

Nouh El Harmouzi

# The Arab Worlds' Road after the 'Arab Uprisings'

From Chaos to Hope

Six years after the beginning of the Arab Uprisings, social unrest has continued while the Arab countries are in the middle of an economic downturn. The article explains how the incapacity to bring significant changes of the economic and social conditions in the region made it clear that the economic structures and institutions in the Arab countries need to change. Moreover, the fundamental structural weaknesses in the economic frameworks of these countries, in addition to social unrest and political instability, have aggravated the situation of economic fundamentals. The article also sheds light on the measures necessary to respond genuinely to the pressing demands of citizens for improved living standards. MENA governments, with the support of the international community and in cooperation with all components of the civil society, including the business community, should not hesitate to tackle this most important challenge in the region.

**Keywords:**

Arab Spring - Economic Growth - MENA - Unemployment - Public Sector - Reforms - Competitiveness- Regional and Global Integration

# THE ARAB WORLD'S ROAD AFTER THE 'ARAB UPRISINGS': FROM CHAOS TO HOPE

|| Nouh El Harmouzi

## Introduction

The Arab Uprisings<sup>1</sup> have shed light on substantial challenges facing the MENA region. This region has long been trapped in a vicious development cycle of poverty, unemployment and lack of economic opportunity. The region's excessive dependence on natural resources or aid has prevented the emergence of a strong private sector.

The state or public sector in most Arab economies continues to be the most important economic actor eclipsing all independent productive sectors. When it comes to essentials of life, such as food, jobs, shelter and public services, the state is the provider of first and last resort.

The functioning of this system rests on a heavy dose of subsidies, economic controls and a variety of other uncompetitive practices. While a centralized, bureaucratic system has worked well for ruling elites and the narrow clientele that thrives with their support, it has failed to deliver prosperity and social justice to ordinary citizens. Neither socialism of the 1960s and 1970s nor the so-called liberal economic reforms of 1990s have been able to dismantle this system of centralized control, discretion and privileges.

The crony private sector in this region is usually a mirror image of the state: it is inefficient, controlled by a tiny clique of elite families tied to ruling regimes and part of an extensive network of patronage. Its profits depend less on entrepreneurial abilities and more on access to power. With few exceptions, major business fortunes in the region were accumulated through privileges. The social contract – where the state provided free health and education, subsidized food, fuel as well as jobs in the public sector, has reached its limits. The region is also afflicted by weak rule of law and lack of public accountability and transparency as well as corruption.

## Six Years After a Wave of Uprisings, the Arab World is Worse off than Ever

Six years after the self-immolation of Mohamed Bouazizi (Tunisian fruit vendor) in an act of despair and defiance that would spark off demonstrations and overthrow long-standing dictatorships, the MENA region embarked on a long road of uncertainty. The peaceful demonstrations that were supposed to bring change, wealth and democracy have instead given way to massacres and chaos.

The Arab world is currently undergoing its most transformative

phase in a century. There are factors in this transformation that could plunge the Arab world into more disintegration, violence and chaos than what we have been seeing in the last six years in all but one of the six countries where the Arab Uprisings principally took place. Syria, Libya and Yemen are being torn apart by civil wars that show no sign of ending. In Egypt and Bahrain autocracy is far stronger and civil liberties far less than they were prior to 2011. Only in Tunisia, which started off the surge towards radical change, do people have greater rights than they did before.

Moreover, the lack of a clear and coherent economic vision is still a problem in all of the 'Arab Uprisings' nations. Besides the political challenges, this lack has created a further climate of insecurity that affects all sectors of the economy. A drop in economic growth, a decline of tourism as well as a fall of FDI inflows, a high unemployment rate, a bloated public sector, an increasing

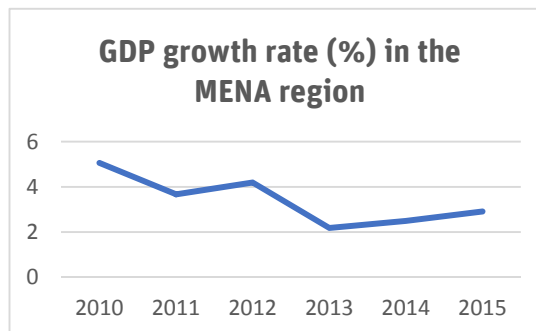


Chart 1: GDP growth rate in the MENA region. Source: World Bank.

inflation and widening external deficits can be ranked among the key factors contributing to this insecurity.

*Drop in Economic Growth, Slow Recovery Underway*

The Arab Uprisings had a substantial impact on economic Gross Domestic Product (GDP). The average real GDP growth in the region fell from 5.6 percent in 2010 to 2.1 percent in 2013 (chart 1), its lowest level in over a decade.

