Chapter 5

Challenges to economic security[1]

The first Arab Human Development Report (AHDR 2002) characterized the Arab world as "richer than it is developed". That description highlighted the disjunction between the region's material wealth and its real levels of human development, which pointed to a backlog of policy failures often overlooked by conventional economic analyses at the time. Yet the fabled oil wealth of the Arab countries is itself misleading in that it masks the structural weaknesses of many Arab economies, and the resulting economic insecurity of states and citizens alike.

This chapter considers patterns of economic vulnerability in the Arab countries. Its point of departure is that "human security means that people can exercise choices safely and freely and that they can be relatively confident that the opportunities they have today are not totally lost tomorrow".[2] As noted in Chapter 1, central to this concept of human security are its two major components: freedom from fear and freedom from want. A major constituent of freedom from want is economic security.

A major constituent of freedom from want is economic security

Introduction

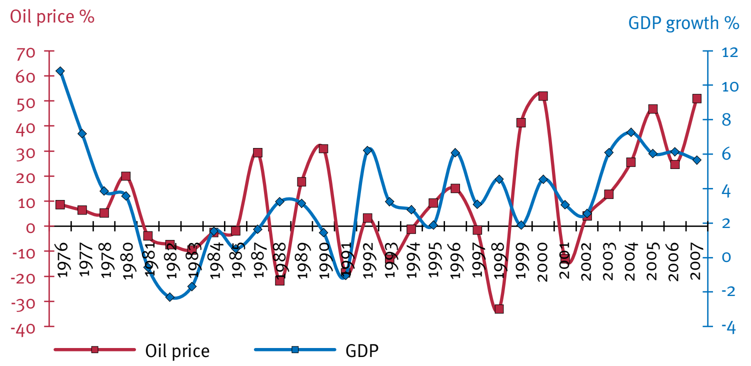
This chapter examines economic security in terms of the most important dimensions originally identified by the UNDP Human Development Report 1994 on Human Security: real per capita income levels and their growth patterns; employment options; poverty; and social protection. In doing so, the chapter considers the erratic course of oil-led growth in the Arab countries, the fragility of the economic model associated with it and changing trends in intraregional spillovers from oil producing countries. It also identifies policy gaps that have consequences for economic security in terms of acute unemployment and persisting income poverty. It suggests that comprehensive solutions begin with the adoption and coordinated implementation of sensible long-term integrated social and economic policies, including a revival of industrial policies, and the provision of better functioning social safety nets.

Policy gaps have consequences for economic security

Regional economic vulnerability

The story of Arab economies since the 1970s is largely the story of oil. Producer countries gained most in that narrative, amassing untold wealth, but non-oil Arab countries also benefitted substantially from oil-related services, worker remittances, intraregional investment flows, regional tourism receipts, and aid. While the going was good, oil was good to the region. Yet tied to capricious oil markets,

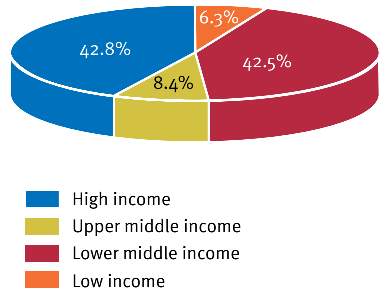
Figure 5-1 **Riding a rollercoaster: regional GDP growth based on constant 1990 prices, and growth in nominal oil prices, 1976-2007**



Source: UNDP/AHDR calculations based on UNSD 2008.

Notes: Data for 1979 and 1986 were removed from the graph as they were significant outliers.

Figure 5-2 a **Distribution of regional GDP: by country group, 2007**



Source: UNDP/AHDR calculations based on IMF 2007; World Bank 2008.

the region's economic security has been—and remains—hostage to exogenous trends. The first oil boom, which lifted the Arab countries in the late-1970s, also brought them low during the busts of the 1980s and early 1990s, as world oil prices fluctuated sharply.

The region's economic security remains hostage to exogenous trends

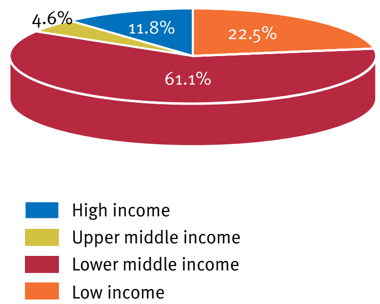
The analysis that follows adopts the World Bank's classification of Arab countries into income brackets: low, lower middle, upper middle and high income countries.[3] In this classification, the high income Arab countries are Bahrain, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates; while low income countries include Comoros, Mauritania, Sudan, and Yemen. The rest of the Arab countries belong to the middle income group. The upper middle income group includes Lebanon, Libya, and Oman; the remaining states are low-middle income countries namely, Algeria, Djibouti, Egypt, Jordan, Morocco, Syria, Tunisia.[4]

Oil exports, growth and volatility

The fitful ups-and-downs in the Arab countries' growth directly reflect the turbulent cycles of the oil market

Arab GDP growth since the 1970s has been closely tied to the rise in export revenues, dominated by fuel exports. The latter constituted 75, 72.6 and 81.4 per cent of merchandise exports of the high income (HIC), middle income (MIC) and low income (LIC) groups respectively in 2006.[5] The fitful ups-and-downs in the Arab countries, from high growth in the 1970s to economic stagnation through the 1980s and back to extraordinary growth in the early 2000s directly reflects the turbulent cycles of the oil market. This is illustrated both by Figure 5-1, which shows the strong link between movements of the global oil price and the region's GDP growth, and Figure 5.3, which shows the average rate of growth of exports as compared to the average rate of GDP growth for different boom and bust periods.

Figure 5-2 b **Distribution of regional population: by country group, 2007**



Source: UNDP/AHDR calculations based on IMF 2007; World Bank 2008.

The steep drops in oil income during the 1980s had major impacts on oil producing countries (Saudi Arabia, for example, saw its GDP at current prices halved between 1981 and 1987). A number of other countries experienced negative economic growth, of which the hardest hit was Kuwait, where GDP at current prices declined by around 18 per cent in 1981 and 1982. The shocks were transmitted to non-oil Arab economies whose receipts from remittances fell away. Jordan and Yemen both had negative growth in some years.

Through all the ups and downs during nearly two and half decades after 1980, the region's per capita economic growth hardly increased at all. Based on World Bank data, real GDP per capita in the Arab countries rose by a mere 6.4 per cent over the entire 24 year period from 1980 to 2004 (i.e. by less than 0.5 per cent annually). Since the 1990s, real per capita growth rates in non-oil as well as oil countries have fluctuated erratically, often turning negative.

The region's per capita economic growth hardly increased at all

Box 5-1 **WALID KHADDURI*: Arab oil policy – the fundamentals**

Arab oil revenues fuel extraordinary wealth and rapid infrastructural and other areas of development in the 12 oil-producing states of the region, accounting for almost 90 per cent of their annual public budgets. These revenues also power associated industries, jobs, income and remittances for the citizens of other Arab states. Oil income is thus a major driver in the economic security of the region, and it is essential to understand the fundamentals of the policy that governs this strategic resource.

Arab oil policy is based on the recognition that oil is a vital and strategic commodity for the world economy, and that producer countries have a responsibility to provide it reliably, without interruptions, and at reasonable prices. These strategic premises underwrite the thinking and decision-making process behind the policy. This responsibility requires the investment of tens of billions of dollars annually to expand capacity in order to meet incremental demand. It also extends to substituting for any major shortage in global markets, whether caused by industrial or political developments or natural disasters. The maintenance of spare production capacity for emergencies costs billions because such capacity remains idle most of the time, representing lost income.

Arabs shouldered this responsibility during at least three crises in the last 5 years: when the late 2002-early 2003 oil workers' strike in Venezuela almost halted that country's oil exports; during the 2003 invasion of Iraq, when oil exports ceased for several months; and in the aftermath of the damage wrought by Hurricane Katrina on offshore production platforms in the Gulf of Mexico and on refineries in Texas and Louisiana. Major Arab oil producers all chipped in to help make up for supply shortfalls at these times, preempting major disruptions in the world economy.

The speed and flexibility of producers on these occasions is due to their policy of retaining spare production capacity for emergency use. It is highly costly because it entails leaving readily available oil in the ground, to be used only in emergencies, instead of for financing social projects.

Oil being a global commodity, Arab oil policy requires close cooperation and monitoring with the consuming countries to retain equilibrium in supply and demand. It also entails cooperation with International oil Companies (IOCs), to benefit from their experience and technology. By ensuring global markets sustained supplies under all conditions and by steadily 'greening' the technologies of production, Arab oil policy meets two core objectives : international interest, and the self-interest of the producing countries themselves, particularly of states that have vast reserves and seek to prolong the oil age as long as possible.

Arab oil policy is often obscured by myths and false assumptions. One of these is that the Arab states are behind high oil prices. Yet the price of oil is principally determined by free markets, especially in New York and London, with frequent speculation accounting for the constant rise and fall of prices.

Increasingly, there is also talk about "oil security" amid fears that Arabs will cut oil supplies as a political weapon. This kind of talk is heard globally, but particularly during political campaigns in leading industrial countries. It is used to build the case for sustainable sources of energy, instead of "Arab oil". While there is every reason to mobilize long-term energy alternatives, the "Arab oil insecurity problem" is probably the least rational among them. To place these fears in perspective, recall that the US, for example, consumes around 21 million barrels of oil a day and imports 9-10 million barrels a day, of which only 2.5 million barrels a day are imported from Arab states.

Recently, "peak oil" theorists have argued that current proven oil reserves in the Arab world cannot meet rising global demand, and that prospects of discovering more oil fields in the region are slight. In fact, Arab oil producing countries have allotted more than $100b billion annually to raise capacity and scores of projects are under way to replace what is produced and to bring on new supplies. However, this policy requires coordination with consumer countries that need to be more transparent and forthcoming with their projected demand.

While Arab oil fuels the world economy, it is also the region's most important local industry and the largest contributor to national wealth. The use and distribution of this wealth have been controversial, and it is sometimes considered a mixed blessing. Such reservations have been accentuated by the fact that, in oil producing countries, public budgets lack transparency and the state falls short on good governance. Oil has also led to wars and armed conflicts. Yet in the past half-century (since the region's oil exports began to flow in earnest) oil revenues have lifted social, educational, health and general living standards. Non-oil states of the region continue to benefit through employment opportunities, remittances, investments in infrastructure and economic assistance. Much more could be done to ensure that oil becomes a force for human development in the Arab world, but there is little doubt that it has a major role to play in that respect.

