

The Arab world: is the economic renaissance possible?

The research is focused at proceedings and prospects of economic development of Arab countries.

Even before the “Arab spring” the Middle East was an area of various conflicts and serious socio-economic, political, environmental and other problems that have had a negative impact on the population of the region. At the beginning of the twenty-first century the old model of the development has exhausted itself, clearly showing signs of stagnation. The 2011–2012 protest movement known as the “Arab spring” began as an attempt to change the vector of the social and economic development in several countries in the Middle East in order to bridge the gap between this part of the world and the developed and many developing countries. However, to complete this process immediately is not so easy. Revolutionary changes in the Arab world usually start quite quickly, but their completion is extended for many years.

The challenges facing the Middle East today – not enough high profile of participation in the international division of labor, the weakening of comparative advantage of industries in world markets (for high-tech products in the vast majority of Middle Eastern countries there are practically no comparative advantages), the inflexibility of the economic mechanism, excessive nationalization which does not allow to respond to frequent changes in external demand, the growth of external debt. Due to the baby boom of the 1980s the economy is not in a position to absorb millions of new workers, creating a breeding ground for the strengthening of the social base of international terrorism.

Minimizing of inevitable damage and negative impact of Middle East instability to the other regions of the world should be a realistic goal of all external actors. The “three baskets” format (security, economy and humanitarian cooperation), which became the basis of the Helsinki process in Europe 40 years ago, could be – with the obvious adjustments for regional specifics – a basis for a new system of collective security in the Middle East.

Macroeconomic reforms however have neither gone far enough to address the deep-rooted structural problems nor seriously tackled the governance and institutional reform issues. There is a need for accelerated and broad action on this front, including a fundamental reassessment of the role of the state in the economy and the creation of a rules-based regulatory environment. During the “Arab Spring” the economic situation has only worsened. The best hope for reconciliation in the Arab world comes from a focus on concrete issues such as economic reform. The author presents future scenarios of the transformation and reform process in the Arab world.

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Stage 1 – short-term goals

Jobs creation

An economic recipe for short-term job creation may be investments in large-scale public works (labor-intensive).

Increase the amount of promised foreign financial assistance. These funds will also help to transfer more national savings into productive private sector investment (Substitution effect).

To launch large-scale infrastructure projects based on public-private partnership and long-term international financing.

Another leverage is the new housing policy also based on public-private partnership. To develop areas currently occupied by urban slums. The loans extended to these projects could be a safe and high-return investment. Turkey has developed a relatively successful model of such reconstruction.

Role of the private sector

Internationally backed loan –guarantee schemes for national private investors. Promotion of youth entrepreneurship.

Foreign trade

The EU and some other countries need to introduce an initiative for dismantling its agricultural trade barriers, including lowering tariffs, eliminating export subsidies, and gradually doing away with tariff quotas.

Management – more nongovernmental stakeholders (players) in the dialogue between the donor organizations and the Arab side.

Stage 2 – medium- and long – term goals.

Structural reforms are inevitable for a sound job-creation strategy, including training and skill creation, education reform, and product, labor, and service market liberalization.

Middle East countries need complex structural reforms:

- Continuation of economic reforms (privatization, liberalization of capital markets, labor, the system of foreign economic relations, modernization of financial institutions),
- strengthening the state's role in promoting progressive structural changes;
- deepening export-oriented manufacturing and services,
- social reform (reorientation of national education systems to meet demand of hi-tech sectors in labor force, the improvement of health services, the reorientation of grants-oriented welfare system to encourage participation in productive activities, increase women's economic activity).

A change of strategy in the direction of focusing on economic growth will help to achieve the triple objectives – 1) economic growth, aiming at a more equal distribution of national income, 2) a radical shift in job creation, 3) poverty

alleviation. This linkage of economic and social guidelines will not only contribute to the democratization and lowering of the level of conflict in society, but also to accelerate the economic development of the region.

Russia is interested in the restoration and strengthening of economic relations with traditional partners from the group of Arab countries. To do this, there are objective conditions – many years of experience in this part of the world, the high degree of complementarities between the needs of the Arab markets and opportunities of the economic potential of Russia.

A “Launch pad” for upgrading the entire complex of business partnership would not be simple trade exchange, but a clustering based on mutual flow of direct investments, technology and skilled labor. Penetration into the region through the “investment gate” seems more realistic.

Russia is strongly committed to the restoration of previously concluded contracts with our country, especially in the investment field and in the supply of complex industrial equipment and military equipment of Russian origin (I mean defensive systems).

The high competitiveness of Russian energy companies will allow them to participate more actively in the development of the Middle East energy sector, including oil and gas industry, nuclear energy, and electricity networks.

To ensure the national interests of Russia it is necessary to carry out a significant reorientation of trade flows between Europe and Asia on Russian transit routes by improving the competitiveness and attractiveness of the Russian transport corridors. It is advisable to combine the development of the transport corridor “North- South” and the railway network in the Middle East region. Delivery time on the route Helsinki – Dubai will be 8 days (the usual way – 20 days).

Russian export of educational services, which are quite competitive, not only will contribute to the formation of the new economy and the related international specialization, but also create a framework for mitigating the inherent contradictions and democratization in the countries importing these services.