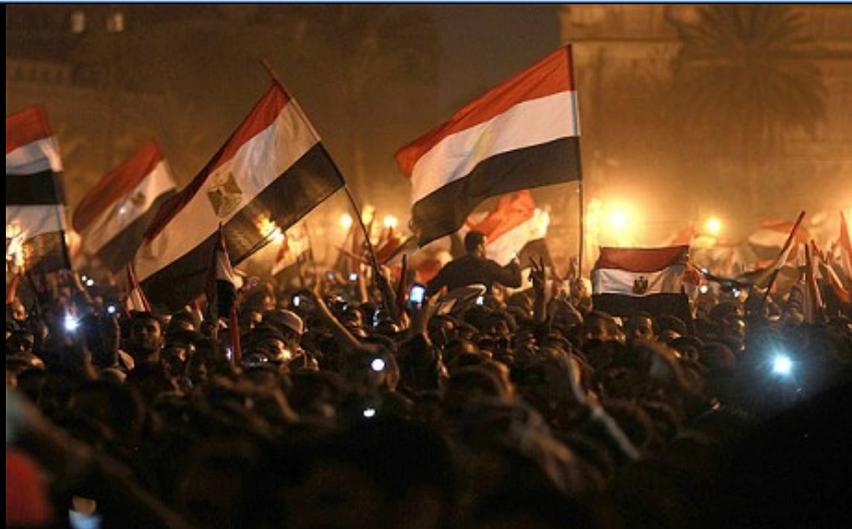


RESPONDING TO THE PEOPLE

The Need for Long Term Reform Across the Middle East

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Summary

Many countries of the Middle East and North Africa (MENA) are caught in a vicious circle of instability, slow growth and social discontent. Massive upheavals since the Arab Spring present major regional and global challenges in the form of large-scale displacement and extremism.

Despite increasing social and economic pressures, governments in the region have resisted meaningful reforms. This is deepening divisions between globalizing urban middle classes and marginalized poor majorities, and further radicalizing political opposition.

The international community tends to use its energy and resources to manage immediate crises, but instability in the region will not subside until deep reform processes are instituted to bring about social, economic and political change. The international community and regional partners should establish a “Regional Compact for Growth and Development” to bring this about. This Compact should be informed by strategic empathy to understand and respond to the grievances, concerns and aspirations of ordinary people across the region.

There are three key challenges to implementing such a Compact and achieving growth and stability in the MENA region. First, reforms must be binding to overcome resistance from local elites, which requires stronger engagement from key international partners. Second, reform must be gradual but deep and region-wide, prioritizing inclusive economic growth and social policies that improve the lives of the poorest. Third, greater efforts are required to address regional conflict, especially through a negotiated political settlement of the Syria conflict. These steps would provide the basis for stronger economic growth, internally-driven political reform, and social progress across the Middle East and North Africa.

Introduction

The “Arab Spring” in 2011 brought political turbulence to the Middle East and North Africa (MENA) region. This turbulence is likely to persist for a long time. Essentially, the Arab Spring consisted of a series of popular uprisings by ordinary people against authoritarian regimes that no longer lived up to their expectations or met their needs. The uprisings were massive and the demands for change were clear, but governments have generally managed stay in power without having to undertake deep reforms. Consequently, the region is caught in a vicious circle of instability, political crisis, slow economic growth and social deadlock. The ordinary people of the region, whose needs and aspirations are not being met, suffer the most.

In the struggle between governments and the people, we – as the international community – tend to favor stability over change. We fear the consequences of instability or we put our own self-interests first. In this way, we are relieving the pressure on governments for reform. But unless these governments are willing and able to implement gradual reforms, economic growth will continue to be sluggish, social tensions will increase and the political opposition will become increasingly radical. Authoritarian regimes will come under greater pressure and retrench even further. The Arab Spring will become just one of several massive uprisings – and the next uprisings will be more violent and

cause more harm. A collapse in Egypt, for instance, could have consequences for the region even more damaging than those emanating from the Syria and Iraq wars.