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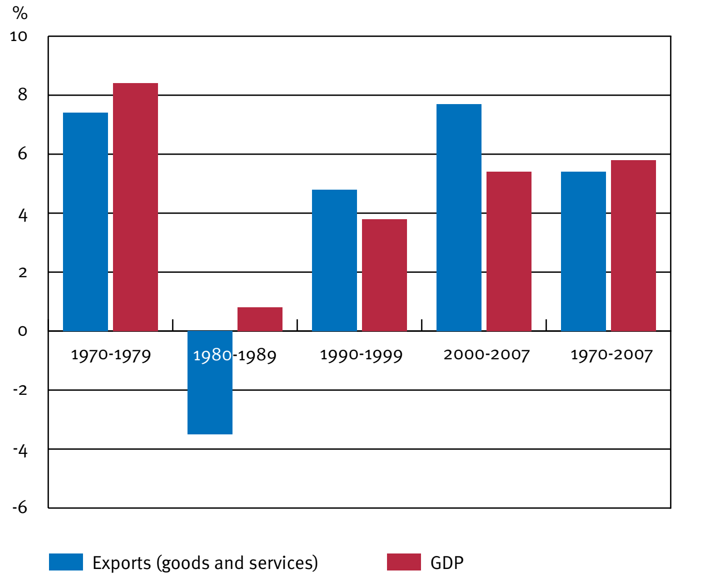
Figure 5-3 Arab countries' exports and GDP growth (average annual change (%) in constant 1990 US$)



Source: UNDP/AHDR calculations based on UNSD 2008.

Table 5-1 Volatile real GDP growth per capita in the Arab countries, 1961-2006 (coefficient of variation)

Income group (number of countries)	Share in total GDP (%)	Coefficient of variation of GDP per capita growth (1961-2000)	Coefficient of variation of GDP per capita growth (2000-2006)
Low income (4)	6.3	4.05	1.25
Lower middle income (6)	42.5	3.12	0.61
Upper middle income (3)	8.4	4.74	1.45
High income (5)	42.8	5.9	1.36
Total (18)	**100**	**4.51**	**1.04**

Source: UNDP/AHDR calculations based on World Bank 2008.

Note: It is a normalized measure of dispersion of a probability distribution. Technically, the coefficient of variation is the ratio of the standard deviation divided by the mean. The coefficient of variation is useful for comparing the degree of variation from one data series to another, even if the means are drastically different from each other.

Table 5-2 Value of petroleum exports of oil-producing countries, 2003 and 2006 (US$ million in current prices)

Country	2003	2006	Percentage increase between 2003 and 2006
Algeria	16,476	38,342	132.7
Iraq	7,519	27,500	265.7
Kuwait	19,005	53,178	179.8
Libya	13,567	36,950	172.3
Qatar	8,814	24,290	175.5
Saudi Arabia	82,271	188,468	129
UAE	25,153	69,810	177.5

Source: OPEC 2007.

Table[6] 5-1 illustrates this characteristic of the Arab countries by compiling evidence of the volatility of real GDP per capita growth. It reports the coefficient of variation for the Arab income groups based on the World Development Indicators of the World Bank.

Over the long run (1961-2000), real per capita GDP growth was extremely volatile, reflected in the fact that the coefficient of variation for each country group exceeds one. The highest variability is in the high income group, followed by the upper middle income group. The lowest volatility is that recorded for the lower middle income group, followed by the low income group. At the country level, the highest volatility is calculated for Bahrain (with a coefficient of variation of 11.3) while the lowest volatility is calculated for Djibouti (with a coefficient of variation of 0.57).

As Table 5-1 suggests, in the most recent episode of prosperity, this fluctuation in growth rates has abated somewhat across all country groups. While this development is comforting, it offers no grounds for complacency since the current plunge in oil prices is bound to undo growth prospects and once again cause volatility. The general historical pattern is not encouraging. Combining the two interval periods in table 5-1 by using the time periods as weights, it is evident, for instance, that the overall weighted average coefficient of variation for the period 1962-2006 remains very high at 4.05.

Indeed, the data seem to show that Arab countries most recent growth burst may belong to this pattern of high-volatility. In the early 2000s, oil prices reached new highs, putting some Arab economies on the crest of a revenue surge not experienced since the 1970s. According to the World Bank,[7] in 2003–2006, the Middle East and North Africa region averaged economic growth at 6.2 per cent a year, its strongest growth in thirty years. This striking average rate very largely reflects an extraordinary jump in oil revenues. The OPEC basket price of oil averaged between US$24 and US$29 in 2003. Prices climbed to between US$51 and US$66 in 2006. They continued to rise until they peaked at a record high of US$147.2 per barrel in July 2008. Between 2003 and 2006, export revenues in Arab oil-producing countries more than doubled.

But new external shocks for the Arab countries are associated with the current global recession, which began with the 2007 US subprime crisis. The global downturn will impact all Arab countries and could severely disrupt the growth models of the major Arab oil producers. All of the latter have substantial investments in the US, and are not able to decouple their economies from the spreading international crisis. The knock-on effects on the rest of the Arab countries of a protracted slow-down in investment financing and remittances from GCC countries would be considerable. Some analysts forecast that the GCC countries, supported by their general liquidity and the strength of their Sovereign Wealth Funds, may be able to weather the storm by reducing oil production to keep prices from dropping further. But at the time of writing, despite the steep production cut of 2.2 million barrels a day announced by OPEC on December 17, 2008, prices continued to fall. This effectively means that, in the last five months of 2008, crude oil gave up all the gains of the preceding four years.

The global downturn will impact all Arab countries

The structural fragility of Arab economies

Oil-led growth has created weak structural foundations in Arab economies. Many Arab countries are turning into increasingly import oriented and service-based economies. The types of services found in Arab countries fall at the low end of the value adding chain, contribute little to local knowledge development, and lock countries into inferior positions in global markets. This trend, which has been at the expense of Arab agriculture, manufacturing and industrial production, is therefore of concern.

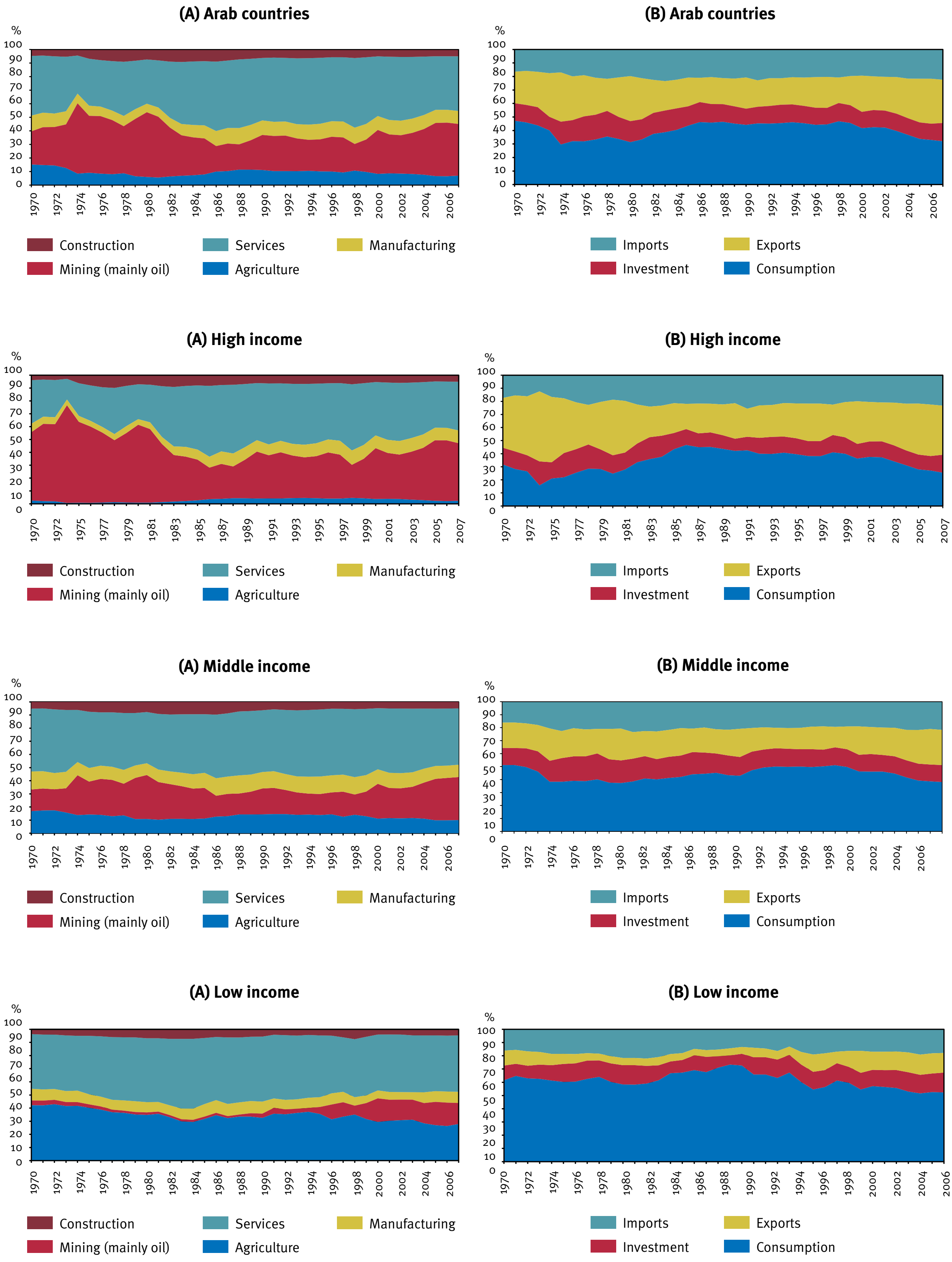
Oil-led growth has created weak structural foundations in Arab economies

Although the share of services in regional GDP declined quite significantly from over 60 per cent in 1986 to 45 per cent in 2007, this was largely due to the rise in share of the oil sector. By the year 2007, the share of services in GDP still exceeded 50 per cent in all non-oil producing Arab countries and was above 65 per cent in Bahrain, Djibouti, Jordan, Lebanon and Morocco. Furthermore, the sector accounted for over 50 per cent of total employment in most Arab countries. The increasing dominance of the mining (mainly oil) and service sectors at the regional and country group levels is shown in figure 5-4 (A). The figure also shows the trend of a declining share of the agricultural sector. Figure 5-4 (B) depicts a general trend of expanding imports and consumption fueled by the rise in exports (though the share of consumption has declined since the mid 1980s, along with rising exports). Meanwhile the share of investment has been relatively stable since the mid 1970s.

