Abdelaziz, Fatma; Breisinger, Clemens

Article

A tale of two MENAs

PEGNet Policy Brief, No. 13/2018

Provided in Cooperation with:
Kiel Institute for the World Economy (IfW)

Suggested Citation: Abdelaziz, Fatma; Breisinger, Clemens (2018) : A tale of two MENAs, PEGNet Policy Brief, No. 13/2018, Kiel Institute for the World Economy (IfW), Poverty Reduction, Equity and Growth Network (PEGNet), Kiel

This Version is available at:
http://hdl.handle.net/10419/182076

Standard-Nutzungsbedingungen:
Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.
Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.
Sollten die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:
Documents in EconStor may be saved and copied for your personal and scholarly purposes.
You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.
If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.
A tale of two MENAs

By Fatma Abdelaziz and Clemens Breisinger

The Middle East and North Africa, often referred to by the acronym MENA, is a region that gained global prominence eight years ago as the site of the Arab spring (Breisinger et al. 2012). What began as a series of protests in Tunisia quickly inspired revolutions across the MENA region whose effects are still visible today. For instance, in several countries, the revolutions turned into armed conflicts which have now resulted in MENA being the region with the highest number of conflicts and refugees in the world (United Nations Refugee Agency 2017). Consequently, economic activities in the region have stalled and resulted in high unemployment rates (Syria 50%, Libya 26%, Tunisia 15%, Oman 16%, Egypt 13%) (EIU 2017). With the persistent instability, low economic growth and employment rates in the region, one could be forgiven for lumping all the MENA countries together. However, stark differences exist among these countries and it is even possible to identify a dichotomy in their trajectories. One set of MENA countries are conflict afflicted and follow a trajectory whose tale is often reported in the media. The other set of countries follow a trajectory whose tale is less known - these countries that are surviving or managing as best as they can given the prevailing conflict in neighbouring MENA countries and the effects of oil price fluctuations. This policy brief aims to bring to light the tale of these two MENAs who despite both facing bleak economic growth prospects are on very different trajectories.

In the present state of crisis and disunity, it is difficult—but essential—to create a path to a more integrated economic outlook within MENA. A major breakthrough could be made if MENA countries not affected by conflict demonstrated that by pursuing reforms, Arab countries can achieve significant increases in GDP and reach 7% or more annual growth rates like other countries in Asia and Africa. Demonstrating this potential could project a realistic hope for improvement and employment generation and offer an alternative to the present state of conflict in the rest of the region (IFPRI, 2018).

After briefly reviewing the situation in conflict afflicted MENA countries, this policy brief will mainly focus on the challenges faced by the non-conflict afflicted MENA countries and outline selected policy options. Specifically, in addition to country-level reforms, the brief suggests to increase MENA’s interconnectedness to the rest of the world as a means of generating the much-needed employment and to improve living standards.

While conflict remains a key barrier to growth in One MENA...

Conflict remains most intense in Iraq, Libya, Palestine, Syria, and Yemen, where the 2018 Global Humanitarian Assistance report estimates that 46.7 million people are in need of humanitarian assistance (GHA, 2018). The rest of the region risks growing inured to the suffering of the most vulnerable in these countries. Man-made disasters continue practically unabated. In addition to the harrowing toll in deaths and casualties, incomes have declined in most of the conflict afflicted countries and food affordability has continued to deteriorate in all countries over the last year (Table 1).

...GDP growth in the Other MENA is depressed partly due to the effects of surrounding conflicts and fluctuating oil prices

Table 1 also shows that GDP per capita growth in most countries that are not directly affected by large-scale conflict was too slow to lead to significant livelihood improvements (IMF, 2017). In most cases, this can to varying degrees be explained by (i) indirect impacts of conflicts in neighbouring countries, including from refugees. Most of the Other MENA countries are directly or indirectly affected by conflict in neighbouring countries. The constant threat of spillover effects and...
concerns related to insecurity and instability continue to limit economic activity in the region as a whole. Instability depresses businesses and investment inflows from national and international investors and has hampered the tourism sector, which had been a vital source of revenue - particularly for Egypt and Tunisia (World Bank, 2017).

