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All change, no change

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Mountain above, volcano below

AFP

IMAGINE an Arab Rip Abu Winkle who had fallen into a deep slumber some time in the early 1980s. If he woke up now, he would rub his eyes in disbelief at how little had changed.

Hosni Mubarak is still the president of Egypt, after a cool 28 years in the top job. In Syria the grim reaper did for Hafez Assad after a run of three decades as the country's ruler, but his son, Bashar, has become president in his place. In Tunisia Zine al-Abidine Ben Ali remains president after 22 years. Ali Abdullah Saleh has been president of parts or all of Yemen for more than 30 years. Jordan is still run by the Hashemite family, Morocco by the Alouite family, Saudi Arabia by the al-Sauds and Kuwait by the al-Sabahs. Muammar Qaddafi has been imposing his idiosyncratic brand of "Islamic socialism" on Libyans since 1969. And like Syria, Libya may become a family business on the old man's death: as in Egypt, there is much talk of a favoured son inheriting the fief.

And yet an awakening sleeper would be amazed not only by how little had changed in Arab politics but also by how much had changed in Arab society. One shock would be the sheer press of humanity. By next year the region's population will have doubled over 30 years—from fewer than 180m people to some 360m. He might also be astonished by the youth of so many of these people: the majority of Arabs are under 25 years old.

Our Rip Abu Winkle would not have to consult a book of statistics to find out about the ballooning of this youthful population. It is highly visible. That is because rapid population growth has coincided with a massive influx into the cities from the countryside, transforming the sights, sounds and sociology of every corner of the Arab world. Cairo burgeoned from 9m souls in 1976 to a cacophonous 18m in 2006. Saudi Arabia's capital, Riyadh, hardly a city at all 50 years ago, by 1990 had a population of more than 2m and today has 5m. By 2006 some 87% of Lebanese and 83% of Jordanians were living in cities.

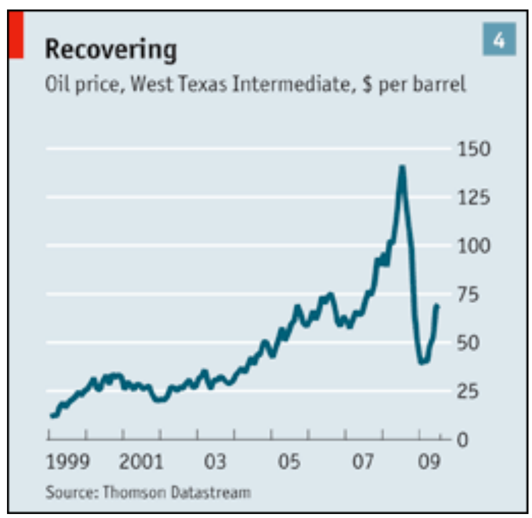
If, to take this fable a bit further, Rip Abu Winkle were a political scientist, he could hardly fail to be disturbed by the contrast between the decades of political stagnation on the one hand and the decades of rapid social change on the other. At some point, will the demands of all these young people for jobs and prospects, together with the impact of mass education, global ideas and modern media, not mutate into demands for a voice—and then for the broader freedoms common in the rest of the world? How much longer can systems of government based on personal authoritarian rule, or on the rule of a single party, dam up this rising tide of expectations?

Predicting disaster in the Arab world has become something of a cottage industry. Kenneth Pollack, a former CIA analyst now at the Brookings Institution, argued in a book last year that the Arab world is floundering in socio-economic problems so deep that almost every Arab country can be considered to be in a "pre-revolutionary" condition. A recent book on Egypt is subtitled "The Land of the Pharaohs on the Brink of Revolution". David Gardner, a writer for the *Financial Times*, called his recent book on the region "Last Chance".

The dark side

If you trawl through comparative global economic and social statistics, it is not difficult to paint a bleak picture of Arab failure, based on a broad pattern of underperformance in investment, productivity, trade, education, social development and even culture. The total manufacturing exports of the entire Arab world have recently been below those of the Philippines (with less than one-third the population) or Israel (with a population not much bigger than Riyadh's). From 1980 to 2000 Saudi Arabia, Egypt, Kuwait, the United Arab Emirates, Syria and Jordan between them registered 367 patents in the United States. Over the same period South Korea alone registered 16,328 and Israel 7,652. The number of books translated into Arabic every year in the entire Arab world is one-fifth the number translated by Greece into Greek.

Comparisons like these need to be treated with care. For millions of Arabs, living conditions have improved rather than deteriorated over recent decades. Indeed, the starkest economic challenge Arabs face—a massive population bulge—is itself the product of big strides in immunisation, nutrition and child health. In a survey of Arab economies published in 2007 by the Peterson Institute for International Economics, Marcus Noland and Howard Pack reported that on fundamental social indicators such as literacy, poverty and education the Arab countries do as well as or better than most other countries with similar incomes. And within the Arab world there are vast regional discrepancies that limit the value of generalisations. In 2002 *The Economist* noted in a special report on the Gulf states (see article) that the six desert monarchies since 1970 had trebled literacy levels to 75%, added 20 years to average life expectancy and created a world-class infrastructure by spending a total of $2 trillion. Such efforts should be given their due.