Not surprisingly, most Arab countries have experienced significant deindustrialization over the last four decades (Figure 5-5 A). *In fact, the Arab countries were less industrialized in 2007 than in 1970, almost four decades ago.* This includes MICs with a relatively diversified economic base in the 1960s, such as Algeria, Egypt, Iraq and Syria. True, Jordan, Oman, Tunisia, and UAE have made noticeable progress in industrial development. Nonetheless, in general, the contribution of manufacturing to GDP is anemic, even in Arab countries that have witnessed rapid industrial growth (Figure 5-5 B) and especially when compared to the shares of other developing countries such as the East Asian economies. For the majority of Arab countries, manufactured goods made up less than 11 per cent of total commodity exports in for the year 2006/2007.[8] Moreover, all country groups appear to be converging on the modest regional average, which was below 10 per cent in 2007, from an initially diverse subregional industrial base in 1970 (Figure 5-5 C). Finally, the structural fragility of Arab economies as a result of oil-led growth is highlighted by the conspicuous decline in the share of non-oil productive sectors (agriculture and manufacturing) to GDP in all Arab countries except the HICs. It should be noted that the rapid increase in manufacturing shares in the latter is due, in part, to the very low initial base in the 1970s and the rapid growth in value added by petrochemical industries.

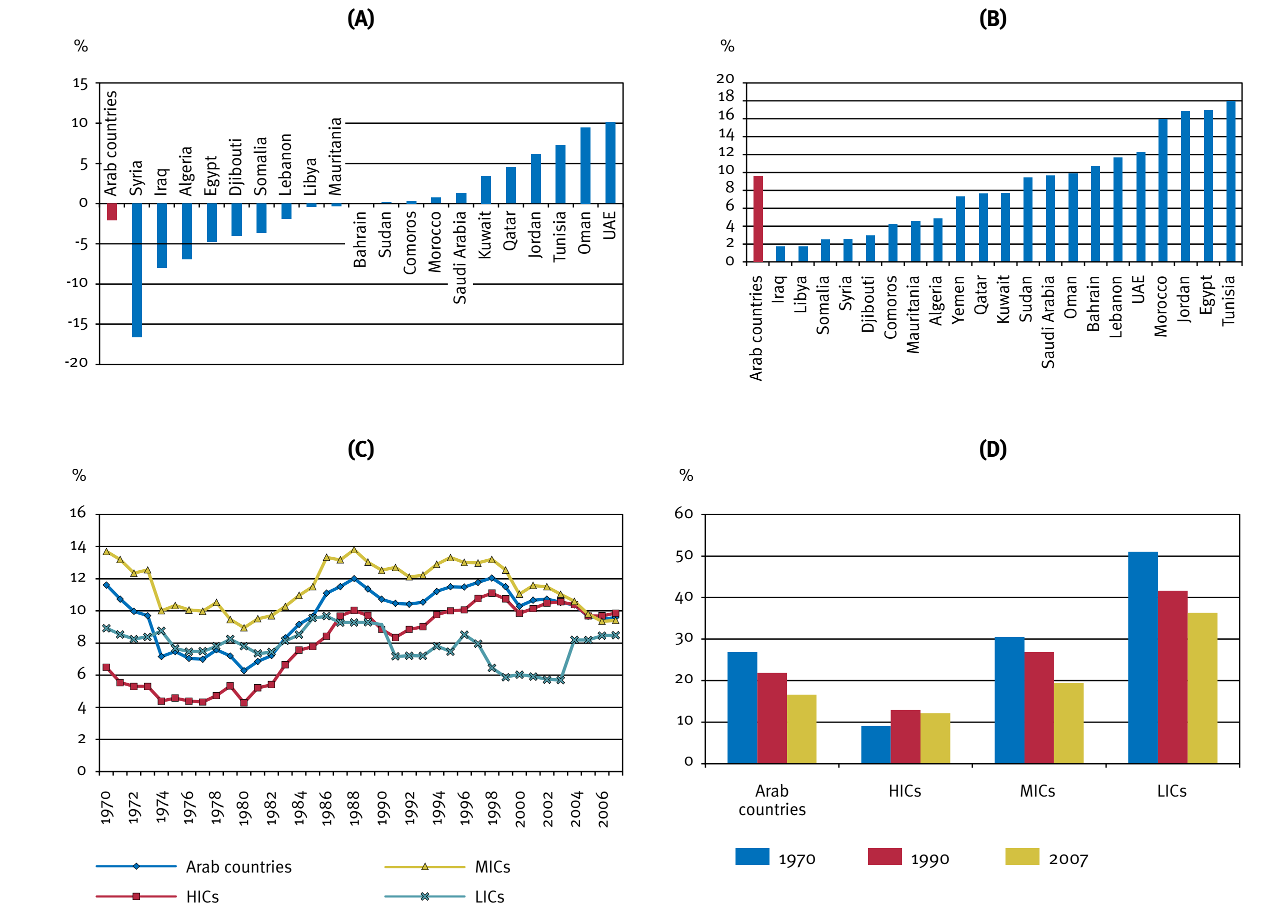
Figure 5-4

Structure of GDP, by economic sector (A) and type of expenditure (B), 1970-2007 for the region, HICs, MICs, and LICs, respectively



Source: UNDP/AHDR calculations based on UNSD 2008.

Figure 5-5 (A) Change in the share of manufacturing to GDP (%), 1970 to 2007, by country; (B) Share of manufacturing in GDP (%), 2007, by country; (C) Share of manufacturing in GDP (%), 1970-2007, by country group; and (D) Share of non-oil productive sectors in GDP (%), 1970, 1990 and 2007, by country group



Source: UNDP/AHDR calculations based on UNSD 2008.

New and old policy questions

With turbulence once again buffeting the region, two pressing questions that emerge are: will Arab countries slip into a boom-and-bust cycle, as in the 1970s and 1980s? Will both oil and non-oil Arab countries share the benefits of the recent surge in oil revenues, as in the previous episode? A third question relates to an older challenge: the Arab countries legacy of unemployment and poverty, and whether efforts to overcome a backlog of deficits in these areas will be weakened.

The answers bear directly on the sustainability of the economy of the Arab countries and whether they can contribute to human security in terms of jobs, income and social equity.

From the short-lived third boom to the financial crisis

On the first question, it may be observed that, adopting a common strategy of prudence, Arab oil producing countries have opted to put much of their latest windfall into foreign investments, external reserves and oil stabilization funds, and to pay down debts. They have also embarked on major domestic investments in real estate, construction, oil refining, transport and communication and social services.[9] This approach clearly differs from patterns of the past, which emphasized imports and consumption. International financial institutions have been quick to commend the emerging improvements in the oil producing countries' macroeconomic indicators

With turbulence once again buffeting the region, two pressing questions emerge

Table 5-3	Military expenditure in four Arab countries (millions of dollars in constant 2005 prices)				
Country	**1998**	**2003**	**2004**	**2005**	**2006**
Saudi Arabia	20,500	18,944	21,060	25,372	29,032
Algeria	1,801	2,453	2,801	2,925	3,014
UAE	3,036	2,853	2,629	2,559	-
Libya	414	536	699	749	741

Source: SIPRI 2008.

for GDP, trade and foreign direct investment. However, the new pattern also exposes GCC countries more openly than in the past to global economic downturns, the latest of which poses severe challenges to their capital-intensive growth model.

The huge revenues recently earned by these countries have allowed some, such as Algeria and Saudi Arabia, to repay all their foreign debts while simultaneously holding onto substantial foreign currency reserves. According to the IMF's Regional Economic Outlook: Middle East and Central Asia, the boom led to an increase in reserves for Middle Eastern countries from 163.9 billion dollars in 2002 to 198.3 billion the following year, and which then reached 476 billion in 2006 and 591.1 billion in 2007. This data includes Iran and some Arab countries that are not among the large oil exporting states or which depend on oil imports, such as Egypt and Jordan. It also excludes Arab oil exporting countries in Africa. However, the largest portion of this enormous increase in reserves undoubtedly belongs to the Gulf States.

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In addition to investing in development and settling their foreign debts, Arab oil exporting countries have been in a position to direct large streams of revenue towards their military and security forces. The Arab country with the highest expenditure on defence and security, according to the Stockholm International Peace Research Institute (SIPRI), is Saudi Arabia, which occupies ninth position internationally in respect of military expenditure, ahead of Australia, Brazil, Canada, India, South Korea, and Spain. Algeria and the UAE follow at a large distance, with the UAE actually decreasing its outlays on arms. The Iraqi government holds fourth position, followed by Libya, whose defence expenditure is half that of Iraq.

Renewed prosperity has propelled some governments to play an active role in seeking peace

With the exception of Saudi Arabia, military expenditure does not represent a high percentage of GDP in these countries. It is true that Saudi Arabia's percentages have decreased during this period compared to high levels in the late eighties, (15.2 per cent in 1988 and 13.4 per cent in 1989) and again in the late nineties (14.3 per cent in 1998 and 11.4 per cent in 1999). But despite the downward trend in the new millennium, in 2005 Saudi Arabia's military spending remained at 8.2 per cent, much higher than in Algeria, Libya and the UAE. In 2005, defense spending ranged between 2.9 per cent in Algeria and 2 per cent in each of the other two countries. Some observers note that, so long as the Arab countries are subject to armed strikes and military interventions by powers in the region and abroad, Arab governments will continue to justify such expenditures in the name of regional security.

On the other hand, renewed prosperity has also propelled some governments to play an active role in seeking peace in the Arab countries. Saudi Arabia has led the Arab states in suggesting the Arab Peace Initiative, a proposed settlement with Israel based on land for peace. It has also intervened to seek reconciliation between the two factions of the Palestinian resistance and have made active efforts on the Lebanese front. Libya also played a leading part in an attempt to reach a peaceful settlement in the Darfur crisis. Qatar has been active in various initiatives concerning the Lebanese 2008 crisis, the Palestinian situation, and the Darfur crisis.

