in the same region may experience temperature levels that humans cannot tolerate, owing to the consequences of increasing concentrations of greenhouse gases (World Bank, 2018).

According to the World Bank, the Middle East faces major economic threats from water scarcity exacerbated by climate change, and by 2050 this will cost between 6 and 14 percent of gross domestic product. In agriculture, over half the surface area of the Arab region's major cropland systems are in the two highest vulnerability areas, with the Nile valley, the southwestern part of the Arabian Peninsula, the Tigris-Euphrates basin, and western parts of North Africa being the most vulnerable. The combined effects of changes in temperature, precipitation, and evapotranspiration will also threaten the food resource base for livestock, may induce the collapse of certain fish stocks, and could potentially reduce forest productivity. Changes in temperature also increase the risk of some water-related diseases (Pal & Eltahir, 2016; United Nations, 2020a).

The Food Crisis

The Arab world is among the regions most vulnerable to a food crisis. Given the lack of water resources, it relies on imports to cover over half its food needs. The response has often been to subsidize water and other inputs, which has resulted in massive misallocations of resources. The problem is not production; rather, it is access to food that is the challenge. In 2019, the UN Food and Agriculture Organization noted that hunger had risen since 2011 due to conflict and protracted crisis. In 2020, over 42 million people in the region were chronically undernourished, of whom 34 million were in conflict-ridden countries. The worst afflicted countries in this respect are Iraq, Syria, and Yemen.

In Yemen, 24 million people (80 percent of the population) rely on humanitarian assistance; 16 million suffer from acute food insecurity and need food aid; and 11 million are undernourished. Likewise, there are 11 million people in Iraq suffering from undernourishment, while in Syria, 9.3 million people—over half the population—suffer from food insecurity and need assistance. In Lebanon, as a result of the collapse of the economy, many have been impoverished and 700,000 people are suffering from undernourishment (Karasapan, 2020; Worldometer, 2020).

Oil

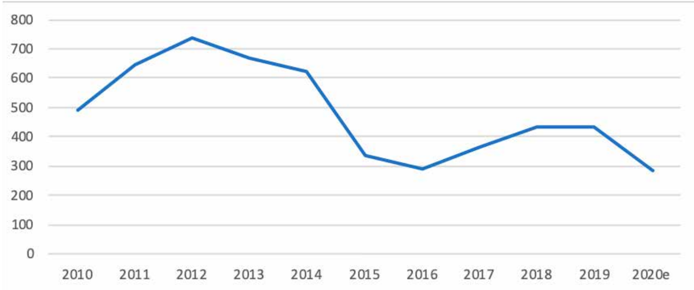
Between 2011 and 2016, oil production in the Arab members of OPEC (by far the largest producers among the Arab states) rose by 19 percent. From 2016 to 2019 it declined by 11 percent, and between 2019 and July 2020, by 14 percent. Prices fluctuated from a high of $109/barrel in 2012 to a low of $41/barrel in 2016. After a recovery in 2018-2019, there was another collapse in 2020 due to the impact of COVID-19 (Figure 4). As a result, revenues were very unstable, with a peak of $735 billion in 2012 and lows of about $430 billion in 2018 and 2019. The forecasts for 2020 suggest a decline of between 30 and 38 percent in 2020 as a result of the fall in demand due to the pandemic.

Oil revenues were affected by unstable prices (Figure 5). The US shale revolution of the last decade paved the way for the downturn and the rapid decline in world oil prices after mid-2014. Large swings in oil prices were also the result

Figure 4. OPEC Basket Price ($ per barrel)

2020 = July
Source: OPEC, Middle East Economic Survey

Figure 5. Arab OPEC Oil Export Revenues ($ billion)



e=2020 average estimate, based on data until July
Source: OPEC, Middle East Economic Survey

of instability, wars, political unrest, and civil conflicts in Libya, Iraq, and outside the region. Social and political unrest was a consequence of the steep rise of youth unemployment. GCC governments are no exception; they seek to create more productive private sector jobs for their citizens because creating high-paying and secure public sector jobs became fiscally unsustainable. There has been increasing pressure on all countries to reduce their use of fossil fuels in order to prevent exacerbation of global warming and avoid the worst effects of climate change. Oil-exporting MENA countries are increasingly concerned about the loss of oil revenues as a result of the move away from fossil fuels in the fight against global warming (Matallah, 2020).