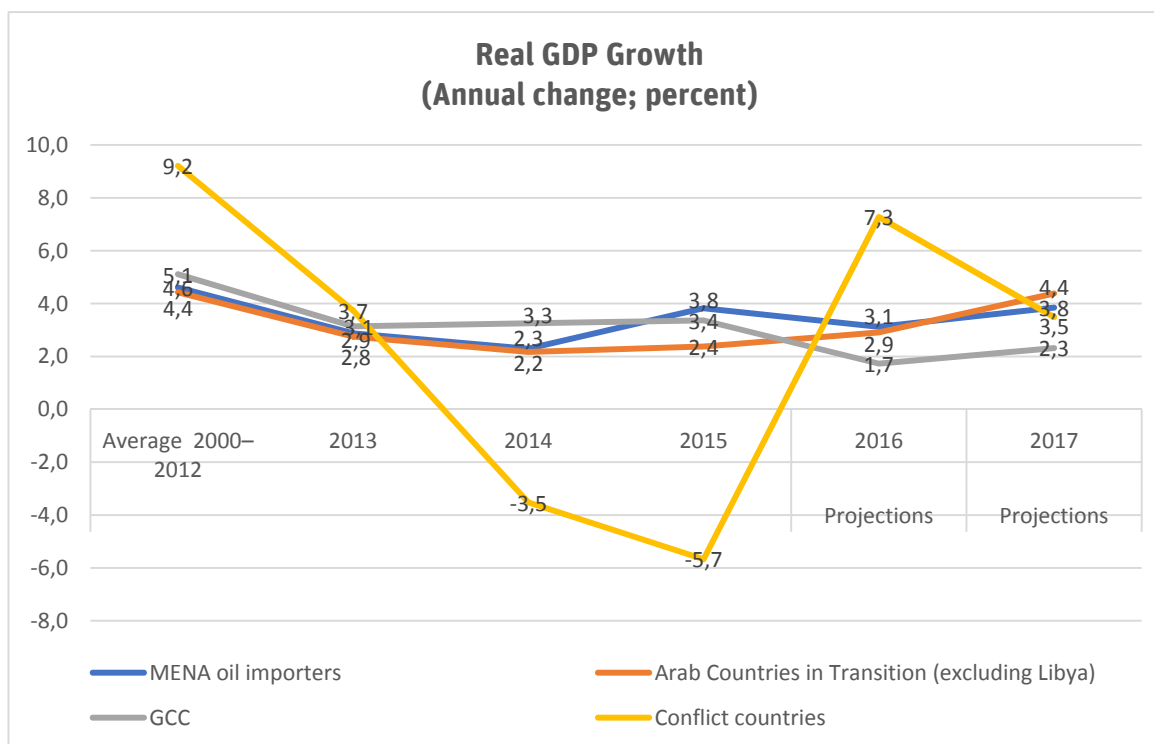


Chart 2: Real GDP Growth. Sources: IMF; World Economic Outlook Databases.

The decrease touched all countries, but its level varied from one country to another. Harshest hit were those countries that were at the center of the Arab Uprisings, like Libya, Tunisia, Egypt, Syria and Yemen. The single country in the region where GDP growth strengthened in 2011 was Morocco. Economic growth in all MENA oil exporters is dropping after surpassing eight percent in 2011, growth in Saudi Arabia is set to decline to 4.6 percent in 2015. The World Bank has estimated that Gulf countries lost about \$215 billion in oil revenues, equivalent to 14 percent of their combined GDP, in 2015. While Saudi Arabia, UAE, Kuwait and Qatar have managed to resist the worst effects of low oil prices through their large reserves, Bahrain, and Oman are less prepared. The *IMF* and the *World Bank* expect economic activity to pick up and GDP growth to accelerate to 3.4 percent in 2017<sup>2</sup>, but to remain below the pre-revolutionary growth levels (chart 1 and chart 2).

### *Decline of Tourism*

One of the most instantaneous and abrupt effects of the Arab Uprisings was a severe decline in tourism. The number of tourists in the five important tourist destinations in the region – Egypt, Tunisia, Morocco, Jordan and Lebanon – collapsed by a quarter, from 20 million in the first half of 2010 to 15 million in the first half of 2011.<sup>3</sup> The deterioration was the most severe in Egypt and Tunisia, at about 40 percent each. In 2012, tourist arrivals to the region retrieved, but remained way below pre-revolution levels. Given that tourism receipts account for over 20

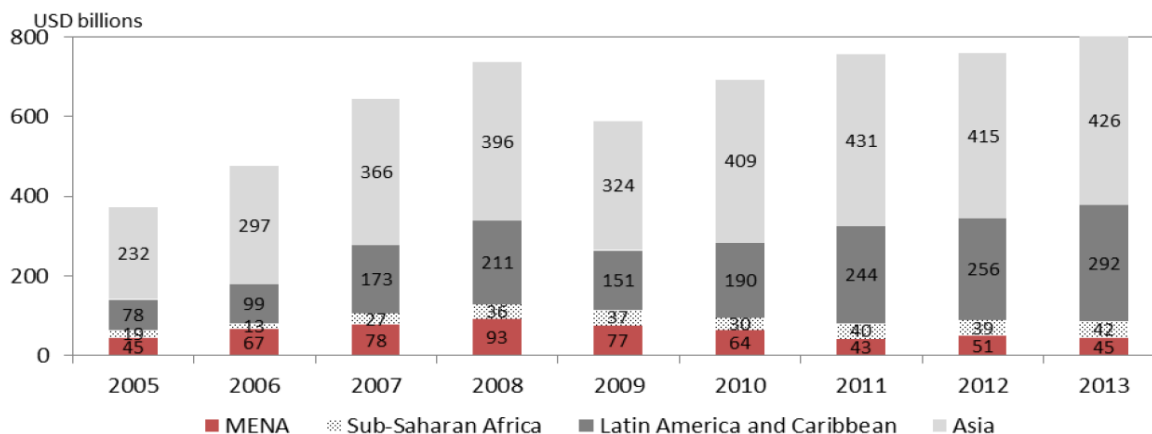
percent of GDP in Lebanon, 12 percent in Jordan and between 5 percent and 8 percent of GDP in Morocco, Tunisia and Egypt, the decline had a significant effect on economic growth.