If none of these diplomatic efforts was particularly effective, the signs of a new regional responsibility in matters of peace and stability are nonetheless encouraging; which leads to the second question about the Arab countries at large. Will the wealthy Arab countries use their new riches to interpret security in terms of human development and to promote such development in their own societies and in the region as a whole? There has not been a complete dearth of valuable initiatives. One might cite the establishment of the King Abdullah University for Science and Technology, which offers Arab graduates, women as well as men, grants to conduct scientific research with state-of-the-art facilities and resources. There is also the Mohammed Bin Rashid Al Maktoum Foundation, with the objective of developing the knowledge and human capabilities of the Arab region, as well as the Arab Open University, financed by the Prince Talal Bin Abdul Aziz. These are important initiatives to promote human development in the region.

The initial signs, however, suggest that non-oil exporting Arab countries may have gained less from the third boom than they did from the first two. Although oil wealth still crosses borders, and while several rich countries switched a number of foreign investments to regional markets in the aftermath of 9-11, intraregional flows are becoming less copious and are having less impact than in the past. First, population increases in non-oil countries offset much of these flows. Second, worker remittances from the oil states have been hit by the practice of 'job nationalization' and of replacing expatriate Arab labour with cheaper Asian alternatives; this latter practice has grown under security-related restrictions on employment in the Gulf that have affected Egyptian, Yemeni and Palestinian workers the most. Third, non-oil countries are incurring higher energy costs through rising oil import bills and expensive fuel subsidies.

Nonetheless, oil is likely to remain a key driver of growth in the Arab countries, albeit through different channels than in the past.

At the time of writing, the global economy is mired in the worst financial crisis since the Great Depression. What first appeared as strains in the United States mortgage and housing market during the summer of 2007 began expanding during 2008 into deeper pressures across the global financial system and led to the collapse of numerous major banking institutions, dramatic drops on stock markets around the world, and a credit freeze. These financial fissures had by early 2009 triggered a full-blown global economic crisis, with most advanced economies already in recession and the outlook for emerging and other developing economies deteriorating rapidly, including those with a recent history of strong economic performance. According to the United Nations World Economic Situation and Prospects, published in January 2009, the baseline scenario is for a 1.0 per cent growth of GDP worldwide in 2009, while the more pessimistic scenario envisages negative growth globally in that year—for the first time since 1930.

Box 5-2 **The vulnerability of major oil producing states to the international financial crisis**

A study on the size and likely growth of sovereign wealth funds in the Gulf Cooperation Council countries was released in January 2009 by the Council on Foreign Relations. The authors concluded with the following estimations:

The Gulf's external portfolio assets of GCC sovereign funds and central banks fell from almost $1.3 trillion in 2007 to $1.2 trillion in 2008 as market-to-market losses on equity and alternative asset holdings offset record oil revenues. The swing in fortunes of the smaller Gulf states is more extreme: the foreign assets of the governments of Kuwait, Qatar, and the United Arab Emirates—in the authors' estimation—fell from close to $1 trillion at the end of 2007 to close to $700 billion at the end of 2008.

At all oil prices, the authors expect the Gulf countries to be looking to increase the share of their portfolio held in liquid assets in 2009. Major Gulf states will need to provide more foreign currency liquidity to domestic institutions in order to maintain spending levels.

If oil remains below $50, most countries will end up drawing on their funds to support current levels of spending, with only interest and dividend income contributing to the growth of assets under management.

Source: Setser and Ziemba 2009.

Coming on the heels of the food and energy security crises, the global financial and economic crisis shows strong signs of rolling back recent economic growth (2003-2006). The problem is particularly serious given that many of the countries are not in a position to implement effective counter-cyclical macroeconomic policies. While governments of Arab oil producing countries in the Gulf have responded to the crisis through fiscal stimulus packages, the middle-income and low-income Arab countries will not be able to do so. Moreover, with oil prices having retreated precipitously from their record highs, even the Gulf countries are expected to run deficits in 2009.

The global financial and economic crisis shows strong signs of rolling back recent economic growth

Arab leaders have been active in working toward a regional response to the crisis as well. At the January, 2009 *Arab Economic, Developmental and Social Summit*, held in Kuwait, they agreed to work together on consolidating close Arab relations and common goals, especially as pertains to promoting social and economic development, including in the areas of empowerment of youth and women, and in addressing food and water issues. Moreover, the *Kuwait Declaration*, issued on January 20th, called for cooperation to enhance the ability of Arab countries to confront the

Many of the countries are not in a position to implement effective counter-cyclical macroeconomic policies repercussions of the international crisis, and to participate in international efforts directed at securing international financial stability.

Patterns of unemployment

Unemployment is a major source of economic insecurity

Unemployment is a major source of economic insecurity in most Arab countries. Data from the Arab Labour Organization show that in 2005 the overall average unemployment rate for the Arab countries was about 14.4 per cent of the labour force compared to 6.3 per cent for the world at large.[10] While national unemployment rates vary considerably, ranging from about 2 per cent in Qatar and Kuwait to about 22 per cent in Mauritania, as noted subsequently, youth unemployment is a serious challenge common to many Arab countries.

In looking at aggregate unemployment trends in the Arab countries, it is necessary to distinguish the high income group, with the exception of Saudi Arabia, from the other income groups. High income Arab countries in general have not experienced high unemployment rates, owing largely to the nature of their oil economies in spite of their heavy dependence on foreign labour. According to the ALO, the unemployment rate in the latter group ranged from a low of 1.7 per cent of the total labour force in Kuwait, to a high of 3.4 per cent in Bahrain; with rates of 2 per cent for Qatar, and 2.3 per cent for UAE. However, emerging strains in the labour markets in these countries indicate that a serious unemployment problem among their nationals may soon become a major challenge. In contrast to these low unemployment rates, the unemployment rate in Saudi Arabia, estimated as 6.1 per cent in 2005, already constitutes a challenge to economic security.[11]

During the 1980s, the average unemployment rate in non oil-producing Arab countries ranged from a high of 16.5 per cent in Algeria to a low of 4.8 per cent in Syria. Morocco's unemployment rate was second highest (14.2 per cent), followed by

Box 5-3 **Unemployment, human security and migration**

The relationship between migration and human security is multifaceted. It has manifestations at all stages of the migration process and in the outcomes of migration. At the very early stage of the decision to migrate, it is the perceived lack of human security that pushes workers to leave their countries of origin in search of better employment and incomes. The push factors at play essentially are unemployment, underemployment and poverty. Political instability and conflict are additional factors. In putting the decision into practice, that is, in how migrants reach a country of destination and obtain employment there, human security is frequently jeopardized.

States have an undisputed sovereign right to formulate and implement their migration policies. However, too restrictive immigration policies may be sending a number of potential migrants to criminal networks to smuggle them to southern European countries where, they hope, they can improve their quality of life and their human security. In other words, overly restrictive immigration policies may be creating business for criminal groups of human smugglers. Recent boat accidents, in which North Africans, from Morocco to Egypt, have died at sea in attempts to migrate to Europe have highlighted that this is an increasingly serious problem. It is the ultimate embodiment of human insecurity. Not only are the financial costs of smuggling high for migrants, they also pay for it with their lives. Although the media focuses on "boat migrants", many migrants also employ other methods to enter Europe each of which can pose a high level of risk. Some, for example, enter into dangerous agreements to obtain tourist visas and false documents; others hide in vehicles, or ferries, and some even scale or swim around the fences surrounding the Spanish enclave of Ceuta.

Another smuggling route also warrants attention. A great number of sub-Saharan nationals enter North Africa in attempts to reach Southern Europe. Transit is their original aim. But those who fail to pass the increasingly tight European border controls join growing immigrant communities in North Africa. According to various estimates, more than 100,000 sub-Saharan migrants are currently living in both Mauritania and Algeria, 1 to 1.5 million in Libya, and substantial numbers of people, in the millions, (mainly Sudanese) in Egypt. Tunisia and Morocco also house smaller but growing numbers of sub-Saharan immigrants. Some sub-Saharan transit migrants become stranded in the large territories of North African countries. These are tragic cases of migrants fleeing human insecurity in their countries only to meet the same fate at destination. The trend also results in draining the already insufficient resources of Arab North African countries and further impedes their ability to meet development needs and create decent living conditions and human security for their populations.

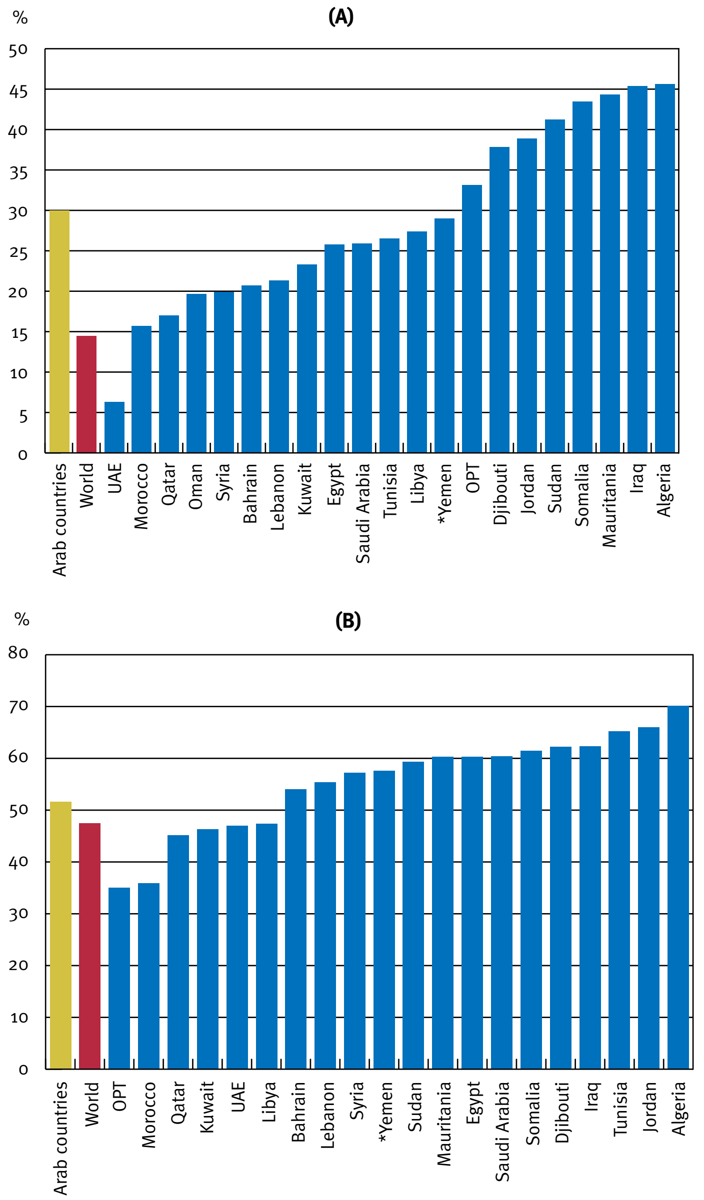
Source: Ibrahim Awad, background paper for the report.

that of Tunisia (13.6 per cent), that of Egypt (7.6 per cent), and that for Jordan (6.2 per cent). The weighted average unemployment rate for this group of Arab countries during the 1980s was 10.6 per cent. In the 1990s, the average unemployment rate for Algeria remained the highest at 25.3 per cent, followed by that for Morocco (18 per cent). Both Jordan and Tunisia recorded the third highest average unemployment rate of 15.5 per cent, followed by Egypt (9.6 per cent) and Syria (8.1 per cent). The weighted average unemployment rate during this decade was 14.5 per cent. Thus, over the two decades, the unemployment rate increased in all countries under consideration. Preliminary evidence from the ALO indicates that by 2005, the weighted average unemployment rate has risen to 15.5 per cent[12], up one per cent from its average in the 1990s.