The Arab World in the International Economy

Exports are not diversified in terms of products and markets, which increases the risk of negative external shocks. Oil-exporting countries have a much higher product concentration than other Arab states with their focus on extractive and refining industries. Non-oil exporters also have very low product diversification compared to similar countries outside the region (International Trade Centre, 2020). Intra-regional trade among Arab states is low compared to other regions and most of it is in basic commodities and agricultural products. Intra-regional trade in high-technology goods is below the international average (International Trade Centre, 2015,).

The share of Arab countries in world trade is very small, even if it has grown consistently. In 2005, their share in world exports was 4.8 percent, with the oil producers accounting for 4.1 percent. In 2010, it was 5.6 percent, with the oil producers accounting for 4.8 percent. In 2017 (the latest year for which there is data), the figures were 5.2 and 0.6 percent, respectively.

The very small and declining share of world exports of the non-oil producing countries in the region reflects the fact that they have very little to sell abroad.

Table 3. Number of people in the Middle East internally displaced annually (millions)

2011	2012	2013	2014	2015	2016	2017	2018	2019
0.8	2.5	3.5	3.8	4.9	2.2	4.7	2.3	3.2

Note: (including Iran)
Source: Internal Displacement Monitoring Center: Global Report on Internal Displacement

The very small and declining share of world exports of the non-oil producing countries in the region reflects the fact that they have very little to sell abroad. Their economies are not competitive and when the structure of their exports is examined, the picture is even worse. This is largely due to the fact that the largest non-oil (or almost non-oil) Arab economy is Egypt. In 2017, over 70 percent of its exports consisted of three groups of products: minerals and chemical products, agricultural products, and textiles. This very narrow range of products, with limited added value, reflects the weakness of the industrialization process (Malik, 2019).

Population Displacement

By the end of 2019, approximately 18 million Arab citizens were displaced, largely as a result of war, including some 5.6 million Syrians who fled abroad (Internal Displacement Monitoring Center, 2020). Their lives have been massively affected, with consequences for their health, the education of children, employment, and income. As a result, poverty rates increased and inequalities between and within the countries of the region have increased (Table 3).

In 2019, the population of countries suffering war or governmental breakdown—Iraq, Lebanon, Libya, Somalia, Syria, and Yemen—totaled 115 million, 27 percent of the total Arab population.

The Distribution of Income and Wealth

The Middle East is the region with the highest level of income inequality in the world. In the period 1990-2016, income share of the top decile in total income equaled 64 percent, compared to 37 percent in Western Europe, 47 percent in the US, and 55 percent in Brazil. This was due to enormous inequality between countries (particularly between oil-rich and population-rich countries) and within countries. The latter is probably underestimated, given limited access to fiscal data (Alvaredo, Assouad, & Piketty, 2019).

Between 2011 and 2018, the region experienced an increase in poverty. The rate of poverty, defined as the share of the population with daily income of up to $1.90 (US 2011 prices, at purchasing power parity), rose from 2.3 percent to 7.2 percent. The number of people living in poverty rose from 8 million to 28 million. This was the only region in the developing world to experience significant increases in poverty (World Bank, 2020).

In 2019, the Arab region's 37 richest billionaires (all of whom were men) had the same amount of wealth as the bottom half of the adult population, totaling about $108 billion. In 2020, their number fell to 31, holding $92.1 billion (UN Economic and Social Committee for West Asia, 2020b).

The existence of extreme wealth and poverty in the Arab region is due to the concentration of oil wealth, the lack of public infrastructure, redistributive taxation, safety nets, and conflict. Wealth differences between the Gulf Cooperation Council (GCC) countries, and their conflict-stricken neighbors, including Iraq, Sudan, Syria, and Yemen, are very large. However, information on wealth distribution is sparse, due to extensive wealth hiding and tax evasion (UN Economic and Social Committee for West Asia, 2020c).

Structural Factors

The high level of inequality was the consequence of long-lasting structural factors. The Gulf countries, Algeria, Egypt, Iraq, Lebanon, and Sudan are rentier states. Their economies depend mostly on incomes from oil, gas, remittances, and foreign aid. These resources have usually been controlled by hereditary rulers or by institutions that were controlled by the political leadership and their partners in the private sector, with the lines between public and private capital being blurred. This creates important advantages for elites and has resulted in clientelism and corruption. This institutionalized rent-seeking prevented the development of political checks against the growth of opaque business-government relations and mechanisms allowing for a redistribution of wealth. Elites appropriated significant shares of the main sources of revenue, which created large wealth and income disparities. In the Arab Gulf, an increase in the price of oil resulted in a rise in the proportion of hidden wealth. In those countries, elites placed funds in offshore accounts.