Four Arab Spring countries – Syria, Iraq, Yemen and Libya, which make up roughly one third of the regions’ population – have been profoundly affected by war. These conflicts threaten stability in neighboring countries and have created major obstacles to economic and political development in the entire region.¹ They have caused the world’s largest humanitarian crisis since the Second World War, and created the ungoverned space for an unprecedented rise in extremism, exemplified by the so-called Islamic State in Iraq and Syria (ISIS).²

These conflicts have also amplified a regional power struggle pitting Iran and Saudi Arabia, and Sunni and Shi’a population groups, against each other. Russia is forming a powerful alliance with Iran, which is emerging as the strongest of the regional powers, and the MENA region is once again becoming the scene of a Cold War style global rivalry. On top of this, the humanitarian crisis and the rise of extremism have already had a major impact in the West.³

In the chaos, the international community has felt compelled to focus its efforts on managing immediate crises. Since 2012, international humanitarian donors have paid a huge amount to manage the Syrian and Yemeni refugee crises. Since 2014, a global coalition of nations work within the Combined Joint Task Force – Operation Inherent Resolve to defeat ISIS.

But the crises that we see today are only the symptoms of the regions’ woes. As we focus on the “short game”, we miss the “long game” fundamentals of the region’s instability. We, as the international community, have come to forget that future developments in the region will be defined by the evolving relationship between people and governments, and we have neglected strategic empathy as an indispensable tool for understanding the situation.

We must therefore develop a more profound understanding of the people of the region and the ways in which their attitudes and expectations are changing. We must use empathy to understand the social and psychological terrain, and then provide stronger support for incremental and people-centric reform processes across the MENA region. This could put the region on the path to sustained growth and stable development.

The Need for Economic Reform

The fundamental development problem is that the clientelistic nature of many MENA governments keeps the region gridlocked in political, economic and social stalemate. These governments can no longer cope with dynamic global and local change processes. Essentially they remain static rentier states that derive their income from external sources such as oil or subsidies rather than from the

¹ World Bank Feature: *By the Numbers: The Cost of War & Peace in the Middle East*, World Bank (February 2016), accessed electronically 2 June 2017: <http://www.worldbank.org/en/news/feature/2016/02/03/by-the-numbers-the-cost-of-war-and-peace-in-mena>.

² ECHO Fact Sheet: *Syria Crisis*, EU Commission (March 2017), accessed electronically 2 March 2017: https://ec.europa.eu/echo/files/aid/countries/factsheets/syria_en.pdf.

³ Stefan Lehne: *How the Refugee Crisis Will Reshape the EU*, Carnegie Europe (February 2016), accessed electronically 2 March 2017: <http://carnegieeurope.eu/2016/02/04/how-refugee-crisis-will-reshape-eu-pub-62650>.

economic activity of their citizens.⁴ An indicator of this is that MENA remains the region with the lowest “total tax rate” in the world at just 24.2 per cent.⁵ The negative effect of the clientelistic system is that elites are generally successful in protecting their privileged access to the economy through corruption, nepotism and cronyism. This leads to under-developed, un-diversified and non-competitive economies that are hard to access for non-elites. The general population benefits mainly as passive recipients from a social contract based on simple subsidies for bread and fuel, free access to education and health, and from employment in an over-inflated and ineffective public sector.⁶

By 2010, the costs of the social contract reached levels that non-oil regimes could no longer sustain and the bubble burst. The demand for subsidies saw a dramatic increase as a function of population growth. This was further compounded by a general rise in the costs of subsidized commodities and an overall decline in the revenues of governments, weakening their ability to meet popular expectations.