According to the *Regional Program for Middle East of the World Tourism Organization*<sup>4</sup> international tourist arrivals in the Middle East declined by 8.4 percent to 54.8 million in 2011 after growing nearly 15 percent the year before. The numbers would have fallen even further if safe destinations like Morocco and the United Arab Emirates hadn't snatched up the diverted tourists. Overall, tourism revenues in Egypt and Tunisia have declined by around 40 percent between 2011 and 2014 according to a report issued by The *World Tourism Organization* in 2015.

### *Fall of FDI Inflows*

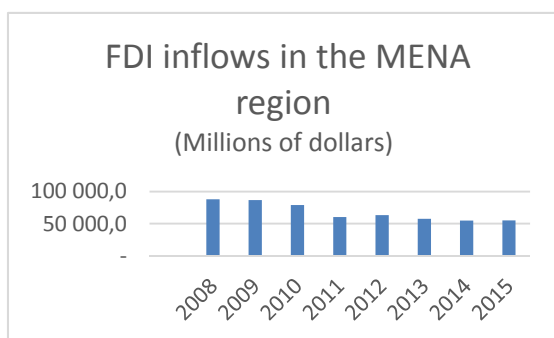
Foreign Direct Investments (FDI) inflows to the MENA region were estimated to USD 55 billion in 2013<sup>5</sup>. It represents a 37 percent decrease compared to 2008, which was a peak year for FDI in the region, with \$93 billions of inflows. After almost a decade of strong FDI growth, inflows started falling in 2009-2015 after the 2007-2008 global economic and financial crisis (chart 3). They subsequently hit an all-time low in 2011 following the political instabilities. These events have had a negative spillover effect on the investment attractiveness of the entire region.

The OECD shows also how the situation in the MENA region differs significantly from that of other developing regions, where FDI inflows



**Chart 3: FDI inflows to MENA and other developing country regions 2005-2013** Source: OECD (2014): Draft Background Note: Recent FDI Trends in the MENA Region, URL [https://www.oecd.org/mena/competitiveness/Draft%20Note\\_FDI%20trends%20in%20MENA\\_Dec.%202014.pdf](https://www.oecd.org/mena/competitiveness/Draft%20Note_FDI%20trends%20in%20MENA_Dec.%202014.pdf) [18.02.2017].

resumed as of 2010-2011. In Latin America and the Caribbean, for example, inflows increased by 54 percent between 2010 and 2013, while in Sub-Saharan Africa they rose by 40 percent over the same time period (chart 3). In contrast, the MENA region experienced a 30 percent decrease in FDI inflows in those same years. Likewise, the MENA region only captured around 6 percent of total FDI inflows to developing countries in 2013, compared to 13 percent in 2008.



**Chart4: FDI inflows in the MENA region 2009-2015.** Source: United Nations Conference on Trade and Development 2016, URL <http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx> [18.02.2017].

### High Unemployment

In nearly all MENA countries, youth makes up more than a quarter of the population, with growing demographic

pressure and unemployment rates surpassing those in all other regions of the world.<sup>6</sup> Young people’s exclusion from the economic progress over recent decades has produced a pattern of rising income inequality. Worrying figures from OECD countries show that income inequality has translated into higher poverty rates with children and youth being particularly vulnerable.<sup>7</sup> The absence of effective public institutions to represent youth needs and youth-tailored strategies has left young men and women at the margin of society with restricted access to social safety and limited access to public services of good quality.

Despite average annual growth rates in real GDP of almost five percent in MENA countries between 2000 and 2010, the economic upswing did not translate into increased job creation and economic opportunities.<sup>8</sup> The *Global Employment Trends* of the *International Labor Organization* shows that between 2011 and 2016 youth unemployment in MENA countries remains the highest in the world, reaching 27.2 per cent in the Middle East and more than 29 per cent in North Africa. Youth unemployment

rates have skyrocketed up to 51 percent in Libya and 39 percent in Egypt.<sup>9</sup>