Some of these gains are now threatened by the global economic downturn. The bursting of the property and tourism bubble in the Gulf will have ramifications throughout the region. Most of the migrant workers in the Gulf states hail from Asia, but a lot are also sucked in from the poorer Arab countries. They—and Arabs working in Europe—are now losing their jobs and heading home, so families and home economies are deprived of precious remittances. The World Bank reckons that remittances make up about a fifth of GDP in Lebanon and Jordan. Egypt will be hit too: an unknown number of Egyptians, but at least several million, live and work abroad, many of them in the Gulf.

And yet the present downturn is not the Arabs' main economic worry. If anything, Arab countries are less vulnerable than other parts of the world. The energy producers still have the cash windfall they collected before oil prices tumbled—and now prices are rising again (see chart 4). Thanks to the advent of well-managed sovereign-wealth funds, many have looked after their financial assets far more prudently over this cycle than during previous bonanzas. As for the wider Arab world, what in good times is a disadvantage—the fact that their economies and financial institutions are weakly integrated into the global economy—is at present providing a measure of shelter from the storm.

Too young

By far the biggest difficulty facing the Arabs—and the main item in the catalogue of socio-economic woes submitted as evidence of looming upheaval—is demography. The population of the Arab world is expected to grow some 40% over the next two decades. That amounts to almost 150m additional people, the equivalent of two new Egypts. But Arab countries already have the lowest employment rate in the world and one of the highest rates of youth unemployment, with about one in five young people out of work. The median age in the three most populous Arab countries—Egypt, Algeria and Morocco—is 24, 26 and 26 respectively. Even before the downturn in energy prices and the world economy, the prospects of creating enough jobs for all these young workers as they enter the labour market looked remote.

It is not for want of trying. Arab governments are acutely aware that too much of the growth in their economies has been driven by oil, property and tourism. They know, and keep saying, that they need to address these imbalances. In June last year Qatar published an ambitious economic "vision" for 2030. At the beginning of this year Abu Dhabi followed suit with a 2030 vision document of its own. Grand strategies such as these voice all the fashionable aspirations about improving skills, freeing the labour market, shrinking the role of the government and diversifying ahead of the day when the oil and gas will eventually run out. But the governments have been saying this sort of thing for decades, and the results are decidedly mixed.

Saudi Arabia has invested heavily in downstream energy activities, creating big industrial cities. Dubai, with relatively little oil and gas, seemed until the recent crash to have become a successful business, shopping and tourism hub somewhat like Singapore or Hong Kong. Kuwait pioneered the idea of safeguarding its own economic future by becoming a long-term investor in the economies of others. Sven Behrendt of the Carnegie Middle East Centre in Beirut notes that the huge and increasingly sophisticated sovereign-wealth funds of the Gulf states have for the first time turned Arab countries into a big force in the world economy as strategic investors and not just as suppliers of oil. Some of the countries that lack oil but are close to European markets and influence, such as Morocco and, especially, Tunisia, have begun to create diversified economies.

And yet economic reform, difficult anywhere, is especially hard for the *rentier* economies and authoritarian polities of the Arab world. Sufyan Alissa of the World Bank points out that both the oil- and non-oil states depend disproportionately on collecting rents—if not from oil then in some other form, such as remittances or foreign aid or loans. Such rents, he argues, are used to provide a temporary cushion against economic pressures, preserve the privileges of the elite and buy continued loyalty to the state. At the same time reform is hampered by chronic weaknesses in the government bureaucracy, defective judicial systems, a lack of political transparency or accountability and the vested interests of those who benefit from the existing arrangements.

Having it too good

It follows that when rents increase, the incentive to tackle underlying economic problems diminishes. When oil prices are high, grumbles Ahmed Heikal of Citadel Capital, a private-equity group based in Egypt, governments become less enthusiastic about encouraging private investment. In a study for the Carnegie Middle East Centre, Ibrahim Saif, an economist, notes that the long boom in oil prices which began in 2002 undid many of the good intentions of the Gulf states.

Until then they had been contemplating raising taxes and opening more of the economy to competition in order to deal with mounting budget deficits. But the rising oil price allowed them once again to avoid grasping the nettle of reform. Oil revenues in 2006 contributed a bigger share (86%) of government revenue in the GCC countries than they did in 2002 (77%), and domestic taxes, on average, amounted to less than 5% of GDP.

It seems unlikely, then, that another spike in the oil price will enable even those Arab countries that enjoy the mixed blessing of hydrocarbons to create balanced economies capable of providing enough work for their fast-growing populations. Barring some miracle, a large proportion of Arabs now entering adulthood face hard times and long periods of joblessness ahead, in societies that have systematically blocked peaceful, institutional avenues to political change. That is why so many analysts conclude that something has to give. Will the mass of Arabs continue to bite their lips and buckle under? Or is there a danger of an eruption?