The ability of elites to appropriate part of their country's main revenues is not restricted to oil producers and has been widely documented in other countries, such as Lebanon (Khan, 2019). Ethnic, religious, tribal, or familial cleavages also encourage extreme inequality because they encourage the formation of patronage, corruption, and clientelist networks. The division of national spoils along these lines increases the rents that can be extracted, deepening inequality levels. A second effect of rentier economies is that governments do not need to reply on taxation to fund spending. As a result, they have fewer incentives to develop strong state capacity to respond effectively to public welfare needs, or to be accountable to citizens.

In consequence, the ratio of taxation to GDP is relatively low in most countries of the region, and in parts of the region it has fallen even further. Arab states also have relatively weak social protection systems, with only 30-40 percent of the population of the Arab world formally covered by welfare services. In Iraq and Lebanon, the state has failed to provide even basic services.

Recent developments have increased inequality and help explain the protests in the Middle East throughout 2019 and into early 2020. The decline in oil prices led to the removal or reduction of subsidies on fuel, electricity, or water. As a result, oil producers and other Arab countries adopted austerity measures to offset increases in their budget deficits. Bahrain, the United Arab Emirates, and Saudi Arabia, as well as Algeria, Egypt, and Lebanon, have either raised the value-added tax on goods and services or announced plans to do so. These measures reduce the welfare of the most vulnerable segments of the population and further exacerbate their already precarious living conditions. This has happened while many people, especially the young, are unemployed, and millions live in poverty.

The combination of widening inequality and growing poverty makes for a combustible mix in Middle East societies and will continue to undermine stability if it is not addressed. Widening inequality levels fuel conflict and political instability, while tending to consolidate autocratic power.

The pandemic has also magnified many underlying challenges. These include violence and conflict; inequalities; unemployment; poverty; inadequate social safety nets; human rights concerns; insufficiently responsive institutions and governance systems; and an inadequate economic model.

The relationship between economic and political power has become a major concern in the wake of neoliberal economic reforms that many Arab states tried to half-heartedly implement in the 1990s. Arab countries liberalized their economies without liberalizing their politics and autocrats in power across the region. In order to do this, in the face of rising social grievances, they repressed people, and also markets. Some of the resulting inequality and social exclusion is in sharp contrast to the riches amassed by those business elites closely connected to the rulers. Part of this inequality is attributable to economic disparities within countries, which are due the concentration of economic and political power at the top (Diwan, Malik, & Atiyas, 2019, p. 2).

Recent developments in a number of states have been called the "New Arab Spring." In December 2018, for example, an increase in bread prices resulted in demonstrations in Sudan that ultimately led to the downfall of then-President Omar al-Bashir, an event with geo-political consequences. The fall of Bashir resulted in the weakening of Islamic fundamentalism in Sudan and a move toward democracy. There were also implications for its foreign relations: diplomatic links with Iran ceased in 2016. Since 2019 Sudan has moved closer to the US, and in 2020 it moved toward establishing diplomatic ties with Israel.

In Egypt in September 2019, an exiled businessman and former building contractor for the military, recorded a video showing how President Abdel Fattah el-Sisi had embezzled public funds to finance, among other things, a luxury home for himself. The video went viral and resulted in mass protests. In October 2019, Iraqi protesters took to the streets to demand basic services, including clean water and electricity. At the same time, a revolt began in Lebanon after the government announced a tax on WhatsApp and other mobile applications. This followed a long list of austerity measures taken during the year that disproportionately affected the most vulnerable among the population (Assouad, 2020).

The Impact of COVID-19

By the end of October 2020, the number of COVID-19 cases reported in Arab countries was similar to the region's share in the world population, but the number of deaths reported was much lower. Both the number of cases and the number of deaths have likely been seriously underreported, partly because of conflicts in Libya, Syria, and Yemen.

According to the UN, in the early months of the pandemic, transmission and mortality rates for COVID-19 were lower than the global average. More recent trends have been a cause for concern, especially in light of weak health care systems and the lack of primary care in many countries. The pandemic has also magnified many underlying challenges. These include violence and conflict; inequalities; unemployment; poverty; inadequate social safety nets; human rights concerns; insufficiently responsive institutions and governance systems; and an inadequate economic model (United Nations, 2020b).

In October 2020, the International Monetary Fund forecast that in 2020 national income in the Arab countries would fall by 5 percent as a result of the fall in the price of oil and the effects of the COVID-19 crisis. The balance of payments current account and fiscal balances are also expected to deteriorate sharply and inflation accelerate (Table 4).

