Working Paper No. 2012/52

‘Successful’ Development Models in the MENA Region

Imed Drine*

May 2012

Abstract

This paper provides a synthesis of the country cases in the Middle East and North Africa: Oman, Bahrain, Tunisia, and the United Arab Emirates. Although these countries differ in terms of resource endowments and economic evolution, they share common aspects of successful development. This chapter focuses on the developmental role played by good management of oil incomes, social cohesion, equitable distribution of oil resources, and political stability in Bahrain, Oman, and UAE, and human capital and trade openness in Tunisia. The chapter also discusses the major challenges faced by these countries, including particularly the need for political reforms, in order to achieve a higher and sustainable economic development. Finally, it draws some lessons for development.

Keywords: MENA region, development policy, governance

JEL classification: O11, E6

* UNU-WIDER, email: imed@wider.unu.edu

This study has been prepared within the UNU-WIDER project on Country Role Models for Development Success, directed by Augustin Fosu.

UNU-WIDER gratefully acknowledges the financial contributions to the project by the Finnish Ministry for Foreign Affairs, and the financial contributions to the research programme by the governments of Denmark (Royal Ministry of Foreign Affairs), Finland (Finnish Ministry for Foreign Affairs), Sweden (Swedish International Development Cooperation Agency—Sida) and the United Kingdom (Department for International Development—DFID).

ISSN 1798-7237 ISBN 978-92-9230-515-4

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UNU World Institute for Development Economics Research (UNU-WIDER)
Katajanokanlaituri 6 B, 00160 Helsinki, Finland

Typescript prepared by Lisa Winkler at UNU-WIDER

1 Overview of the region

While Middle East and Northern African (MENA) countries differ in terms of resource endowments and economic evolution, they share common history and cultural heritage. The MENA region has managed to maintain a unique geopolitical significance throughout its history. Situated at the junction point of three continents, the region was a thriving centre of trade. Control over main commercial networks helped to establish MENA as the world's leading economic power from the seventh to the thirteenth centuries. Compared to the rest of the world, including Europe, the region was very prosperous: according to Table 1, GDP per capita in the MENA region in the 10th century was the highest of the five country groups.

Although the MENA region no longer has a leadership role, it still maintains a unique position. Because of its central location between Europe, Africa, and Asia and the fact that the locality has the largest heritage relationship of all global regions, with more than one billion people, implies that MENA is still the focus of attention.

Its high profile may also be explained by the key role the region plays in the global economy. Indeed, two additional key factors have become apparent during the modern period, which have ensured the region's position as the premier geopolitical flashpoint of the globe: the world's major oil reserves are located here, and its financial resources are considerable. Moreover, many experts have recently stated that the MENA region during the next decades will be among the vital areas where renewable energy, including solar energy, will be exploited (Müller-Steinhagen and Trieb 2007).

By the mid-twentieth century, the independent countries formed the region's new architecture and a new era began. After independence, the MENA states had serious concerns for a national industry that would be geared more to their own specific interests as well as to the development of the education and health systems. Financed through natural resources during the 1970s, post-colonial development programmes were implemented to improve the quality of life for the citizenry. Most MENA countries invested in major infrastructure projects, education, and public health. With the end of the oil boom in the 1970s, however, economic performance gradually declined.

Since the late 1980s, many MENA countries have launched important economic reforms in line with programmes prescribed by such international institutions as the International Monetary Fund (IMF) and the World Bank. These reforms essentially were concerned with privatization and trade liberalization, considered to be the tool to improve trading capacities and to attract more foreign direct investment (FDI). In many countries of the region, development programmes implemented in the late 1980s, have succeeded partially to improve economic growth and to adapt the economies of the region to the international environment.

The current MENA region encompasses 22 independent countries: Algeria, Bahrain, the Comoros, Egypt, Djibouti, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, United Arab Emirates, (UAE) and Yemen.

The total surface area is 14.8 million km^2, making it 44 per cent larger than China, or 3.8 times the size of the European Union. The MENA countries cover 9 per cent of the world's total surface area and hold 61 per cent of the world's known oil reserves and 21 per cent of its natural gas. Eight out of the ten oil-exporting OPEC countries are located in the MENA region (Algeria, Iraq, Kuwait, Libya, Qatar, Saudi Arabia, and United Arab Emirates), and in 2004 accounted for 42 per cent of total oil exports in the world.