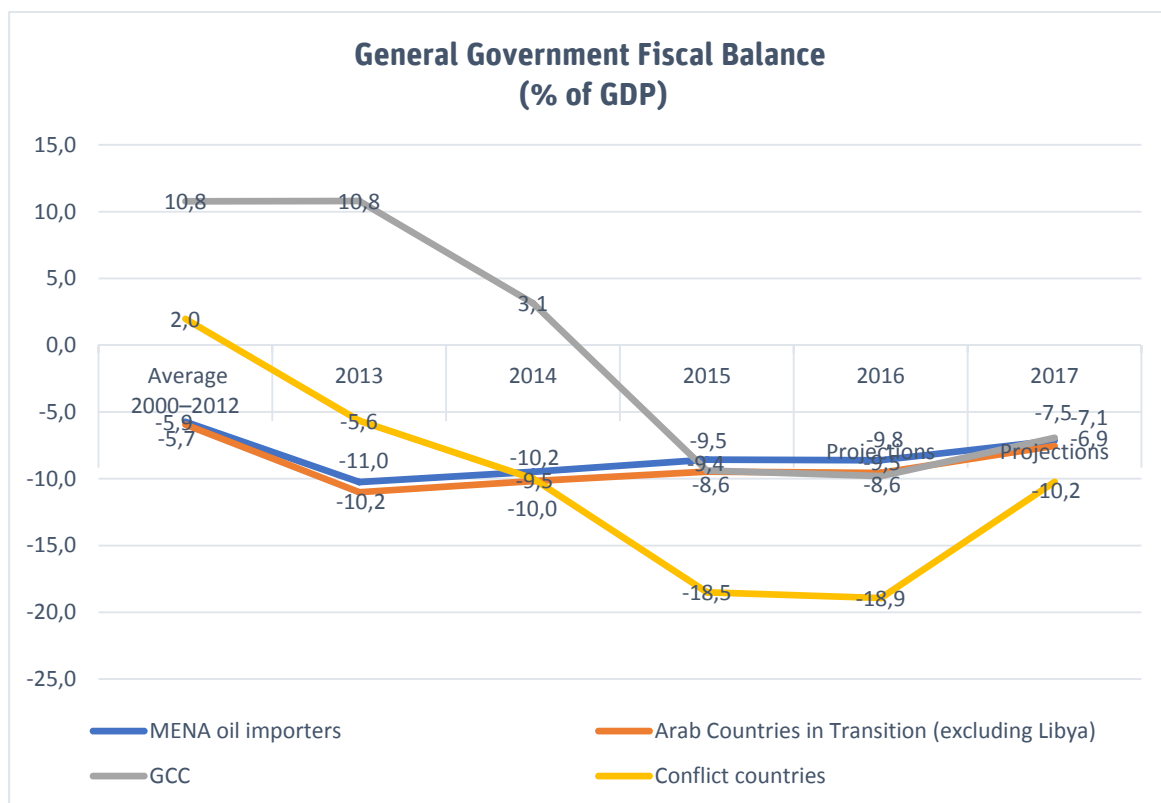
While living costs are on a steady rise, wages stagnate. The highest level of youth inactivity in the world, in terms of young people's share in education, employment or training, can be found in the Middle East and North Africa, especially among young women.<sup>10</sup> This pattern highlights a significant risk of excluding youth and in particular young women from full participation in public life as recognized by the *OECD Recommendation on Gender Equality in Public Life*.<sup>11</sup> Despite improvements in the access to higher education, more than 30 percent in Morocco and more than 50 percent of all youth in Yemen are not enrolled in secondary education. The failure of government to deliver quality services across all segments and age groups of society comes at high social costs. It risks pulling apart the social cohesion and erodes trust in the

state as a steward of youth interests.

### *A Bloated Public Sector*

The bloated public sector in the MENA region acts as a magnet for young graduates seeking high salaries, employment protection and a special social status, in particular with state owned enterprises. The position of the public sector as a prime target for employment may create incentives for individuals to acquire knowledge and skills in areas demanded by that sector, thus reducing the pool of qualified candidates for the private sector.

In crisis situations, such as the Arab Uprisings, the first reaction of governments is to increase salaries and jobs in the public sector as a short-term response to social discontent. The government of Egypt, for instance, has announced a 15 percent increase in the



**Chart 5: General Government Fiscal Balance. Sources: IMF; World Economic Outlook Databases.**

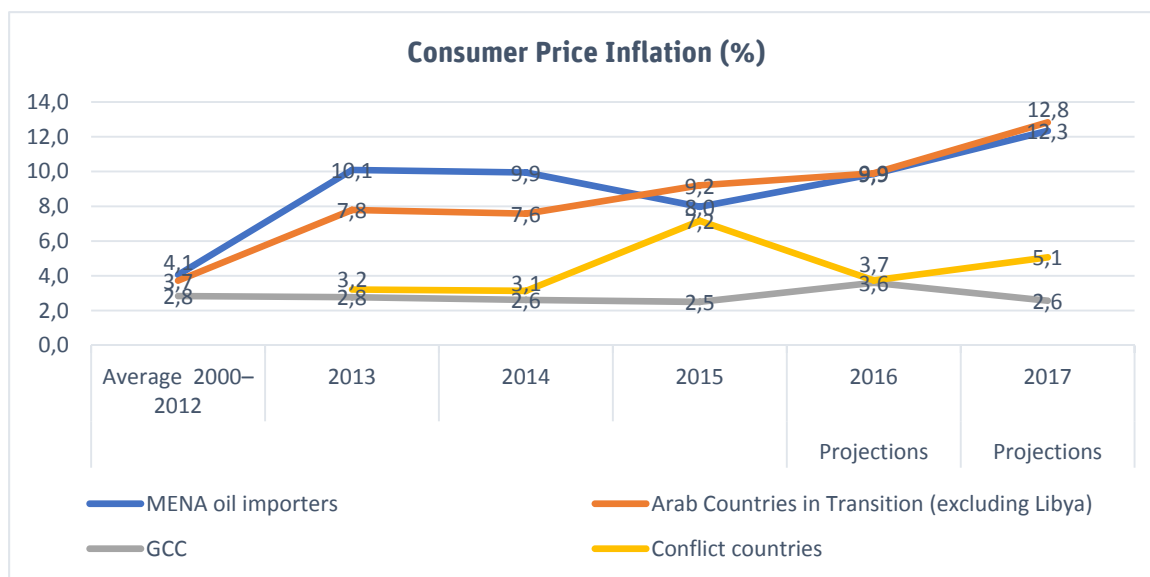


Chart 6: Consumer Price Inflation. Sources: IMF; World Economic Outlook Databases.

base wage of all civil servants (5.8 million employees) and incentive schemes for the lowest-paid government employees (around 1.9 million people, working mostly in municipalities). Tunisia’s transitional government has also announced an employment plan, which includes the creation of 20,000 jobs in the public sector.<sup>12</sup> Similar measures have been undertaken by many other MENA governments.