The annual rate of growth in unemployment between 1980 and 2002 (the most recent year available) ranged from a high of 6.6 per cent in Jordan to a low of 0.8 per cent in Tunisia. Algeria's unemployment growth rate amounted to 2.8 per cent, followed by that for Syria (2.4 per cent), and Egypt (2.2 per cent). The weighted average growth rate in unemployment in the Arab countries (using the number of unemployed in 2005) was about 1.8 per cent.[13] This trend is disturbing when it is considered that Arab countries need about 51 million new jobs by 2020.[14]

Most of those new jobs will be needed to absorb young entrants to the labour force who will otherwise face an empty future. ALO estimates for the year 2005/2006 show that youth unemployment rates vary from a high of about 46 per cent in Algeria to a low of 6.3 per cent in the UAE (figure 5-6). With the exception of the latter, high income Arab countries suffer from double digit youth unemployment rates: Saudi Arabia (26 per cent); Kuwait (23 per cent); Bahrain (21 per cent); and, Qatar (17 per cent). Relatively high youth unemployment rates are recorded for the middle income Arab countries: Jordan (39 per cent); Libya (27 per cent); Tunisia (27 per cent); Egypt (26 per cent); Lebanon (21 per cent); Oman (20 per cent); Syria (20 per cent); and, Morocco (16 per cent). The low income Arab countries also report relatively high rates: Mauritania (44 per cent), Sudan (41 per cent), Djibouti (38 per cent), and, Yemen (29 per cent).[15] Overall, in the year 2005/6 the unemployment rate among the young in the Arab countries is nearly double that in the world at large,30 per cent compared to 14 per cent.

Figure 5-6 **(A) Unemployment rate among Arab youth and (B) share of Arab youth in total unemployment (%), in the year 2005/2006**



Source: ALO 2008 (in Arabic).

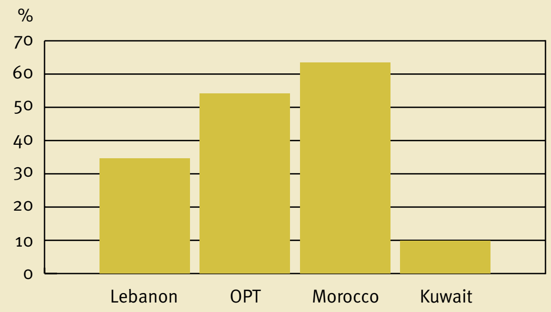
* Data source for Yemen from the World Bank and the Social Fund for Development, 2009.

Unemployment in the Arab countries affects youth disproportionately

Unemployment in the Arab countries not only affects youth disproportionately; it also often wears a female face. Unemployment rates for young Arab women are higher than those for young Arab men, and among the highest in the

Box 5-4 **THE HUMAN SECURITY SURVEY – Perceptions of unemployment and labour market discrimination in four Arab countries**

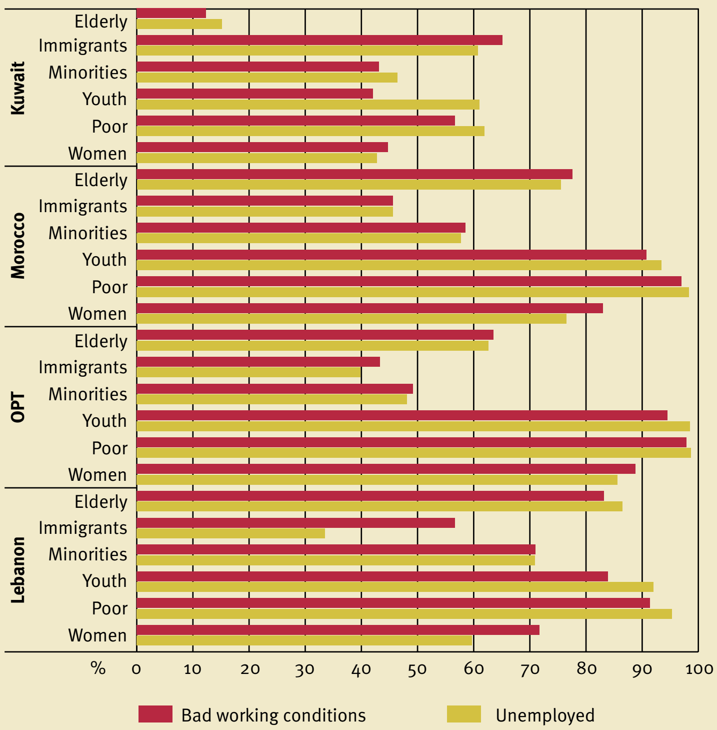
1) Is someone in your family unemployed and looking for work?



Taking into account the average size of households, answers in the affirmative to the first question suggest unemployment rates ranging between 30-35 per cent in Morocco and the Occupied Palestinian Territory, and 15-20 per cent in Lebanon.

2) Is unemployment worse for particular groups in society?

3) Which groups encounter the worst working conditions when employed?



On the second question, concerning labour market discrimination against particular groups, respondents believed that the poor, the young, the elderly and women encounter the steepest hurdles, with youth coming off the worst. Since being poor is at least as much a consequence of unemployment as it is a factor in it, and since the category includes the other groups, the predicament of young people stands out as most acute.

Responses to the third question showed respondents believed that there was a strong correlation between discrimination and poor working conditions in most cases. Answers indicated people in Kuwait thought youth faced the worst conditions, while in Lebanon they thought immigrants fared the worst. Moroccans believed women had to undergo the poorest working conditions.

world. ALO data for the year 2005 shows that the youth unemployment rate for men was 25 per cent of the male labour force compared to 31.2 per cent for women. The female youth unemployment rate varied from a high of about 59 per cent in Jordan (compared to 35 per cent for males) to a low of 5.7 per cent in UAE (compared to a male unemployment rate of 6.4 per cent). There are, however, a few exceptions where the unemployment rate for young women is lower than that for the young men, according to the ALO. These include Bahrain (18 per cent female rate; 28 per cent male rate); Mauritania (41 per cent compared to 49 per cent); Tunisia (20 per cent compared to 29 per cent); and Yemen, where the two sexes fare equally (14 per cent for both).[16]

Signs of discrimination against women in the labour market include the difficulties experienced by young and educated women and the concentration of a high proportion of women in the low-wage agricultural sector, or in jobs without social insurance or benefits. Indeed, the Arab region is the only region in the world where the proportion of women working in agriculture has increased: according to the ILO, between 1997 and 2007, it rose slightly from 31.2 to 32.6 per cent in the Maghreb and from 28.4 to 31 per cent in the Mashreq countries, while employment in industry declined from 19.1 to 15.2 per cent in the Maghreb and from 20.0 to 18.8 per cent in the Mashreq. High unemployment rates for women reflect more than the general failure of Arab economies to generate sufficient jobs. They also indicate entrenched social biases against the employment of women.

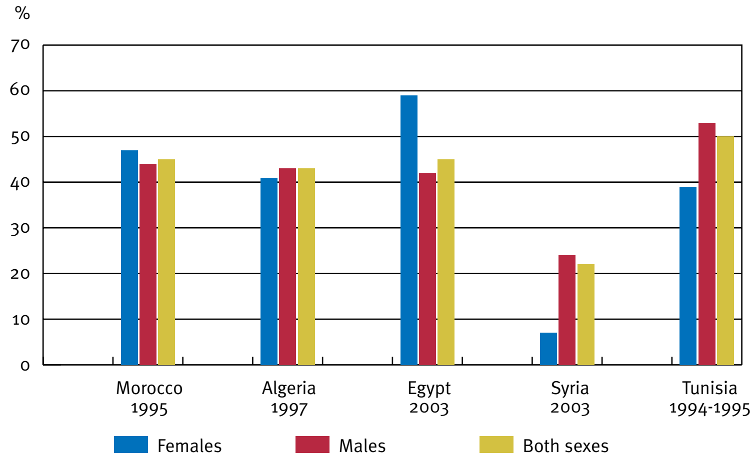
Worrisome as the unemployment figures are, they may not fully capture the seriousness of the problem in countries where citizens seize on any means of making a living when they cannot find permanent jobs. For this reason, definitions of unemployment that fit the developed world are of limited relevance to the Arab states, where a few hours' work a week are sufficient to have someone taken off the unemployment register. Thus, in gauging the precariousness of employment in Arab countries, it is instructive to consider, as well, the data, however limited, on the rate and size of employment in the informal sector where workers lack contracts and benefits. The most recent UNDP figures available show that Algeria, Egypt, Morocco and Tunisia have very large informal sectors, comprised between 40 per cent and 50 per cent of the non-agricultural employment. Compared to men, the rate for women is lower in Syria, Algeria, and Tunisia and higher in Egypt and Morocco.