And while evidence on the impact of hosting refugees highlights both challenges and opportunities —including increases in local demand for goods that can trigger production and jobs, it is clear that host countries with large refugee populations need significant support from the global community. The flow of refugees from Syria and other conflict-ridden countries to Europe garnered major media attention, but it is often less reported that Other MENA countries—including Jordan and Lebanon—have been challenged by a much bigger inflow. An estimated 25 percent of Lebanon’s population now constitutes refugees, principally from Syria and Palestine. More than 660,000 Syrian refugees are registered within Jordan’s borders, causing huge strains on public finances in both Lebanon and Jordan (IFPRI, 2018). Beyond basic humanitarian needs, most host countries are incapable of absorbing the shock of the refugees because of limited natural resources and the status of their economies. Whilst struggling to operate effectively, the countries growth outlook will continue to be held back as surrounding conflict continues.

(ii) mixed impacts of several years of low oil prices. Changes in international oil prices put a spotlight on the dichotomy between oil importers and oil exporters that has shaped MENA economies for decades. In 2015, amidst the sharp decline in international oil prices, the oil revenues of the Arab Gulf Cooperation Council countries (GCC) fell by more than 50 percent compared with 2014, forcing their governments to make significant budget cuts and increase debt levels.

On the other hand, oil-importing countries had difficulty ensuring net overall gains from the prevailing low oil prices. Egypt, Jordan, and Lebanon suffered from the resulting decrease in demand for goods and services from the GCC, which offset some of the positive impact of lower fuel import bills. Later, some countries, such as Egypt, seized the opportunity and reduced fuel subsidies, but these gains for the budget and people were again largely offset by slowing remittances and foreign aid inflows from the oil-exporting Gulf countries (IFPRI, 2018).

In 2017, oil production cuts led by the Organization of the Petroleum Exporting Countries (OPEC) caused a slight rise back in oil prices, but not enough to completely erase the exporting countries’ losses of the last two years—including low or even negative GDP per capita growth. For oil-importing countries, the rise in oil prices in 2017 put more strain on private and public budgets, and inflation pressures increased substantially. Comoros, Jordan, Lebanon, and Mauritania all experienced shrinking GDP per capita over recent years and a deterioration of access to food (Table 1).

Policy recommendations:

With large populations affected by conflict, countries are finding it even more difficult to focus on long-term sustainable development solutions. Even for the Other MENA countries that have avoided getting pulled into the violence, the ongoing conflicts often prevent them from focusing critical development priorities (IFPRI, 2016). But today’s challenges are not new. Countries not affected by conflict should demonstrate that it is possible to deal with these challenges. Perhaps from the dialogue between the region and the “outside” world, some new thinking can emerge.

Improving food and nutrition security will be central for economic development and job creation.

Policy recommendations: With large populations affected by conflict, countries are finding it even more difficult to focus on long-term sustainable development solutions. Even for the Other MENA countries that have avoided getting pulled into the violence, the ongoing conflicts often prevent them from focusing critical development priorities (IFPRI, 2016). But today’s challenges are not new. Countries not affected by conflict should demonstrate that it is possible to deal with these challenges. Perhaps from the dialogue between the region and the “outside” world, some new thinking can emerge.

Improving food and nutrition security will be central for economic development and job creation.

Policy recommendations:

With large populations affected by conflict, countries are finding it even more difficult to focus on long-term sustainable development solutions. Even for the Other MENA countries that have avoided getting pulled into the violence, the ongoing conflicts often prevent them from focusing critical development priorities (IFPRI, 2016). But today’s challenges are not new. Countries not affected by conflict should demonstrate that it is possible to deal with these challenges. Perhaps from the dialogue between the region and the “outside” world, some new thinking can emerge.
growth, strategies to deal with growing food import dependence should be prepared. (Figure 1). This can be done through the reconsideration of unsustainable production support policies favour the production of staple foods as well as investment in grain reserves and diversified food import portfolios (IFPRI, 2018).

Secondly, undergo structural changes in the agricultural sector to allow market forces to mainly trigger the production of higher-value crops like fruits and vegetables. This would not only provide farmers with more income per unit of cropped area, but also employ more people and thus create more of the much-needed jobs (Hoda et al., 2016).