The MENA region has had the fastest growing population in the world, with an increase of 280 million people from 1950 to 2000, growing at a peak of three per cent per year around 1980.⁷ This produced a massive youth bulge and presently around two thirds of the MENA region’s population is below the age of 30.⁸ Strikingly, the population of the MENA region is projected to grow by another 73 per cent between 2010-2050 (an estimated 1.4 per cent per year) from 341 million to 589 million.⁹

The MENA region is the world’s largest importer of wheat and in the period between 2000 and 2011 world market prices more than doubled.¹⁰ Oil prices have also increased since 2000, peaking around the Arab Spring in 2010/11,¹¹ and in 2012 energy subsidies in Egypt alone were at an unsustainable US\$26 billion (full economic cost).¹² On top of this, GDP per capita in the MENA region has generally stagnated over the last 40 years, as sluggish economic growth struggled to keep pace with

⁴ Hazem Beblawi: *The Rentier States of the Arab World* (Arab Studies Quarterly Vol. 9, No. 4 (Fall 1987), 383-398.

⁵ *The Middle East Still Has the Lowest Total Tax Rate* etc., PwC (2015), accessed electronically 15 March 2017: <http://www.pwc.com/m1/en/media-centre/2015/middle-east-has-lowest-average-total-tax-rate-and-lowest-average.html>.

⁶ Rolf Holmboe: *Mellemøsten og Nordafrika I Forandring*, Annex 5 to *Danish Diplomacy and Defence in Times of Change*, Ministry of Foreign Affairs, Copenhagen (April 2016), accessed electronically 20 March 2017 (in Danish): <http://www.ft.dk/samling/20151/almdel/uru/bilag/217/1627545.pdf>.

⁷ Farzaneh Roudi: *Population Trends and Challenges in the Middle East and North Africa*, Population Reference Bureau, Washington (December 2001), accessed electronically 15 March 2017: <http://www.prb.org/Publications/Reports/2001/PopulationTrendsandChallengesintheMiddleEastandNorthAfrica.aspx>.

⁸ Kari Paasonen & Henrik Urdal: *Youth Bulges, Exclusion and Instability: The Role of Youth in the Arab Spring*, Peace Research Institute Oslo (2016), accessed electronically 21 March 2017: http://files.prio.org/Publication_files/prio/Paasonen,%20Urdal%20-%20Youth%20Bulges,%20Exclusion%20and%20Instability,%20Conflict%20Trends%203-2016.pdf.

⁹ Pew Research Center: *The Future of World Religions: Population Growth Projections 2010-2015: Middle East and North Africa* (April 2015, includes Turkey and Iran), accessed electronically 18 March 2017: <http://www.pewforum.org/2015/04/02/middle-east-north-africa/>.

¹⁰ Food and Agriculture Organization of the United Nations: *World Food Situation*, FAO (March 2017), accessed electronically 20 March 2017: <http://www.fao.org/worldfoodsituation/foodpricesindex/en/>.

¹¹ *Average Annual OPEC Crude Oil Price from 1960 to 2017*, Statista, accessed electronically 20 March 2017: <https://www.statista.com/statistics/262858/change-in-opeec-crude-oil-prices-since-1960/>.

¹² Vincent Castel: *Reforming Energy Subsidies in Egypt*, African Development Bank (March 2012), accessed electronically 18 March 2017: https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/ECON%20Vincent%20notes%20mars%202012_ECON%20Vincent%20notes%20mars%202012.pdf.

the rapid population increase.¹³ This created the backdrop of the revolutions of the Arab Spring: in addition to demands for greater rights and freedoms, the unemployed urban youth protested against their inability to obtain jobs in the public sector, and the poor majority protested against rising prices and a general decline in their living conditions.

Most governments have succeeded in managing the pressure for change with limited reforms, cosmetic government changes and shallow social pay-offs. They are still resisting deep reforms that open the space for real economic, social and political inclusion and development. The effect is clear: entrenched low economic growth and mounting social discontent.

The Need for Political Reform

The ability of MENA governments to avoid deep reform has major consequences for the nature of politics. It is polarizing societies between the globalizing urban middle classes and the marginalized poor majorities, and it is further radicalizing the political opposition.

Governments in the MENA region increasingly build their power with backing from the urban middle classes that are integrating into the world economy and globalizing in terms of values. This is not the case for the poor majorities who come to live in “parallel societies” in which traditional economic practices and traditional values persist.

