

# Arab Nations and the Global Economic Crisis

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Being an integral part of the world economy, Arab economies could not escape the negative impact of the global financial and economic crisis. However, Arab economies did not suffer as much as most other economies because they are not driven by exports or consumption, financial services or even industrial production. Arab banks for example did not invest in toxic assets; and thus they incurred small losses; however the losses incurred by Arab sovereign funds and the major stock markets were initially estimated at 30%-40% and 20%-60% of their values, respectively, but much of the losses have since then been recovered. Nevertheless, fearing a deepening economic crisis and seeing oil prices and thus revenues falling, most Arab states and private companies felt the need to slow down to weather the storm without more losses. The economic sector hurt most by the crisis is the real estate causing few banks and many construction companies to suffer badly. Since investments in real estate and stocks represent the major individual and institutional assets, the Arab losses due to the global crisis have been estimated at \$2-2.5 trillion.

Generally speaking, the Arab economy is driven by oil and how oil revenues are used. Regardless of how rich or poor the Arab state is, almost all states demonstrate, with varying degrees, the symptoms of volatile and low economic growth rates, low labor productivity, high unemployment rates, weak social safety nets, relatively high illiteracy rates, deep pockets of poverty, lack of transparency and freedom, widespread corruption, and a very bad income distribution. There is also a high degree of disparity in income, wealth and access to social services between Arab states as well as among social classes and groups within each state. The richer the state is, the more volatile its per capita growth rates are; and the more densely populated the state is, the more poverty and corruption and income disparity it suffers from. For example, poverty in Egypt is estimated at about 50% of the population, 52% in the rural areas, and 46% in the urban areas. As for the safety net, it is mainly traditional, with the family being the backbone of the system; other sources include religious and sectarian organizations, Zakat, and charitable foundations and individuals. However, changes in life conditions, globalization, and emigration of the able and talented

are gradually undermining the traditional family and its role as a source of social safety. Moreover, most societies are expected to face a tough problem in the near future due the steady increase in life expectancy. While more people are living longer, the healthcare needs of the elderly are more than the current system is able to provide.

The Arab population is estimated at about 340 million people, or about 4.5% of the world's populations, living on 14.2 million square kilometers of land, or about 10.2 of the world's area. The aggregate GDP of all states is estimated at about \$2.3 trillion; however the number changes from day to day depending on the price of oil. Based on this estimate, the per capita income in the Arab world is about \$7000. Nevertheless, some Arab states are extremely rich, while others are desperately poor; making it very hard to talk about an Arab economy or an Arab per capita income. For example, the rich oil-exporting states, with less than 10% of the Arab population, generate about half the aggregate GDP; as a consequence, the average per capita income of these states is about \$36,000, while that of the other states is about \$4,000 only. Even among the rich and poor Arab states, per capita incomes and levels of economic and social development, education, access to knowledge, life expectancy, and welfare vary widely from one state to another. For example, the per capita income in Qatar is estimated at \$92,000, compared to \$22,000 for Saudi Arabia. As for the poor states, the per capita income in Lebanon is estimated at \$10,000, compared to \$1,930 for Mauritania, making the ratio between the richest and the poorest about 50 to 1.

Nevertheless, poor states get a small portion of the oil revenues in different forms: remittances sent by nationals working in the oil-exporting ones, official aid, and investment capital. Since the economic crisis has caused the economies of the rich industrial nations of the world to sink into a deep recession, remittances and financial aid and foreign investment capital have declined; compounding the problems facing the poor Arab and non-Arab nations of the world. Moreover, Privatization, widespread corruption, lack of transparency and accountability have caused the income gap between the rich and poor in each state to widen tremendously, particularly in the poor ones that represent about 90% of the Arab population. Political and economic corruption have enabled the rich and powerful few to own and control most of the wealth in each society, reducing living standards of the poor to near subsistence, thus causing poverty and hopelessness to spread and deepen its roots. In fact, developments associated with privatization and free market philosophy have

caused wealth and income to be transferred from the poor to the rich via government policies, political corruption, and monopoly practices and, in the case of some states, through higher taxes and fees imposed on all types of public services. Thus, while the richest 10% of the Arab population are secure for at least the medium term, the poor 90% continue to suffer economic and social insecurity and human degradation

However, poverty in the Arab world is not as bad as in other states with similar or even slightly higher income levels. Arab traditions and strong family ties and communal social safety nets have enabled most of the poor to find enough help to keep them floating at above the poverty level. Arabs living below the \$2 per day level are estimated at 20% of the total population; as compared to 74% for South Asia, 72% for Sub-Saharan Africa, and 40% for East Asia and the Pacific. Homelessness, moreover, is almost absent from Arab life. However, poverty rates in rural areas, where about 41% of all Arabs live, are estimated at about 30% of the population. Meanwhile, the concentration of public services and industries in urban areas, and lack of development in the rural ones have caused tens of millions of people to move from rural and tribal areas to the old urban centers, causing the rates of poverty in those areas to rise. Due to these facts and trends, slums began to appear everywhere and to overwhelm the old cities, causing the traditional Arab city character to be transformed; they made city look and behave less urban and more rural and tribal.