Three primary factors are usually cited in accounting for the Arab countries slumping employment trends: first, the contraction under structural reforms of the large public sector, which employs more than a third of the workforce; second, the limited size, hobbled performance and weak job-generating capacity of the private sector, which has not taken up the slack; and third, the quality and type of education generally provided, which does not stress technical or vocational skills in demand. In this context, job creation, especially for young people, is of paramount importance to the Arab countries, particularly since disguised unemployment adds significantly to the challenge. School-to-work transitions are seldom easy, the result of job shortages and a mismatch between graduate skills and the needs of the labour market. Consequently, some 40 per cent of high school and university graduates between ages 15–25 do not find work on entering the job market, fueling a trend towards high numbers of unemployment even among the educated.

Yet a youth population of the size found in the Arab countries also represents a time-bound window of opportunity for countries—the so-called 'demographic gift'—to move the group into a dynamic, working-age contingent, economically active, healthy, with lower dependency ratios and the capacity to generate income, savings and investment.

But for this to happen, political, economic and social policies must be geared toward mobilizing the potential labour force, a reorientation that is taking place rather slowly. As several studies point out, Arab policies will have to focus on revamping education to close skills gaps, respond to labour market signals and stimulate knowledge-based capabilities matching opportunities in the global, as well as regional economy.[17] National savings will need to be converted efficiently into sizeable investments for expanding health, housing and labour markets in order to cater for the needs of this young workforce and provide it with the facilities to increase productivity. A special effort is required to remove entrenched social barriers to women's access to high-productivity jobs. In many of these policy shifts, private-public partnerships offer the best option for mobilizing resources, transferring skills and creating new jobs. Providing the institutional environment for a viable private sector, built on small and medium-size enterprises, as well as independent businesses, is thus a key part of the equation.

Figure 5-7 **Percentage of workers in the informal sector (% in non-agricultural employment) by sex, 5 Arab countries 1994-2003**



Source: UNDP 2007.

Job creation, especially for young people, is of paramount importance

The costs of not taking this road could be unbearable pressures on natural and economic resources from a large, unproductive and disaffected contingent. Those costs will be visible in the personal insecurity and alienation of jobless youths that can translate rapidly into protest and in some cases may lead to radicalization, all of which can undermine the security of society at large.

The costs of not taking this road could be unbearable pressures on the Arab countries

The dynamics of poverty and inequality amid unsettled growth

When considering the relationship between unemployment and poverty in the Arab countries, it is important to be aware that obtaining work does not imply freedom from poverty. While the extent of this disconnect varies from one Arab country to another, in several cases having a job does not necessarily guarantee being able to meet basic needs. Whatever measures of poverty are used, in every country where data are available, the figures show that the poor outnumber the unemployed by some margin. Even where the unemployed represent a significant portion of those supporting families in poverty, as for example in Jordan (21.5 per cent) and Yemen (24.9 per cent), the majority of economically insecure families in both countries are supported by employed persons (Heba El-Laithy, background paper for the report).

Figures show that the poor outnumber the unemployed

Economic insecurity associated with poverty can be measured from two perspectives: income poverty which describes the welfare of individuals in terms of their incomes (where the welfare of individuals is defined in terms of their enjoyment of goods and services, represented in real per capita consumption expenditure); and human poverty, which looks beyond GDP to a broader definition of well-being (where the welfare of individuals is defined by income as well as by other valued dimensions of life, such as education, health, and political freedom). While income poverty is still the most common measure used by policy-makers worldwide, the use of human poverty and related human development indices provides a fuller prism of the multi-faceted and complex relationship between income and well-being.

Income poverty

In 2005, about 34.6 million Arabs were living under the two-dollars-a-day international poverty line

The income poverty approach is that most widely adopted in policy making; and the most widely used measure of poverty in this approach is the head-count ratio. The latter is simply the proportion of the total population living below an agreed-upon standard of living, defined as a poverty line. As such, the head-count ratio is a measure of the spread, or incidence, of poverty in a society. It can be interpreted as a fairly obvious measure of economic insecurity. The World Bank has popularized the international poverty lines of one and two US dollars a day per person. Table 5-4 compares the results of applying the two-dollars-a-day measure in the Arab region and other developing regions.

Notwithstanding its diverse income levels, volatile real per capita growth, and high unemployment rates, the Arab region is generally considered to have a relatively low incidence of income poverty. In 2005, about 20.37 per cent of the Arab population was living below the two-dollars-a-day international poverty line. Since this estimate is based on Algeria, Djibouti, Egypt, Jordan, Morocco, Tunisia and Yemen, whose population represents about 63 per cent of the total population of the Arab countries not in conflict, it can be concluded that, in 2005, about 34.6 million Arabs were living under that poverty line in those countries.

The poverty estimates reported above reflect the incidence of poverty according to the international poverty line. We may also consider the proportion of the population under the national poverty line, with its lower threshold (i.e. the lower poverty line). Table 5-5 compares the extreme poverty rate and trend in nine Arab countries based on the lower national poverty line. 1) All poverty estimates selected for this comparison used expenditure as a measure of welfare. Countries such as Sudan, with surveys using non-money metrics, were excluded. 2) All poverty estimates were derived from either World Bank-led or UNDP-led poverty assessments, which used the same methodology consistently. 3) All country reports used were produced by the same consulting team using a common methodology: a) all reports estimated the national poverty line at the cost of food and basic non-food needs; b) all took into account price differences between the country and others; c) all consistently broke down different needs by age; d) all took into account economies of scale.

Table 5-5 shows that, from 2000 to 2005, the rate of extreme poverty for the nine countries in the sample was 18.3 per cent, which is slightly higher than that for the 1990s (17.6 per cent). More significantly, extreme poverty in LICs is more than double that in MICs (36.2 and 15.9 per cent, respectively).

For the purpose of our analysis, we note that applying the two-dollar-a-day international line and the lower national poverty line respectively yields a virtually identical picture of extreme poverty in the region.

However, if this is the picture of extreme poverty in Arab countries at the lower poverty line, it would be reasonable to expect a significantly higher percentage

Table 5-4 Incidence of income poverty – world regions compared, 1981-2005 (percentage living below two dollars a day)

Region	1981	1984	1987	1990	1993	1996	1999	2002	2005
East Asia and Pacific	92.6	88.5	81.6	79.8	75.8	64.1	61.8	51.9	38.7
Of which China	97.8	92.9	83.7	84.6	78.6	65.1	61.4	51.2	36.3
Eastern Europe and Central Asia	8.3	6.5	5.6	6.9	10.3	11.9	14.3	12	8.9
Latin America and Caribbean	22.5	25.3	23.3	19.7	19.3	21.8	21.4	21.7	16.6
Middle East and North Africa	26.7	23.1	22.7	19.7	19.8	20.2	19	17.6	16.9
South Asia	86.5	84.8	83.9	82.7	79.7	79.9	77.2	77.1	73.9
Of which India	86.6	84.8	83.8	82.6	81.7	79.8	78.4	77.5	75.6
Sub-Saharan Africa	74	75.7	74.2	76.2	76	77.9	77.6	75.6	73
Total	69.2	67.4	64.2	63.2	61.5	58.2	57.1	53.3	47
Arab countries (MENA without Iran)	32	28.52	26.51	22.45	24.42	24.59	23.23	20.8	20.37

Source: Chen and Ravallion 2007.

Note: The Arab countries aggregate includes the following countries: Algeria, Djibouti, Egypt, Jordan, Morocco, Tunisia and Yemen.

Table 5-5 The incidence of (extreme) poverty based on national lower poverty lines (1991-1999 and 1999-2006)

Country	Survey year	Poverty incidence (%)	Pop. average (1995-2000) in millions	Estimated number of poor (millions)	Survey year	Poverty incidence (%)	Pop. average (2000-2005) in millions	Estimated number of poor (millions)
Lebanon	1997	10	3.6	0.4	2005	7.97	3.9	0.3
Egypt	1999	16.7	63.6	10.6	2005	19.6	69.7	13.7
Jordan	1997	15	4.6	0.7	2002	14.2	5.2	0.7
Syria	1997	14.3	15.6	2.2	2004	11.4	17.7	2.1
Algeria	1995	14.1	29.4	4.1	2000	12.1	31.7	3.8
Morocco	1991	13.1	27.9	3.7	1999	19	29.7	5.6
Tunisia	1995	8.1	9.3	0.8	2000	4.1	9.8	0.4
MICs		14.6	153.9	22.4		15.9	167.6	26.6
Mauritania	1996	50	2.4	1.2	2000	46	2.8	1.3
Yemen	1998	40.1	16.9	6.8	2006	34.8	19.6	6.8
LICs		41.4	19.2	8		36.2	22.4	8.1
Total		17.6	173.1	30.4		18.3	190	34.7

Source: UNDP/AHDR calculations based on World Bank 2007, 2008; UNDP 2005, 2007, 2008. (See Statistical references).

of the population at or below the upper poverty line. Indeed, using that upper line, the overall poverty rate ranges from a low of 28.6 per cent - 30 per cent in Lebanon and Syria to a high of about 59.5 per cent in Yemen with that for Egypt being about 40.9 per cent. Since the countries analyzed in Table 5-6 represent about 65% of the total Arab population, it would be reasonable to extrapolate that the overall headcount poverty ratio at the upper poverty line is 39.9 %. On this measure, it can be estimated that there are 65 million poor Arabs, which is almost double the total implied in Tables 5-4 and 5-5 which measure poverty at the international two-dollars-a-day and lower national poverty lines respectively.

Expectably, income poverty, and the insecurity associated with it, is more widespread among rural populations. The rural population of the 18 Arab countries analyzed in Table 5-7 is approximately 128 million and is distributed among the country groups as shown.

Expectably, income poverty is more widespread among rural populations

Evidence of poverty prevalence in rural areas is available for six countries from the low and lower middle income groups:

Table 5-6 The incidence of poverty at the national upper poverty line, 9 Arab countries, 2000-2006

	Survey year	Poverty line	Poverty rate	Population (million)	# of the poor (million)
Egypt	2004/5	PPP $2.7 per day	40.93	72.8	29.8
Syria	2003/4	NUPL	30.1	18.3	5.5
Lebanon	2004/5	NUPL	28.6	4	1.1
Jordan	2006	PPP $2.7 per day	11.33	5.5	0.6
Morocco	2000	PPP $2.7 per day	39.65	28.4	11.3
Tunisia	2000	PPP $2.7 per day	23.76	9.56	2.3
MIC			36.52	138.56	50.60
Yemen	2005	PPP $2.43 per day	59.95	21.1	12.6
Djibouti	2002	PPP $2.43 per day	52.6	0.76	0.4
Mauritania	2000	PPP $2.43 per day	53.95	2.5	1.3
LDC			59.10	24.36	14.40
Total			39.90	162.92	65.00

Source: World Bank 2008.