Historically, political opposition in MENA states was either leftist, drawing support from the urban middle classes, or centered around the mainstream Islamist Muslim Brotherhood, which has its base among the marginalized poor. With the fall of communism after 1989, the leftist opposition lost ground and the Muslim Brotherhood became the dominant opposition. They worked within political systems and won substantial electoral victories in Palestine in 2006, in Tunisia in 2011 and in Egypt in 2011/12. In most cases, their political ambitions were thwarted by regime backlashes, and people began to doubt if authorities would ever allow the Muslim Brotherhood to govern.

The Arab Spring was the final insult to those who believed in the benefits of democracy and secularism. International pressure has pushed governments towards democratic elections, but the region’s electoral systems are to varying degrees biased and electoral processes controlled, which allows governments a great deal of influence over who gets elected and what policies they champion. The peaceful demonstrations of the Arab Spring worked within political systems, but regimes were able to thwart hopes of change. The conclusion for a rapidly growing number of people is clear: it is not possible to obtain political influence through existing political systems. Democracy is an instrument of regime control – a fig leaf of legitimacy in the eyes of the world, not a way of gaining access to political influence. As a result, some opposition groups no longer call for reform and regime change, but for an overhaul of the entire political system altogether.

This is the backdrop of the unprecedented impetus to the rise of Salafism as the growing rejectionist creed of secular and fig-leaf democratic political systems. The discontent is being exploited by political groups ranging from Hizb ut-Tahrir that propagates a peaceful path to the Caliphate, to jihadist groups such as Al-Qaida and ISIS that follow a violent path. Many Salafist groups embrace

¹³ George T. Abed and Hamid R. Davoodi: *Challenges of Growth and Globalization in the Middle East and North Africa*, International Monetary Fund (2003), accessed electronically 20 March 2017: <https://www.imf.org/external/pubs/ft/med/2003/eng/abed.htm>.

the dream of the utopian Caliphate, where all wrongs are righted, and they are supported by an increasing number of marginalized Muslims. In a crude assessment, they have a popular backing of perhaps 25 per cent of the population in the region.¹⁴ Salafi radicalization is becoming a new norm, and Salafi groups are now competing with the Muslim Brotherhood for preeminence in political opposition.

Compounding this, governments increasingly resort to pernicious coping strategies. They tolerate or even secretly support radicalized and extremist groups, because the existence of such groups divides the opposition and reduces international pressure for reform. At the same time, many of the region's governments project grievances externally as a way of reducing or deflecting external pressure. Israel, the US/West and Iran are consistently blamed for the woes of the region. Indeed, there is a long tradition of indoctrination and hate speech in schools throughout the region, which is tolerated by officials. The net effect of these strategies is to reinforce negative and conflict-laden judgments of "the other" and of the outside world. It exacerbates a "them and us" paradigm that has become a massive mental barrier for the region's global integration. In a sense, it is creating a parallel form of globalization that works against tolerance and openness.

A Regional Compact for Growth and Development

The chaos and overwhelming challenges facing the MENA region is leading the international community to engage only when necessary, for limited purposes or for self-interest. But the situation is such that no real stabilization can be achieved without reinvented, comprehensive and sustained international engagement. Such engagement should be based on a deep understanding of the people of the region, for which strategic empathy is essential.

Currently, it is mostly international organizations such as the United Nations, the International Monetary Fund and the World Bank as well as the European Union that support long-term reform processes in MENA countries. The United Nations Development Programme has authored a number of key Arab Human Development Reports that provide a strong analytical basis for the key challenges facing the region.¹⁵ The World Bank Group has developed a MENA strategy¹⁶ that identifies four key areas of intervention (renewing the social contract, regional cooperation, resilience, reconstruction and recovery).