In some states such as Egypt; Lebanon and Morocco, the transformation of the city has been influenced more by village life than by tribal life, causing the "ruralization" of the city. In other states such as Jordan, Saudi Arabia and Yemen, the city transformation has been influenced more by tribal life than by village life, causing the "tribalization" of the city. Still in other states such as Algeria, Iraq, and Syria the city is being ruralized and tribalized at the same time; cities like Damascus and Baghdad exhibit village and tribal values and traditions living side by side. As a consequence, the Arab city in general has lost the traditional attributes that usually characterize industrial and cultural cities, and thus its ability to become a true center for culture and the arts and industry and education and creativity has been vastly undermined.

Arab states as a region is distinguished today by having the highest unemployment rate in the world, conservatively estimated at 16% of the labor force. In 2005, it was estimated

by the Arab Labor Organization at 14.4%, compared to 6.3% for the world at large. As unemployment rates were declining in most regions of the world over the last three decades, they increased in most Arab states, particularly in the poorer ones of Algeria, Egypt, Iraq, Jordan, Morocco, Sudan, Syria, Tunisia and Yemen, which represent together over 85% of the Arab population. Today, while unemployment is as low as 2% in Qatar, it is as high as 25% in Mauritania. The rich oil-exporting states, with the exception of Saudi Arabia, have an average unemployment rate of 4%; the Saudi Arabia rate is about 8%. However, low unemployment rates in rich Arab states do not reflect strong economic performance; rather, they reflect high oil revenues that enable the state to employ more nationals and import more foreign workers to serve them. The other distinction that Arabs enjoy is that unemployment rates among college graduates are higher than those prevalent among the uneducated and the illiterate Arabs. One might assume that education is the right medicine to cure unemployment and promote development and change, but in most Arab societies, education has been a contributor to unemployment and even to lower labor productivity. The current global economic crisis is expected to increase the numbers of the unemployed by 5-6 million people, and people living in poverty by 8-10 million.

As high fertility rates continue in most states, and economic growth rates remain low and volatile, unemployment is expected to rise, causing social distress, increased poverty and possibly social and political unrest. Unemployment among the youth who are between 15 and 24 years of age is about twice the average rate for adult males and more so for females. In fact, Unemployment among Arab youth has been estimated by the ALO in 2005 to have been 30% compared to 14.4% for the world at large; in Sub-Saharan Africa, the rate was 21%, and 16.4% for South East Asia. Arab unemployment reflects structural economic weaknesses and deep sociocultural and political problems that continue to cripple Arab societies in general and limit their abilities to grow economically; they also pave the way for radical organizations to flourish. Jordan has the distinction among all rich and poor states in the world of being a major exporter of nationals and a major importer of foreign labor; while more than 25% of its national labor force lives and works in foreign countries; not less than 30% of its labor force is foreign, most of which are Egyptians. Since Jordan has the highest rate of literacy among Arab states, one might think that it should have one of the lowest rates of unemployment and the highest rate of female employment. But contrary to

expectations and logic, Jordan has the second highest rate of youth unemployment (30%), and the lowest rate of female employment (43%).

Can the Arabs solve their economic problems by using the tools prescribed by the World Bank and other international development agencies? The simple answer is No. One can easily argue that Arab states as a region has had surplus capital since the mid-1970s; yet they have failed to develop and industrialize. Economic development in Arab countries cannot succeed if not preceded by or accompanied with deep sociocultural transformations that include political and legal and educational reforms. Prince Hassan of Jordan said lately that “The absence of a modern industrial base diminishes the absorptive capacity of regional economies for the surplus generated by oil revenues. Many countries as a result have set up sovereign wealth funds to invest that surplus in international markets. The managers of these funds quite rightly complain that insufficient investment opportunities exist in the region in agriculture and manufacturing. The question is how to increase the absorptive and carrying capacity of the region and to build a modern industrial base.” Such a base needs economic integration, financial coordination, free movement of labor and investment capital, and above all, political will to make the right and necessary policy changes. Moreover, as the global economic crisis causes economic growth to slow down, it strengthens the arguments in favor of religious fundamentalism and cultural particularism; it also gives Arab autocrats an excuse to postpone badly needed reforms, while giving radical groups an opportunity to spread their ideas and gain more recruits. Economic and financial crises do not happen in vacuum, they are usually preceded by political and social and moral crises. As a consequence, the impact of the global economic crisis is expected to be deep and long lasting, and to cause more unemployment and widespread poverty, more radicalism and possibly social unrest in poorer Arab states.

Economic structural adjustments that worked in many parts of the world cannot work in the majority of Third World states. Such states do not need economic structural adjustments only; they need sociocultural adjustments as well; they also need political and educational and legal reforms to limit corruption and abuse of power, while fostering transparency and accountability and productivity. If the current trend in income distribution remains the same, world markets will not be able to expand fast enough to get us soon out of the economic crisis we are in today. The industrial giants of the world have built a

combined production capacity that exceeds the consumption capacity of the world's developed markets. To grow out of recession, the world needs to expand international markets for all types of good and services. In order to do so, the major powers need to do two things: develop new markets by helping develop the economies of the Third World, and enact new laws and regulations to enable the poor nations and social classes to get a larger share of the incomes and wealth generated by their talents and in their societies.

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