Although such measures are helpful in mitigating unemployment in the short term, appeasing social discontent as well as contributing temporarily to revitalizing the economy through increased consumption, they also add pressure to already strained public budgets in resource-poor countries and affect the fiscal balance (chart 5). In a context of diminishing public budgets, these policies are not sustainable.<sup>13</sup> The combination of high subsidies and large public-sector wage bills was too much for government budgets to bear. Fiscal deficits started growing.

### *Increasing Inflation*

With exception of the GCC countries, the Arab Uprisings has triggered rises in the cost of living (chart 5) resulting from scarcer internal resources, depreciation of the local currency, surge of the sovereign risk and the associated cost of borrowing, precarious security and disruption of supply chains.

### *Widening External Deficits*

For the oil-importing countries, lower tourism revenues, weak exports and an elevated import bill, caused by high international oil and food prices, resulted in a sharp widening of current account deficits (chart 7).

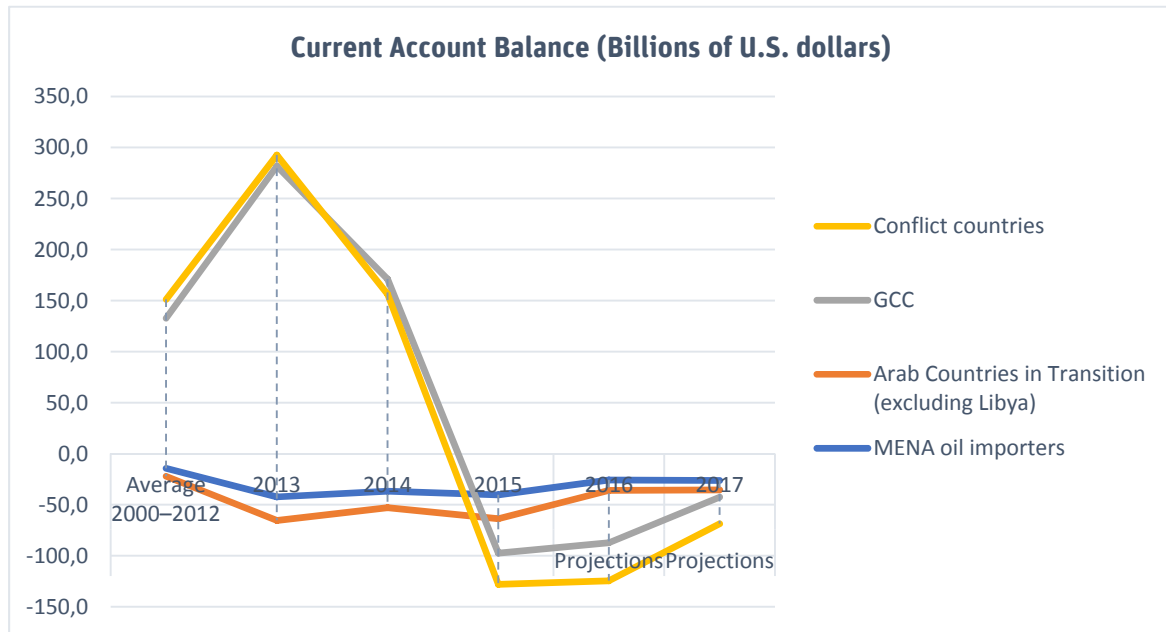


Chart 7: Current Account Balance. Sources: IMF; World Economic Outlook Databases.

### The Way Forward?

The Arab Uprisings made clear that the economic framework and institutions in the Arab countries need to change.<sup>14</sup> Since then, there has been some progress, but the core structural weaknesses in the economic frameworks of these countries still need to be addressed.

#### *Reforming the Nature and Role of Government*

The governments must pursue disciplined and predictable fiscal and monetary policies. In particular, government deficits must be reduced to a point where they can be financed in a non-inflationary way and do not crowd out private investment or require the drawdown of foreign assets. For many countries in the region, this will require:

- Strengthening the tax base by replacing high tariffs with broad-based consumption taxes, and

improving tax administration;

- Decreasing expenditure by reducing the growth of the government wage bill, and cutting such unproductive outgoings as subsidies and defense spending;
- Improving the quality of government expenditure by redirecting spending towards education, health, and infrastructures.

The governments need to undertake a critical mass of structural reform to improve resource allocation and facilitate participation in international trade. It is important to stress that partial reform may not provoke much response if significant impediments to reform remain in place. There is also a necessity to simplify regulatory systems so that potential investors, both domestic and foreign, will not be discouraged by endless red tape, but attracted by a simple and clear set of impartially applied rules under which the private sector can flourish.<sup>15</sup>

The governments further need to



play an “enabling” role, ensuring that domestic conditions are such that the private sector will have the confidence to save, invest, and produce. Investors in MENA – especially managers of small and medium-sized firms – consistently point to policy uncertainty and an uneven playing field that favors some incumbent firms at the expense of new entrants and competitors. Corruption, anti-competitive practices, and regulatory policy uncertainty all rank high in the minds of business managers (chart 8).

*Towards a Better Organized and More Inclusive, Creative and Dynamic Public Sector*

An independent business sector will serve a vital political function: it can generate a middle class that is able to serve as a powerful constituency for political reform. A robust private sector is thus an economic and political imperative. However, this necessitates a radi-

cally different business life. It requires a private sector that is open, competitive and can operate outside the circles of power.