The number living in poverty is forecast to rise by 14.3 million people, to more than 115 million, one quarter of the total Arab population. Many of the newly poor were recently in the middle class and, if their impoverishment is prolonged, social and political stability might be affected. With its dependence on food imports, the region may also witness food shortages and price hikes. The ILO estimated that the equivalent of 17 million full time jobs were lost in the second quarter of 2020, in a region where 14.3 million people were already unemployed.

Young people were already five times more likely to be unemployed than adults. With the largest gender gap in human development in the world, Arab women are likely to suffer significant consequences of the pandemic. Gender equality legislation and participation by women in the labor market are behind other parts of the world. Women earn on average 79 percent less than men on a per capita basis and they may lose 700,000 jobs, particularly in the informal sector where they constitute 62 per cent of workers.

Migrants, who account for 40 percent of all workers in the region, will be hard hit by the pandemic, in terms of access to services, job losses, and ability to return to their countries of origin. Some 56 million people in the region need humanitarian assistance, including 26 million who have been forcibly displaced. 74 million people are at a higher risk of contracting the virus due to lack of handwashing facilities. COVID-19 is also likely to exacerbate wealth inequality as it has in other regions.

The ability of oil-rich countries to provide adequate stimulus and recovery packages is limited, as a result of the fall in the demand for, and price of, oil. This has reinforced the need to diversify sources of revenue beyond oil and embark on low-carbon development.

Table 4. Arab World, main macro-economic variables, 2000-2021 (percent)

	2000-2016 average	2017	2018	2019	2020	2021
Real GDP growth, annual	4.8	1.6	2.4	2.0	-5.0	3.2
Of which non-oil	6.0	2.0	2.6	2.7	-4.4	2.8
Balance of payments current account balance*	8.8	-0.9	3.7	1.4	-4.8	-3.5
Overall fiscal balance*	3.1	-6.4	-2.4	-3.3	-10.8	-7.9
Inflation, annual percent	4.7	7.3	6.2	2.7	6.2	7.1

*percent of GDP
Source: IMF: Regional Economic Outlook, Middle East and Central Asia, October 2020

Middle-income countries' ability to enact stimulus packages has been severely limited by the massive declines in revenues from tourism, remittances, trade, and other economic activities (Ghoneim, 2020).

The pandemic may cause greater damage than previous recessions because the pandemic exacerbates underlying problems in the region. Large exposure in the hard-hit services sector, particularly tourism, could reduce baseline GDP and employment growth for tourism-intensive countries by about 5 percentage points each on average in 2020, with potential lingering effects for the next two to five years.

Large-scale borrowing and the contraction in revenues and profitability for firms in 2020 have increased solvency risks, with firms about twice as likely to default by early 2021 as they were before the pandemic. The impact of the crisis on contact-intensive sectors, coupled with limited ability to work from home in the region, will exacerbate unemployment. The decline in demand for labor in the most affected sectors could lead to higher unemployment, as was the case in past recessions.

The sharp fall and a slow recovery in remittances could increase the number of new extreme poor, especially in fragile and conflict-affected states. Real GDP in the region could remain below pre-crisis levels for a decade (United Nations, 2020b; International Monetary Fund, 2020).

Conclusion

Under Arab socialism, the political system was authoritarian but the economic one was inclusive, in that it generated employment. It was, however, inefficient and ultimately unsustainable.

Under the influence of the Washington Consensus, the economic system became more exclusive, generating less employment. The strategy was for the private sector to take over the leading role in the economy, but the cronyism that developed also resulted in inefficient and unsustainable development as well as extreme income inequality. At the same time, demographic growth added to pressures on the labor market. The combination of these factors helped to bring about the Arab Spring. The regimes that survived the event of 2010-2011, continued the same policies: sometimes they doused the flames of discontent with handouts that were increasingly difficult to fund or repressed discontent with force.

Syria, Libya, Lebanon, Iraq, and Yemen, with a combined population of almost 100 million, have descended into chaos or near chaos. The opposition to military or military-backed regimes was disorganized and ineffective, reflecting long lasting structures in Arab societies including the absence of a powerful middle class. Tunisia has demonstrated greater political pluralism, but the economy remains weak. Since 2019, there have been encouraging signs that Sudan and maybe even Algeria are moving away from authoritarian rule and that the alternative to the military may no longer be Islamic fundamentalism, another form of authoritarianism.

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