Thirdly, create incentives for the private sector to invest in agro-industries. This may be done through enhancing the business climate; for example by providing adequate infrastructure and establishing one-stop shops for business registration and investment advisory services to accelerate the process of starting a business.

In addition, empowering local governments can promote development of local agro-industrial clusters and industrial parks. And having a conducive legal framework where food safety regulations are enforced would enhance food processing industries (IFPRI, 2017).

Continue to pursue necessary economic and structural reforms and address long-standing economic challenges to promote inclusive growth.

First, governments should focus on phasing-out costly subsidies and strengthening social safety nets. In revisiting the allocation and efficiency of public spending, both oil importing and oil exporting countries should continue subsidy reforms to bring fuel and utilities prices closer to international benchmarks. Following the model of the emerging success in Egypt, Other MENA countries’ governments should plan to phase out subsidies on energy and replace them with direct payments to the most vulnerable groups plus investments in upgrading public services, especially health and education. Secondly, governments should continue implementing structural reforms that improve the business climate and boost productivity. In the face of economic slowdown and a decline in export revenues, attracting FDI is an important part of kick-starting and sustaining economic recovery. Countries should also aim to increase competitiveness, for example through competitive labor costs, efficient tax regimes and establishing free zones and industrial parks. Reducing the infrastructure gap would relieve some structural bottlenecks. In addition, addressing the chronic skills mismatch between jobseekers and employers, which is particularly prominent in Djibouti, Egypt, Jordan, Morocco and Tunisia (IMF, 2017), would improve the business environment for the private sector, attract FDI and boost employment prospects for both locals and refugees. Thirdly, oil-exporting countries should focus on imposing longer-term policies to promote diversification beyond the energy sector through an increase in spending and investment in their non-oil sectors to diversify their economy away from its reliance on oil and gas revenue.

Encourage export-led growth to generate jobs and increase incomes for the poor.

Export-led growth would help MENA countries earn foreign exchange for food imports as well as lead to an economic
transformation that creates opportunities for rural (and increasingly urban) households to earn income from non-agricultural sources (IFPRI, 2017). For that purpose, promote exports to Europe and other parts of the world through undertaking additional measures for intra-regional integration. This can be done if governments introduce tax exemptions for new (foreign and domestic) industrial firms; continue to eliminate tariff and nontariff obstacles to trade; expand intraregional agreements and standards for services and investments, including telecommunications, transport, and financial services as well as have harmonized employment regulations to facilitate labor movement (UN ESCWA 2015).

**Strengthening of international support.**
MENA countries and the European Union, as neighbouring regions, should revive and strengthen their longstanding links—especially in the areas of investment, tourism, food trade, and development cooperation. First, the international community should stand ready to increase its support to MENA countries, including those that are hosting refugees, so they can be encouraged to continue implementing their domestic reform agendas. Tackling the root causes of conflict (and thus a major source of refugees) must be a key part of a comprehensive strategy for the MENA region (IFPRI, 2017). Among the top priorities should be development aid to encourage policies and investments that address unemployment and food and nutrition insecurity as economic causes of conflict and discontent. Secondly, continue to relax trade rules with MENA countries to encourage local production and create job opportunities, for example by following the example of the relaxation decision of the EU to Jordan in a bid to create 200,000 jobs for Syrian refugees. As part of this deal, the EU relaxed origin requirements for certain goods produced in Jordan in qualifying zones that should contain at least 15% refugees of the total workforce in each production facility in the first and second year and at least 25% from the third year on (de Melo, 2018).

While many MENA countries have missed out on economic growth opportunities in the past, now may be an opportune time for bold, well-designed policy changes.

**References**


---

**Authors**

International Food Policy Research Institute - Egypt Office
Fatma Abdelaziz
f.abdelaziz(at)cgiar.org

Clemens Breisinger
c.breisinger(at)cgiar.org

**PEGNet Policy Briefs** provide information and key policy recommendations on the poverty-economy-growth nexus. The views presented are those of the authors and do not necessarily reflect the views of PEGNet. In case of questions or comments, please directly contact the authors.