The population of the MENA region was 325 million in 2008 (World Bank 2008), indicating that the region is relatively scarcely populated, with a mere 38 inhabitants per km^2. The most important reason for the low population density is the scarcity of water resources. The region covers a diverse group of countries, including some very rich and some very poor. It can be divided into three main country-groups, with different economic structures.[1]

First are the oil-producing countries (Saudi Arabia, Kuwait, UAE, Qatar, Oman, Bahrain, Libya, and Algeria) where oil contributes 36 per cent of total value added, 82 per cent of the export revenues and 71 per cent of government fiscal receipts, highlighting that these economies are still overwhelmingly dependent on petroleum. While the value added of the petroleum industry represents 36 per cent of the region's aggregate GDP, its contribution to employment, including all petroleum-related activities, is less than 5 per cent. These countries lack a domestic market to meet their needs in terms of consumer and non-consumer goods and have a paucity of financial and capital markets to absorb domestic savings.

The second group is represented by the states that have more diversified (Egypt, Jordan, Lebanon, Morocco, Syria, and Tunisia). Indeed, these countries are deeply integrated into the global economy. Furthermore, exportation, FDI, remittances, and tourism play a key role in the economic growth and job creation of these countries.

The third group includes the poor countries (Sudan, Yemen, Mauritania, Djibouti, Somalia, and Comoros). This group is affected by serious economic and social problems as a result of inadequate economic and social structures.

Despite the low performance of the region as a whole, few countries succeeded to find appropriate strategies to adapt to the constantly changing international environment. Among those countries, Bahrain, Oman, Tunisia, and the UAE do offer some useful insights. Bahrain, Oman and the UAE are resource-rich countries in the Gulf and members of the Gulf Cooperation Council. Tunisia, however, is located in north Africa, and has highly educated and abundant labour. In terms of population the four countries are relatively small, about 6 per cent of the total population of MENA, yet they contribute about 25 per cent of the total GDP of the region.

2 Common themes for development success

As Looney (2009) confirms, developing oil-exporting economies tend to be weak and unstable. The instability is explained mainly by the volatility of oil prices and the

1 Table 2 shows the main characteristics by country for the three groups.

unpredictability of oil income. However, as shown in Table 2 despite the high volatility of oil income, Bahrain, Oman, and the UAE succeeded in preserving certain continuity and sustainability of GDP growth. Indeed, in terms of GDP growth the countries perform relatively better than the whole region. In addition, in Bahrain, and the UAE, the contribution of manufacturing sector to total GDP is higher than the regional average level.

According to Looney (2009), relatively good performance in terms of growth in Bahrain and Oman is mainly explained by good management of oil incomes, social cohesion, equitable distribution of oil resources, and political stability. Nyarko (2010) argues, in the other hand, that the UAE succeeded to modernize its economy through an open importation of foreign skills and management and by converting its oil resources into sovereign wealth funds invested outside of the country. The economic freedom is an additional factor that may be added to explain such success. Indeed, according to the Economic Freedom Foundation 2006, the three countries are considered as the most open in Middle East. The time required to start a business in the three countries range from 9 to 12 days, while the regions average is about 21 days.

Baliamoune-Lutz (2009) points out that Tunisia was hailed as an IMF success story. Compared to other countries in the region and despite limited natural resources, Tunisia succeeded in achieving a growth rate exceeding 4 per cent over a decade. The main reason for the relative success of Tunisia is explained mainly by political stability, women’s empowerment, and economic diversification of trade and production. The important economic reforms in line with programmes prescribed by such international institutions as IMF and the World Bank, allowed Tunisia to expand its export-oriented manufacturing sector and to shift investment from non-tradable goods to tradable goods. The unique geographic position and the special relationship with Europe enabled Tunisia to improve quantitatively and qualitatively its exports.

As is shown in Table 4, most MENA countries suffer from bad governance and political instability. Indeed, with a few exceptions, the region is below the world level in terms of government effectiveness and political stability. While most MENA countries rank poorly in terms of corruption, Corruption Perceptions Index consistently ranks Bahrain, Oman, Tunisia, and the UAE far above the region’s median. In addition, the four countries perform relatively well in terms of the five indicators, and especially with regard to governance effectiveness.

As indicated by the relatively higher life expectancy for females and literacy rates, compared to other countries in the region, the four nations have achieved higher levels of human development. Baliamoune-Lutz (2009) argues that among the main reasons of the success of Tunisia are the empowerment of women and family planning. Indeed, according to the UNDP Programme on Governance in the Arab Region, Tunisia is the most progressive of Arab countries on women’s issues.

During the 1970s, supported by its natural resources, development programmes were implemented to improve the quality of life for the citizenry. Most MENA countries invested in major infrastructure projects, as well as in education and public health. As is shown in Table 5, for the four countries health expenditure, improved water facilities in urban areas, and improved water resources are higher than the region’s average. Because of their excellent communication and transport infrastructure, Bahrain, Oman, and the UAE become attractive for many prestigious international companies operating in the region and in the world.

Finally, compared to many MENA countries, the four countries recorded higher changes in terms of human development and better performance in terms of GDP per capita (Table 6). Such a good performance is explained mainly by governance effectiveness and social policies aiming to reduce inequality and to improve social cohesion.

