

EVIDENCE-INSIGHTS-POLICY
SHARED PROSPERITY IN MENA

CONTEXT

Before the Arab Spring, countries in the Middle East and North Africa (MENA), except for Yemen, presented a favorable picture of socio-economic development: declining inequality and extreme poverty, improved access to basic services, and relatively stable politics. Yet, the Arab Spring and its aftermath pushed back the decades of economic progress in the region. This eruption of anger in seemingly peaceful and stable countries poses three Arab Spring paradoxes: (1) a surge of demonstrations and riots despite the low (and still declining) economic inequality (“Arab inequality” paradox); (2) increasing dissatisfaction with living standards during a period of economic development (“unhappy development” paradox); and (3) intensifying political violence in countries that do not fit the profile of a fragile state (“political violence in middle-income countries” paradox).

his research unpacks the three paradoxes and investigates the underlying causes of the Arab Spring and its aftermath.

KEY FINDINGS

Income inequality, even though under-estimated in the data, was not the real

root cause of the Arab Spring.

There is no empirical evidence of high and rising inequality in MENA countries in the years before the Arab Spring, except in Yemen. Even though inequality measures for some countries may have been substantially underestimated because of missing top incomes in survey data, income inequality was not the main reason for the Arab Spring. More important in understanding the Arab Spring is the eroding middle class in MENA countries. Dang and Ianchovichina (2018) examined middle-class dynamics during the 2000s in six MENA countries (including in Egypt, Jordan, the Palestine territories, Syria, Tunisia, and Yemen) and found a deteriorating middle class before the Arab Spring. In Egypt and Yemen, many people fell out of the middle class, and even for some people who kept their middle-class status, average consumption levels fell. In countries with growing middle classes, mean consumption of the middle class either declined (Jordan and the Palestine territories) or grew at a lower rate than other income groups (Tunisia and Syria).

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Using subjective well-being data, Dang and Ianchovichina (2018) revealed that people were increasingly unhappy despite moderate to high economic development during the pre-Arab Spring period ("unhappy development" paradox). In the Arab Spring countries of Egypt, Libya, Syria, Tunisia, and Yemen, the group of unhappy people expanded from less than one-third of the population (29 percent) in 2009 to almost half (46 percent) of the population in 2012. In other MENA countries, the number of unhappy people increased slightly from less than one-fifth (18 percent) of the population in 2009 to about one-fourth (26 percent) of the population in 2012.

Arampatzi et al. (2018) empirically tested factors of unhappy development and showed that people's dissatisfaction was primarily driven by declining standards of living, followed by worsening labor market conditions and prevalence of corruption and cronyism. And these (poor living standards, high unemployment rates, and the dominance of corruption and cronyism) are signs of broken social contracts in MENA. Traditionally, Arab states have provided public jobs, free social services, and high subsidies to citizens in exchange for political

freedom. This social contract became financially unsustainable in the 2000s, which resulted in high unemployment rates, especially among youth, and increased people's frustration toward the eve of the Arab Spring (Devarajan and Ianchovichina (2018).

The middle class, especially educated youth, were particularly angry because despite high expectations about the future they struggled to find good jobs.

Young people, who typically complete higher education levels than their parents, entered the labor market expecting to find better-paying government jobs. Yet, in reality, they were forced to stay unemployed to queue for public sector jobs or take low-quality informal jobs in the private sector. This gap between reality and expectations has resulted in increasing dissatisfaction, especially among educated middle-class youth (Ianchovichina, 2018).

Lack of inclusion as manifested in overlapping polarization along regional, ethnic and sectarian lines played an important role in the Arab Spring aftermath.

While income inequality was low to moderate in MENA before the Arab Spring, regional and urban-rural inequalities were substantial

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contributors to overall inequalities in Egypt, Iraq, Tunisia, and Yemen, and were growing in Jordan and Syria. Furthermore, Iraq, Syria, and Tunisia had higher ethnic inequality than other countries with similar levels of spatial inequality. It supports the view that ethnic polarization in the lagging regions offered opportunities for military interventions and further intensified polarization (Ianchovichina, 2018).

This study identifies three important factors that distinguish the countries that managed to stay peaceful from those that plunged into conflict:

- (i) the quality of governance institutions for security,**
- (ii) the ability to use redistribution to appease angry populations, and**
- (iii) the intensity and type of external interventions in the context of past policies of exclusion and overlapping polarization along regional, ethnic, and sectarian lines.**

Arab Spring turmoil escalated and turned into civil wars in countries such as Iraq, Libya, Syria, and Yemen, while other countries, such as Tunisia and Egypt, achieved relatively peaceful transitions to democracy. Countries with intensified civil conflicts

had the weakest rule-of-law institutions on the eve of the Arab Spring. According to the Worldwide Governance Indicators, Iraq, Yemen, and Libya ranked lowest for rule of law and government effectiveness, followed by Syria. Lack of voice and accountability was worst in Syria and Libya. These governments tried to use violence to repress protestors, which turned out to escalate uprisings (Ianchovichina, 2018). By contrast, some countries used redistribution policies (e.g., increasing subsidies, increasing government hiring, and creating new infrastructure projects) to quell uprisings; governments in Algeria, GCC countries, Jordan, and Morocco maintained power and political stability by quickly responding to people's anger with generous financial transfers (Ianchovichina, 2018).

Finally, Abu-Bader and Ianchovichina (2017) found that external military interventions increased the risk of high-intensity conflicts in MENA. Before the Arab Spring, the incidence of foreign military interventions in MENA far exceeded that in other regions. Military support for various rebel groups altered the power balance between sectarian groups, increased inter-group alienation, and, therefore, intensified polarization along ethnic and religious lines. Moreover, externally supported fighters had less incentive to protect the local

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population since they rely less on local support, which further worsen the intensity of conflict.

The consequences of the Arab Spring aftermath have been grave, erasing decades of progress.

The Arab Spring and its aftermath pushed millions of people back into poverty and dependence on humanitarian assistance. The civil wars have forced almost 20 million people to migrate or be displaced by 2016 (Devarajan and Mottaghi, 2016). Most displaced people have no work permits, and many children stay out of school. Influxes of displaced people strain the economies of host communities. Economic growth collapsed in war-torn countries and slowed down substantially elsewhere in developing MENA.

After the Arab Spring, the annual economic growth of MENA countries more than halved and dropped to nearly zero in per capita terms. The Arab Spring and its aftermath led to a drastic drop in the quality of life throughout the region. People's dissatisfaction rates have continued to rise since 2010. In the meantime, little progress has been made regarding structural reforms for strengthening government accountability and promoting private sector development (Ianchovichina, 2018).



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