It is clear that the only way to help the region out of the vicious circle of underdevelopment and instability is through long term and strategic international engagement that finds a way of spurring gradual reform, while overcoming obstacles to progress. In developing such engagement, it is crucial to introduce strategic empathy into both our analysis of the situation and our policies. Our engagement must identify and respond to not only the social and economic circumstances of the population, but their grievances, emotions, fears, and aspirations.

¹⁴ This evaluation is based not least on the Egypt 2011 parliamentary elections in which the Salafist Nour Party took almost 25 per cent of the vote, and on the internal evaluation by Hamas in Gaza in 2008, indirectly communicated to this author, that Salafi groups roughly had the backing of 25 per cent of the population.

¹⁵ *Arab Human Development Reports*, UNDP (2002, 2003, 2004, 2005, 2009, 2016), accessed electronically 2 June 2017: <http://www.arab-hdr.org>.

¹⁶ *Economic and Social Inclusion for Peace and Stability in the Middle East and North Africa: A New Strategy for the World Bank Group*, World Bank (2015), accessed electronically 20 May 2017: <http://www.worldbank.org/en/region/mena/brief/our-new-strategy>.

This means making sustained efforts to acquire a deep and holistic understanding of how people think, feel and perceive. It was the failure of policy-makers to appreciate the deep grievances, anxieties and hopes of ordinary people and to respond to these that led to the Arab Spring in the first place. Specialized teams should be established in foreign ministries and international organizations to ensure policy-makers are equipped with a far deeper appreciation of the experience, mindsets and perspectives of the people of the MENA region.

Three Key Challenges for Reform in MENA

The international community faces three key challenges to reform in the MENA region. First, it must find ways to develop an international partnership framework that will give reforms a more binding nature. This is necessary to overcome internal resistance from local elites. Second, the international community must encourage the development of gradual but deep, region-wide reform processes. This requires sufficient financing to implement reforms and to alleviate set-backs and destabilizing side effects. Third, international efforts must overcome the challenges posed by instability in the region and by a regional power struggle. Each of these three challenges is explored in greater depth below.

A Stronger Partnership for Reform

Current efforts are unlikely to yield deep reform because the internal and external pressures for change are not strong enough to overcome countervailing forces. On the international side, states have left support for long term reforms to international organizations who lack the sticks and carrots necessary for their success.

The main obstacle to reform comes from governments themselves and from the elites that support them. Elites do not generally have an interest in reforms, which could challenge their privileged access to power and the economy. Officials have become adept at finding ways of deflecting or undermining reform processes supported by international organizations, because there is no real political pressure for them to do otherwise. In too many cases, reforms show only limited results, if any. And events in Libya, Egypt and Syria have shown that regimes are sometimes willing to do almost anything to stay in power and in control of the economy.

Reforms supported by international organizations must be complemented by a stronger political engagement by key international partners to ensure there is a critical mass of incentives and pressure to undertake real economic and social reforms. Key partners include Europe, as the regions' main trading partner and main source of foreign direct investment, the United States, and potentially emerging BRIC partners as well.

A broader, concerted international engagement could take the form of a "Regional Compact for Growth and Development", which mobilizes high level political commitment and crucial financial resources. It would bring the necessary political, economic and development instruments into one comprehensive mechanism. It should be anchored in intermittent summits of international and regional heads of state and government, and in regular ministerial-level meetings for review of implementation. Such efforts would be informed by expert analysis of social and economic conditions, as well as through empathy, to derive a strong understanding of the mindsets and emotions of the general population.

International organizations – the World Bank Group and UN – are key vehicles for providing support to reform processes. International financial support should be conditioned upon performance, to give a strong incentive for reform and to help reformers overcome the inevitable fragility of any change process. It is important to send a strong message that reform pays off.

Gradual, But Deep Reform

Reform processes must be gradual. If reforms outpace the ability of countries to manage these processes, the risk is that they may lead to new instability, which would be self-defeating. The best strategy would be to spur incremental reforms aiming at gradual change in tune with pressures from within, rather than to impose hasty reforms from the outside that could be destabilizing. Deep reform means challenging the privileges of the elites that are the current power base of MENA governments. If change is too rapid, the elites will block it.