*Adeel Malik & Bassem Awadallah*<sup>6</sup> explain that it can be achieved through a genuine economic opening that dismantles entry barriers, replaces privileges with competition and ensures a decentralized and rule-based framework for decision making. Viewed in this light, the struggle for a new MENA will be won or lost in the private sector. The report “What’s holding back the private sector in MENA? Lessons from the MENA enterprise Survey”<sup>17</sup> stress the structural weaknesses to be addressed in order to unleash the potential of the small and medium-sized enterprises.

- Firm Productivity and the Business Environment  
Improving the business environment in MENA economies is essential for unlocking the potential of the formal pri-

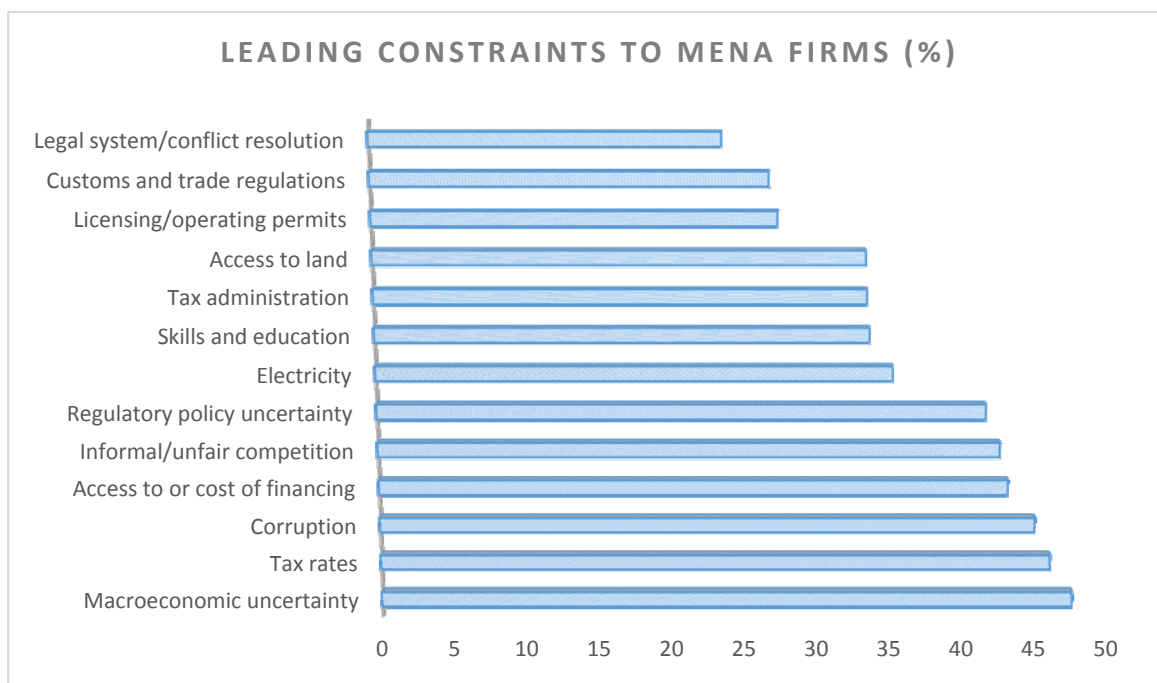


Chart 8: Leading Constraints to MENA firms. Source: World Bank Enterprise Surveys (2015) of Algeria, Egypt, the Islamic Republic of Iran, Jordan, Lebanon, Morocco, Oman, Saudi Arabia, Syria, West Bank and Gaza, and the Republic of Yemen economies, various years, URL <http://www.enterprisesurveys.org/> [07.03.2017].

vate sector to drive a more sustainable model of growth in the region. That requires addressing some of the key constraints in the business environment, notably political instability, unreliable electricity supply and inadequate access to finance. Although large firms have higher labor productivity they tend to be over-reliant on capital as a response to distorting incentives. At the same time, small and medium-sized enterprises typically experience a more challenging operating environment.<sup>18</sup>

- Access to Finance

The financial and banking sectors in MENA economies are relatively large, but credit is mostly channeled to a small number of large firms. While a small share of firms encounters larger difficulties obtaining credit than in comparable regions, high numbers of firms have disconnected from the banking sector altogether and by doing so they lose growth opportunities. Compared with credit-constrained firms, disconnected ones are more likely to be small, less likely to have audited financial reports and less likely to use the banking system even for payments.<sup>19</sup>

- Jobs and Skills

Compared with other regions, formal private sector employment in MENA economies is concentrated in larger, older and exporting firms. Employment of women is low and youth employment is strongest in young innovative firms. More productive firms grow faster and have easier access to credit. They also pay higher wages, which suggests that labor markets are, to some extent, able to facilitate the reallocation of human capital resources

to firms with the most potential to grow and provide rewarding jobs. Nonetheless, firm dynamics are weak and high-productivity as well as high-paying private sector jobs remain scarce which is likely to encourage jobseekers to pursue public sector jobs instead.<sup>20</sup>

- Competitiveness: Trade, Innovation and Management

The growth of the small yet productive private sector in MENA economies may be constrained by wider considerations of competitiveness. The region's exporters are numerous but small, with labor productivity gains concentrated in large "superstar" exporters. While nearly a third of firms in the region engages in basic forms of innovation, innovative activities are associated with certain supporting conditions: human capital, access to knowledge and access to finance. While better-managed firms are more likely to benefit from innovation, poorly managed firms are more likely to benefit from improving their management practices.<sup>21</sup>