Table 5-7 The rural population in the Arab countries, 2007

Income group (number of countries)	Rural population (in millions)	Share of rural population in total (%)	Share of income group in rural population (%)
Low income (4)	39.1	61.8	30.1
Lower middle income (6)*	83.2	47.6	64
Upper middle income (3)	2.1	16.9	1.6
High income (5)	5.6	17.6	4.3
Total (18)	130	46.3	100

Source: UNDP/AHDR calculations based on UNDP 2007.

* Egypt dominates the rural population of the lower middle income group, contributing 50 per cent of the total.

Human poverty affects children's attendance at elementary school

Egypt, Jordan, Mauritania, Morocco, Syria and Yemen. This sub-sample accounts for about 64.4 per cent of the Arab countries' rural population. The evidence is compiled, and summarized, in Ali (2008) where poverty estimates are those based on upper national poverty lines.[18] For the respective years of the household budget surveys, the poverty head count ratio ranged from a low of 18.7 per cent for Jordan (2002) to a high of 59 per cent for Mauritania (2004). The remaining countries register a relatively high incidence of rural poverty: 52 per cent in Egypt (2005); 64 per cent in Yemen (2005), 32 per cent in Syria (2004); and 27 per cent in Morocco (2000). Significantly, in all survey periods and in all six countries, the incidence of rural poverty was greater than that of urban poverty.[19]

Human poverty

Human poverty, a term popularized by UNDP to capture the deprivation of capabilities and opportunities, can be measured through the Human Poverty Index (HPI). The HPI, a composite index, is built on three components: a) longevity, b) knowledge and c) standard of living. The first component relates to survival prospects and is measured by the proportion of the population not expected to reach 40 years of age; the second component refers to exclusion from reading and communication, and is measured by the adult illiteracy rate; and the third is a composite value measured by the proportion of the population without access to safe water and the proportion of children under 5 years who are under weight. Countries with an HPI of less than 10 or more than 30 per cent are considered low or high human poverty cases respectively. Values in between these two thresholds denote the incidence of medium human poverty.

The above results correlate closely with those based on income poverty: low income Arab countries exhibit the highest incidence of human poverty, with an average HPI index of 35 per cent. Insecurity, as measured on the HPI, undercuts health, education and standards of living, all of which puts in question the effectiveness of the state in providing, and ensuring access to the basic necessities of life.

In particular, human poverty affects children's attendance at elementary school and their levels of continuation at post-elementary stages. In Egypt, the percentage of poor children in elementary school is 7 per cent lower than that for better-off children, 12 per cent lower at intermediate level, and 24 per cent lower at secondary level. In Morocco, around a quarter of children aged ten to fifteen years have not completed elementary school because of poverty. Many poor children are withdrawn from school to work at an early age to help support their families. In all cases, low school completion rates perpetuate the insecurity of the poor.

Arab countries scoring an HPI of 30 per cent or more include three low income countries and a lower middle income country: Sudan (with an HPI of 34.3 per cent), Yemen (36.6 per cent), Mauritania (35.9 per cent), and Morocco (31.8 per cent). In almost all of these countries, significant insecurity (i.e. a value of more than 30 per cent) is recorded for the education component, represented by the adult illiteracy rate. In addition, in Sudan, Yemen and Mauritania, insecurity from lack of access to safe water and child nutrition is also significant.

Along with falling rates of extreme poverty, insecurity arising from human poverty is also declining over time. Between 1996-1998 and 2005, the region-wide HPI declined by almost one third, from a value of 33 to 22.2 per cent. Figure 5-8 reflects the country achievements behind this regional trend. As shown in Figure 5-8, countries belonging to the high and upper middle income groups achieved the highest rate of decline. Nonetheless, comparing Arab countries with other developing countries shows that the former could have performed better on the HPI, given their levels of GDP and human development. For example, the United Arab Emirates has a Human Development Index (HDI) rank of 31. However, in terms of the HPI, the UAE fares thrice as badly as Hungary, which has an HDI rank of 38. This is true of most other Arab countries except Jordan, Lebanon and Syria. The relatively weaker performance of Arab countries on the HPI compared to other countries with similar HDI is attributable to higher adult illiteracy rates and, to some extent, higher rates of malnutrition among children under 5.

Table 5-8 **Incidence of human poverty in 18 Arab countries in 2006**

Income group (number of countries)	Value of HPI (%)	Probability of not surviving to 40 (%)	Adult illiteracy rate (% 15 years and older)	Population without access to safe water (%)	Children under weight for age (%)
Low (4)	35.0	22.8	40.5	31.7	42.1
Lower middle (7)	20.4	7.2	28.9	8.3	6.8
Upper middle (3)	12.0	5.0	11.0	18.0	8.0
High (4)	11.7	5.1	14.7	8.2	13.7
Total (18)	22.3	10.4	29.1	13.9	15.4

Source: UNDP/AHDR calculations based on UNDP 2007.

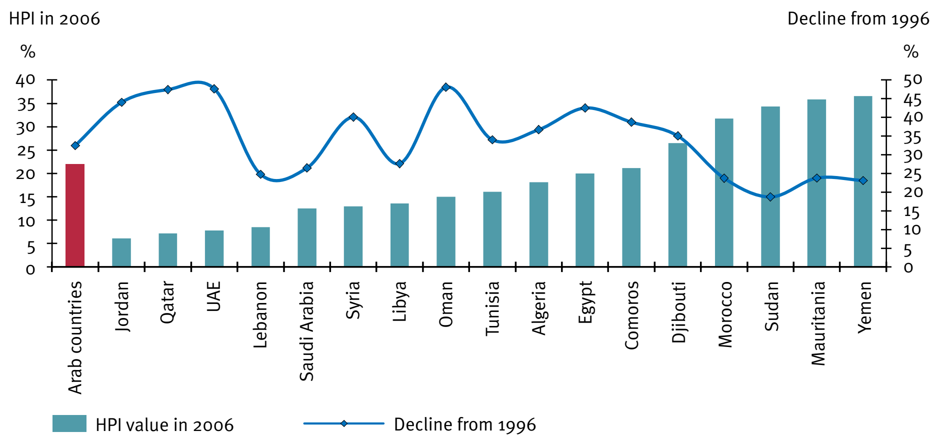
Note: The HPI values in this chapter are based on UNDP's revised 2009 values.

Income inequality

Information on income inequality in Arab countries is spotty. Out of eleven Arab countries where recent data on the distribution of consumption expenditure are available,[20] there are seven whose Gini coefficient for the year 2000, or more recent years, is known. These are Egypt (0.32 in 2004/05); Jordan (0.359 in 2002); Lebanon (0.360 in 2005); Mauritania (0.391 in 2000); Syria (0.375 in 2004); Tunisia (0.408 in 2000); and Yemen (0.366 in 2005). The simple average Gini coefficient for the seven countries in the sample is 0.365, confirming that the Arab countries exhibit a moderate degree of inequality compared to the world average

Arab countries could have performed better on the Human Poverty Index

Figure 5-8 **The incidence of human poverty in 2006 and its decline, by country (%), since 1996**



Source: UNDP 1996, 1998, 2007.

which also indicates moderate inequality and stands at 0.3757 for the 2000s[21]. This may be seen as the cumulative achievement of social contracts in the Arab countries since independence.

Data limitations make it difficult to analyze changes in income inequality in the Arab countries over time. However, evidence for the last decade indicates that income inequality rose in Morocco, Syria and Yemen and fell in Algeria, Egypt, Jordan and Tunis. The countries experiencing the largest increase in inequality were Syria and Yemen. Algeria experienced the largest decline in inequality, with the Gini falling by 13.7 per cent over the period from 1988 to 1995. Egypt also witnessed a significant reduction in inequality within a span of five years. The other countries experienced relatively small changes in inequality.

Inequality in wealth has worsened significantly

Despite moderate levels of income inequality, in most Arab countries social exclusion has increased over the past two decades. In addition, there is evidence to suggest that the inequality in wealth has worsened significantly. In many Arab countries, for example, land and asset concentration is conspicuous and provokes a sense of exclusion among other groups, even if absolute poverty does not increase. Furthermore, the crowding of the poor in slums without sanitation, safe water, recreational facilities, reliable electricity and other services aggravates such exclusion. These trends, combined with high unemployment rates, result in the ominous dynamics of marginalization, visible in the high rates of urban slum dwellers in Arab cities and towns: 42 per cent in 2001.[22]

Marginalization is visible in the high rates of urban slum dwellers

Policy gaps

The patterns of economic insecurity illustrated in this chapter are the result of several policy gaps. First, the increased structural fragility of Arab economies is an evident consequence of their continuing to rely on volatile, oil-led growth. Economic growth itself has been, for the most part, erratic and low. Correspondingly, the performance of productive sectors (and manufacturing in particular) has been weak and uncompetitive.

Second, this growth model has negatively impacted the labour market, and Arab countries now suffer the highest unemployment rates in the world. Moreover, as AHDR 2004 showed, that model is inappropriate in a globalized world where knowledge, more than capital or labour, accounts for most of the value added in competitive economies. Most Arab countries have not moved fast enough to improve the quality of education, leverage their knowledge assets, stimulate local innovation and shift towards technology-driven models of development. Consequently, they are unable to provide sufficient or satisfying jobs at decent wages for millions of Arabs, most of whom are young.

Third, overall poverty, defined as the share of the population under the national upper poverty line, is significantly higher than the underestimate yielded by using the international poverty line of two dollars a day or lower national poverty lines. Although, this chapter considers the effect of using upper poverty lines for only 9 countries, a reasonable extrapolation from the data is that the overall poverty rate would be in the order of 39.9%. Hence, we conclude that poverty in the Arab countries is a more conspicuous phenomenon than commonly assumed despite these countries' relatively high average per capita expenditure. The explanation is simple: the great majority of the poor are concentrated in countries such as Egypt, Iraq, Mauritania, Morocco, Somalia, Sudan, Syria and Yemen with relatively large populations and lower than average per capita expenditure shares.