Reform should prioritize the key drivers of stable development, especially inclusive economic growth and social policies that improve the lives of the poorest. More effective administration, harmonization of rules and stronger rule of law would likely be key elements in attracting foreign investment and ensuring higher non-oil economic growth.

At present, non-performing countries in the region are holding potential reformers back. Reforms should therefore be instituted across the region to create a critical mass of performers who can contain or pull up non-performers. A balanced regional reform process is also important to create a business environment that will attract foreign investments. With international support, Lebanon, Tunisia, Morocco, Jordan, the Palestinian Authority and the Gulf States could open up their economies and expand political participation, helping to move other countries in the right direction.

Reforms During Conflict

The Arab Spring upset the balance of power between the four major regional actors: Turkey, Iran, Saudi Arabia and Egypt.¹⁷ Since 2013, Iran and proxy Shi'a militias have intervened militarily in the conflicts in Syria and Iraq. This has led to a fully-fledged regional conflict pitting Iran and Saudi Arabia against each other, aggravating inter-sectarian divisions.

The regional conflict has drawn in Russia as the main supporter of Iran and the sponsor of the “Shi'a side”, which has turned the tide to Iran's advantage. This is further emboldening Iranian military power projection, led by the Revolutionary Guard. Iran now visibly aims at establishing an arc of dominance stretching from Iran over Iraq and Syria to Lebanon. Russian interference appears to be weakening the political circles around President Rouhani and Foreign Minister Zarif, who tend to prefer negotiated settlements. This is exacerbating the regional power struggle and helps explain why in May 2017 President Trump visited Saudi Arabia and proposed a Middle East NATO in a first bid to confront Iranian power projection.

Unless this divisive agenda is checked and a new regional balance of power is established, there is a very real risk that these dynamics could escalate into a larger confrontation. This could further draw in

¹⁷ The regional balance of power had already tilted towards Iran following the US invasion of Iraq in 2003.

the United States and Europe on the “Sunni side”, impede regional economic development and lead to greater regional instability.

The key factor that could stop the deepening of the regional conflict would be a negotiated political solution to the Syria conflict. A partial or full victory by Bashar al-Assad, or his continued dominance, would leave deep grievances that could destabilize the region for years to come. A negotiated peace in Syria is required, but is only possible if a new regional understanding between the major regional players can be established. The accord that ended the Lebanese civil war in 1990 built on exactly such a regional understanding. A negotiated peace in Syria could help to facilitate political solutions in Iraq and Yemen too. In this way it could help turn the dynamic of the region from confrontation to negotiation.

The establishment of a new regional balance of power can only be achieved by diplomacy, involving both regional and global powers. International efforts should seek to promote such a regional understanding, rather than exacerbating existing divisions.

Conclusion

The vicious circle of slow growth and instability in the MENA region will not change without reinvented international engagement to spur deep reforms. A Regional Compact for Growth and Development, bringing together international organizations as well as international and regional powers, and anchored at the highest political levels, could provide the necessary incentives and pressure for deep reform.

The reform processes must be region-wide so that performers can help pull others up. The main driver of stable development will be inclusive economic growth, which drives job creation and investment, thus helping to bring people out of poverty and into the middle class. Political reform is urgent to stem the tide of radicalization, but it must be internally driven and gradual. The aim must be to enable governments and people to become partners in progress and development, rather than adversaries.

International involvement in MENA has often been shaped by limited knowledge, false assumptions and minimal interaction, mainly with political elites. Reform policies should be informed by a far deeper understanding of the mindset, emotions and perceptions of ordinary people. Strategic empathy is a critical tool for achieving such understanding.

The challenge is to set in motion reform processes in the midst of regional conflict. A new regional balance of power is indispensable for stability and economic growth in MENA. A step to achieving this is through a power-sharing political settlement in the Syria conflict.

Ultimately, peace and prosperity for the people of the Middle East and North Africa depends on gradual, but deep and sustained reform. The international community must do what it can to bring that about.