*Fighting Corruption and Strengthening the Rule of Law are Essential for Economic Growth and Development*

Besides the high unemployment levels and limited economic opportunities, the principal roots of the Arab Uprisings were persistent corruption, cronyism and the absence of democratic mechanisms. Although these concerns can be generally identified as the political demands of protestors, it is undeniable that they can also have significant effects on economic activity and investment decisions.<sup>22</sup>



Source: Nohu El Harmouzi

Nohu El Harmouzi is Professor for Economics at Ibn Toufail University in Kénitra, Morocco and Director of the liberal-democratic Think Tank *Arab Center for Scientific Research and Human Studies* based in Rabat, Morocco. In addition, he is Editor-in-Chief of the academic Internet forum *Minbar als Hurriyya in the Arab World*. Both organizations are partner of the Hanns Seidel Foundation in Morocco and regularly organize conferences to foster medium-sized enterprises, socio-economic inclusion as well as decentralization emphasizing on fiscal and educational policy. Nohu El Harmouzi holds a B.A. in business studies and a Masters degree in economics. He obtained his PhD in Economics from French Paul Cézanne University Aix-Marseille III where he was also Research Assistant and subsequent Adjunct Assistant Professor at the Faculty of Applied Economy. Nohu El Harmouzi makes regular appearance as expert for economic issues on Al Jazeera, Al Arabiya and BBC Arabic. Furthermore he is one of the most prominent liberal activists of the Arab civil society.

Prevalent bribery, for instance, harms a level playing field for businesses and obstructs transparency and clarity in business environments. Schiffbauer & al explain how “*cronyism, or the granting of special privileges based on relationships, distorts markets and competition, (e.g., by granting business contracts to a privileged few) and prevents government efficiency (e.g., by appointing government officials based on relationships and not on merit)*”<sup>23</sup>. The

*World Economic Forum* in its report 2015<sup>24</sup> has confirmed that corruption is a problematic factor for doing business in the Arab World. High levels of corruption and the misuse of political power have existed for some time in the MENA region. According to *Transparency International’s 2015 Corruption Perceptions Index*<sup>25</sup> the MENA region is widely perceived as very corrupt, with an average score of 39 (out of 100). The only two MENA countries to perform well in the index are Qatar and the United Arab Emirates.

The Arab Uprisings and the reform process that they have unleashed in some countries constitute an invaluable opportunity to fight corruption and to promote the rule of law. The Egyptian and Tunisian governments have pledged to investigate corruption and abuses by former regimes and expect to introduce measures to improve governance and transparency. These include addressing conflicts of interests, abuse of power and the realization of private gains from a public position.<sup>26</sup>

#### *Fostering Regional and Global Integration to Reap the Benefits of Globalization*

It has often been argued that countries in the Middle East and North Africa can do much more to leverage international market opportunities in order to accelerate economic growth and job creation. Hoekman explains how excluding petroleum exports, the MENA region, with over 400 million people, exports roughly the same amount as Switzerland.<sup>27</sup>

Integration into the global economy has been quite limited for the MENA

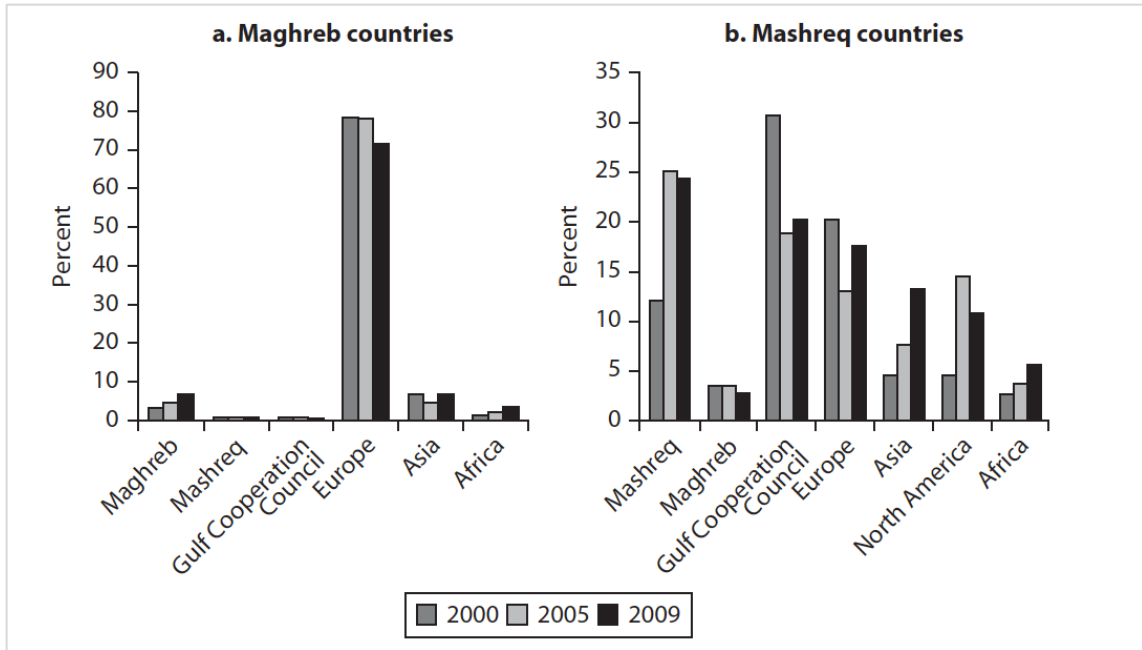


Chart 9: Exports of the Mashreq Middle Eastern countries and the Maghreb. Source: UN Comtrade Statistics 2012.

countries so far. Even if the population of the Arab World represent 5.5 percent of the world’s population and 3.9 percent of the world’s GDP, the share of the region of world trade (if we exclude oil) is only 1.8 percent. The share of this region remained under one percent for a long time and began to increase gradually only during the past years.