Regardless of the choice of poverty line (national or international), the region has made no significant progress on the poverty reduction front in the 2000s if the 1990s are taken as a base period. The Arab LDCs, in particular, still lag far behind, and it is doubtful that any of them will be able to achieve the first Millennium Development Goal by 2015. The absence of pro-poor growth policies and reliance on outmoded approaches to social policy in general largely account for this gap

Finally, the provision and functioning of social safety nets, which are essential for mitigating the impact of economic downturns on vulnerable groups, are uneven across the country groups of the region. A distinction is usually made between informal or traditional, arrangements on the one hand, where relatives or tribe members

Box 5-5 **The importance of integrated social policies**

Compared to other developing nations, Arab countries have only recently adopted integrated social policies that treat poverty, inequality and socioeconomic development as interrelated issues. They have belatedly sought to apply the lessons of modern development studies, which favour social policies based on investment and production rather than on redistribution and consumption. This approach does not discount state interventions in social welfare but rather requires a wider role for non-state actors in the formulation and delivery of social policies and services.

Policies:

Multidimensional policies for addressing economic insecurity in the Arab world would simultaneously aim to:

- Push economic growth rates above population growth rates, in order to make a direct and positive impact on income levels. Prioritize financial support for small-scale enterprises, which would significantly improve the economic prospects of the poor.
- Enable all social groups to participate in the development process through equality of opportunity and the just distribution of benefits.
- Target poverty in all social security measures and raise the living conditions of the poor by developing the physical and social infrastructure in their environment.
- Increase access to educational, training and awareness-raising programmes.
- Narrow the gender gap, on all social and economic levels, by equipping women with skills, knowledge, credit and technology so as to enhance their ability to perform productive activities of their choice.
- Strengthen primary health care and expand its coverage.
- Further reduce population growth rates in the Arab countries.
- Make job-intensive economic investments for the poor and provide vocational and in-service programmes to help integrate them in the labour market.
- Increase the funding and reduce the bureaucratic complications of public safety nets and social service provision.

Obstacles:

- Conflicts and occupation in the region, entailing increased military expenditure at the expense of social spending
- The failure of the education system to build adequate professional and scientific capabilities
- Weak social service systems, marred by the absence of appropriate leadership, inefficient administration, unwillingness to empower target groups, inadequate auditing and financial procedures, a thin base of financial and human resources, and a general lack of expertise, skills and commitment among working staff.
- Insufficient funds to replicate successful projects on a wider scale
- Unbalanced distribution of policy attention and financial resources between rural and urban areas
- The limited experience of the civil society with development processes and programme implementation
- Bureaucratic centralization and lack of coordination among government agencies and between them and civil society actors
- Social policies dominated by short-term crisis management rather than an integrated, long-range vision

Source: El-Laithy and Mcauley 2006.

provide social and economic support to one another in times of need; and formal programmes on the other, which are usually run by governments or, more recently, by non-governmental organizations. Formal social safety nets usually provide direct cash or in-kind transfers, subsidies on basic necessities (especially food), and employment in public works projects. A broader definition of social safety nets would include the modern social security and social insurance programmes found in developing countries. Social security "is generally (but not always) associated with a transfer of income to the poor, whereas social insurance is related to earnings and is contributory in nature".[23]

As part of their Arab-Islamic culture, all Arab countries have an interlocking web of traditional social safety nets, but these traditional arrangements are increasingly being undermined by the pressures of modern life.[24] A large number of Arab countries have designed quasi-modern social security and social insurance arrangements, with varying degrees of success, depending on public resources made available by the state.

The high income Arab countries have erected fairly wide and deep formal social safety nets without necessarily crowding out traditional arrangements that preceded the discovery of oil. These arrangements are frequently revised in order to increase efficiency and coverage. Formal safety nets in these countries are similar in scope.[25] they provide special support for widows, the divorced, the sick, the elderly, unmarried and unemployed young women, families of prisoners, and students.

Traditional social safety nets are increasingly being undermined by the pressures of modern life

The main shortcomings of the formal social safety nets in the Arab middle income countries are summarized by Abdel Samad and Zeidan (2008).[26] These include incomplete protection against risks; unequal treatment of individuals; limited coverage of the population; a low level of benefits; relatively costly and inefficient administration; and unsustainable financing.

Not surprisingly, in the low income Arab countries, formal social safety nets are only recent in origin. In Yemen, for example, they were established in 1996, following the implementation of structural adjustment policies. The arrangements included a social welfare fund; a fund to promote agriculture and fisheries production; a fund for social development; a public works project; a poverty alleviation and employment programme; a food security programme; and a special initiative for the southern governorates.

In circumstances of mass poverty, conventional instruments of anti-poverty policy are inadequate

However, whereas social safety nets may be used as an effective means of combating poverty in high and upper middle income countries where the poor constitute a relatively small section of the population, in circumstances of mass poverty, these conventional instruments of anti-poverty policy are inadequate. As argued in UNDP (2006), generalized poverty (i.e. poverty that affects the majority of the population) poses serious new challenges to policy makers as it can affect the behaviour of economic agents and the way in which institutions respond to policy stimuli at the micro level, as well as severely limiting the range and effectiveness of policies available to the government at the macroeconomic level.[27]

Generalized poverty poses serious new challenges to policy makers

Generalized poverty is also usually associated with other broader economic conditions. For example, the majority of the poor population in Arab LDCs live in rural areas surviving on low-productivity, subsistence agriculture and related activities. Levels of human capital are very low and population growth is rapid, which multiplies the number of unskilled workers. Such economies are often caught in a vicious circle of population growth, environmental degradation and natural resource depletion that ultimately can destabilize the social and political order. In Sudan and Yemen, however, the discovery and production of oil, and the considerable increase in oil revenues, provided a short window of opportunity to break out of this vicious circle. Unfortunately, this opportunity was not fully utilized.

Conclusion

As this chapter illustrates, dependence on oil revenues has left Arab economies exposed to the vagaries of international oil markets and structurally weak. Consequently, for most of the last three decades, economic growth has been highly erratic. It has also been rather low, in per capita terms. Correspondingly, the performance of productive sectors (and manufacturing in particular) has been poor: Arab countries are actually less industrialized today than was the case four decades ago. For oil producers in particular, the current global recession jeopardizes newly adopted patterns of outward investment and trade, as well as domestic development projects, on which hopes for sustained growth were pinned.

Oil-led growth has also negatively impacted the labour market. Some Arab countries now evince the highest unemployment rates (particularly among youth) worldwide, with serious implications for human security. Moreover, although in the Arab region, poverty is not the acute challenge it is in some other developing regions, the Arab LDCs still trail other Arab countries which, as a group, have failed to make significant inroads into poverty since 1990. Together, these trends spell a high degree of economic vulnerability, chronic insecurity in job markets and increasing social exclusion among vulnerable groups.

Endnotes

1 This chapter draws mainly on a special contribution by Ali Abdel-Gadir and Khalid Abu-Ismail, which is based on their study "Development Challenges for the Arab Region: A Human Development Approach", 2009. The study is sponsored by UNDP and the League of Arab States. Contributions to this chapter by Heba El-Laithy and Ahmed Moustafa are also duly acknowledged.
2 UNDP 1994.
3 For 2008, country income groups are defined in terms of Gross National Income (GNI) per capita in 2007 US$ PPP. The average per capita Gross Domestic Product (GDP) for the groups are: low income ($2,152); lower middle income ($5,343); upper middle income ($14,045); and, high income ($27,934).
4 In the absence of reliable economic trends data for Iraq, Somalia and the Occupied Palestinian Territory, those countries are not covered in this chapter. Their special circumstances are however addressed in other chapters.
5 UNDP/AHDR calculations based on UN Comtrade database 2008; World Bank 2008b.
6 Table 5-1 The table reports the coefficient of variation for Arab income groups compiled from available time series reported in the World Development Indicators of the World Bank. Thus, the evidence of volatility is meant to be descriptive and not representative. For the Arab countries the weighted averages for the coefficient of variation is used whereby the weights are 2007 real GDP shares.
7 World Bank 2006.
8 UNCTAD 2008.
9 Islam and Chowdhury 2006.
10 The compilation in this section of unemployment rates in Arab countries are based on the Arab Labour Organization estimates available in the labour statistics tables [www.alolabor.org].
11 Similar results are reported in World Bank report 2007a. Unemployment rates for 2004 were 1.9 per cent for Bahrain, 1.7 per cent for Kuwait, 2.1 per cent for Qatar, and 3 per cent for UAE, while the unemployment rate for Saudi Arabia is reported as 7 per cent of the labor force.
12 ALO (in Arabic) 2008.
13 The time trend coefficient for Algeria is 0.0279 (with a t-value of 7.2 and an R-squared of 0.69), that for Egypt is 0.0223 (with a t-value of 3.9 and an R-squared of 0.4), that for Jordan is 0.0655 (with a t-value of 6.2 and an R-squared of 0.63), that for Morocco is 0.0082 (with a t-value of 1.4 and an R-Squared of 0.08), that for Syria is 0.024 (with a t-value of 6.2; and an R-squared of 0.52), and that for Tunisia is 0.0082 (with a t-value of 6.3 and an R-Squared of 0.65).
14 For details, see Ali and Abu-Ismail 2009. This figure is much higher than the 34 million jobs estimated by World Bank, 2007. Economic Developments and Prospects, Job Creation in an Era of High Growth, 2007.
15 Similar results are reported in the World Bank report 2007a which reports youth unemployment rates of about 46 per cent in Algeria, 54 per cent in Egypt, 66 per cent in Jordan, 33 per cent in Morocco, and 41 per cent in Tunisia.
16 Similar results are reported in World Bank report 2007a.
17 Rouidi-Fahimi and Kent 2007.
18 Ali 2008.
19 The highest incidence of urban poverty is reported for Yemen (49 per cent of the urban population) followed by Mauritania and Syria (about 29 per cent for each), Egypt (25 per cent), Jordan (13 per cent), and Morocco (12 per cent).
20 Ali and Abu-Ismail 2009.
21 The Gini index, is a number between zero and one that measures the degree of inequality in the distribution of income in a given society. A Gini index of 0 percent represents perfect equality whereas a Gini index of 1 per cent implies perfect inequality.
22 UN-ESCWA 2007a.
23 See, for example, World Bank 2008a.
24 Increasingly, religiously mandated charitable contributions (Zakat and Sadagat) are being institutionalized in the countries of the region.
25 UN-ESCWA 2005b.
26 Abdel Samad and Zeidan 2007; Nasr 2001.
27 UNDP/SURF-AS 2006.