There are small differences amongst sub-regions and there are wide inter-country differences, with Tunisia and Morocco exhibiting higher trade volumes and export diversification. The majority of the countries has a narrow trading base, however, and —apart from petroleum — very low (two to three percent of total trade) merchandise trade within the region.

Though on a rising trend, integration within the MENA region remains low, particularly compared with other middle- and high-income regions in the world. Intra-regional exports have aver-

aged less than eight percent of total exports in the MENA region over the period 2008-2009 as compared to 25 percent in ASEAN and 66 percent in the European Union. There is a wide country variation within the MENA region, with the North African (Maghreb) countries accounting for the lowest share of total exports and the Mashreq Middle Eastern countries for the highest share – more than three times that of the Maghreb (chart 9). The picture is largely similar for non-oil merchandise exports. At less than five percent, the Maghreb countries represent the lowest share of intra-regional non-oil merchandise trade.

Rouis & al<sup>28</sup> show that the MENA region continues to face constraints to economic competitiveness in general and trade barriers in particular. Of critical importance is the need to improve trade-related infrastructure and strengthen trade facilitation activities by

- 1) The elimination of tariff and nontariff barriers;

- 2) The integration and improvement of transport and trade logistic systems;
- 3) Strengthening of infrastructure, harmonization of institutional arrangements and practices;
- 4) The improvement in behind-the-border policies and regulations that impose a burden on business activity.

The latter include economy-wide policies such as exchange rate policy, competition policy and other aspects of the overall investment climate and sector-specific policies affecting trade in services and the efficient provision of key backbone services such as finance, transport, telecommunications, energy and water.

The regional and global economic integration of the MENA:

- Can contribute to addressing the region's development challenges by strengthening incentives and opportunities for growth, economic diversification and employment;
- Can help attract the investment needed to generate more and better jobs by removing barriers to trade and investment and by improving the environment for both domestic and foreign investments. While it is not a panacea or a substitute for domestic reform, it can stimulate economic integration;
- Can provide opportunities to expand economic activity through joint action to overcome policy and institutional barriers to the flow of goods, services, capital and labor;
- Can have positive market, efficiency and long-term welfare effects;
- Can create added pressure on countries to improve integration within

their region. Positive neighborhood effects occur when countries in a region are integrated into global trade and investment flows. Not only will global economic integration bolster competitiveness and lower costs, but also induce countries to adopt policies and institutional arrangements that are necessary for doing business in competitive global markets;

- Can (by setting standards for good institutional practice) contribute to good governance and accelerate institutional transformation.

Moreover, Rouis & al demonstrate that preferential trade agreements, though helpful in many respects, do not significantly expand exports. Instead, the focus must be on opening up to the rest of the world, which may require that individual countries aggressively pursue unilateral liberalization policies. While regional cooperation and integration can bring benefits, these efforts can also pose significant costs if not carried out in a manner that is compatible with broader global integration trends.<sup>29</sup>

## Conclusion

The Arab Uprisings are proving to be a turning point for many countries in the MENA region. To respond genuinely to citizens' demands for improved living standards, MENA governments, with the support of the international community and in cooperation with the civil society including the business community, need to develop strategies to promote inclusive economic growth and employment, building on improved governance, transparency and the rule of law. Those strategies need to break with a past of public sector led economies and crony-

ism as well as to center on the development of a competitive private sector, which can provide economic opportunities that correspond to peoples' aspirations.

In this context four closely interconnected areas need to be addressed:

- Improving governance, transparency, accountability and citizen participation in economic life;
- Increasing social and economic inclusion by expanding opportunities to all and improving the effectiveness of support for the vulnerable;
- Modernizing their economies, supporting the private sector, particularly small and medium-sized enterprises, supporting job creation as well as developing human capital and skills;
- Fostering regional and global integration to reap the benefits of globalization in parallel with a courageous and gradual governance reforms.

Given the local specificities and local idiosyncrasies, every country has to develop its own vision and way to reform. It has to be done in an even more difficult climate than before the Arab Uprisings. Governments have small margins because of the limited financial resources and the external environment is dominated by recurrent struggles, internal conflicts and wars.

A true and robust political will and determination in addition to a strong support from the international community are needed to overcome past resistance to reform calls. This is the most promising path to unleash the potentials of the Arab citizen, to secure sustainable

growth, employment and better living standard in the Arab World.

**|| Dr. Nouh El Harmouzi**

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Professor at Ibn Tofail University in Kénitra, Morocco and Director of the Think Tank "Arab Center for Scientific Research and Human Studies"

## REMARKS

- 1 The Arab Uprisings were quickly termed 'revolution' or 'Spring' leading to discussions about whether the term was being properly applied. Diana Kendall (2014) defines in *The Sociology in Our Times* 'revolution' as "attempts by subordinate groups to transform the social foundations of political power". However, it remains unclear if the Arab Uprisings fall into this category. Here we shall use the more encompassing concept of 'Uprisings' to describe the political events taking place in Arab countries. Taking into consideration how badly most Uprisings have turned out we won't use the word 'Spring'.
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