3 Challenges

Despite the important success achieved in terms of human development and economic stability, the MENA region in general and the four countries in particular are facing many challenges. The recent crises concerning food and finances highlight the extreme fragility of the MENA countries and question the sustainability of the development processes. The economic and social impacts of these crises on the economies of the MENA region signal the magnitude of the challenges facing the region and the need to reorient its development policies. The social stress and economic instability caused by these challenges give a good indication of what might be expected in the future.

3.1 Heavy reliance on foreign markets

The recent developments in the world economy confirm that knowledge, innovation, and technology are the main drivers of economic growth. However, as a consequence of the excessive reliance on raw material exports for foreign exchange earnings and on foreign markets as a source of industrial products and food items, the four economies have accumulated an important technology lag. While many developing countries are constantly upgrading their own technological capabilities and become increasingly competitive, Bharain, Oman, Tunisia, and the UAE still lack the ability to create and adopt new technologies. In more competitive international environment, bridging the technology gap and improving productivity becomes a priority if they are to remain viable in the global economy.

3.2 High unemployment rates

The unemployment rates in Tunisia and Oman are about 14 per cent, among the highest in the world (UNDP 2010)[2]. Like most MENA countries, Tunisia exhibits the highest rates of labourforce increase over the last three decades, making 40 per cent unemployment rate for young age groups a major concern.

Unemployment essentially concerns the youth and is linked more to the problem of insertion into the labour market. This situation is typical in countries where education and training systems are not adequately linked to labour market. Indeed, misinformed graduates have educational profiles that are inconsistent with the country's working conditions and requirements, a fact which makes their first attempt at labour market entry difficult. The high level of unemployment is a challenge and may be a potential source of social disruption and conflict. Those under the age of 14 years will constitute

2 Higher unemployment rates confirm that economies of the region are stagnating even if they seem to be basically stable.

more than 40 per cent of the total population and the number of job seekers over the next decade will increase. The situation deteriorates further if we include women´s growing participation in the workforce, which will put greater pressure on the labour market.

3.3 Institutions and political deficiencies

Lastly, an effective reform approach can be based on the following actions: building market institutions, developing political institutions, ameliorating the investment climate, strengthening the rule of law, and combating corruption. The countries also have to encourage the private sector to improve youth employment, develop the financial sector which can be very important for increasing the economic efficiency.

To reach such a goal, the four countries need a new social contract that will make better governance possible. Past reform efforts were not only selective and incomplete, but above all lacked participatory quality. Top-down policies were pursued by the ruling elites and foreign technocrats, which contributed to the feeling of disconnectedness between the reformers and society at large. The region needs country-specific institutional reforms that come out of local solutions built up from a local knowledge, conviction, and experimentation. The region clearly needs a political will.

4 Lessons for developing countries

Despite limited reserves of oil, Bahrain, Oman, and Tunisia succeeded to build modern economies and to reach important social development. Good management of oil income, however, helped the UAE to be a hub for international finance and to achieve the status of being the trade and tourism capital of the region. Such successes were impossible without economic freedom, political stability, and a balanced model of development with a social component. Through relatively egalitarian distribution of wealth and accessible good public services, the groups of countries have reached stable development. The lack of political reforms may, however, challenge the gains made over several decades, with the recent events in Bahrain, Oman, and Tunisia suggesting that the sustainability of development processes in these countries remains dependent on political reforms.

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Table 1: GDP per capita from the first to the nineteenth century (1990 International Geary-Khamis dollars)

Year	1	1000	1500	1600	1820
Latin American	400	400	416	438	636
Asia	433	447	554	557	604
Africa	472	425	414	422	420
Western Europe	576	427	772	889	1,202
MENA	517	527	485	453	532

Source: Maddison (2003).

Table 2: Basic indicators for the three groups, 2000-07

	Group 1	Group 2	Group 3
Openness	98.53	79.83	75.23
Unemployment rate	6.68	11.38	21.56
Current account balance (% of GDP)	16.59	-2.36	-6.48
GDP/cap ($ US)	14048.34	2252.26	617.10
Manufacturing, value added (% of GDP)	9.32	15.27	5.18
Fuel exports (% of merchandise exports)	85.11	21.47	
Total reserves in months of imports	9.77	7.23	4.83
Manufactures exports (% of merchandise exports)	6.34	52.37	
Bank liquid reserves to bank assets ratio (%)	18.68	14.86	22.72
Domestic credit provided by banking sector (% of GDP)	41.90	94.16	10.10

Source: World Bank (2008).

Table 3: Measures of economic development

	GDP Growth (1990-1999)	GDP growth (2000-2008)	Manufacturing, value added (% of GDP) (2000-2008)
Bahrain	3.87	6.48	19.05
Oman	2.79	5.36	8.29
Tunisia	2.16	4.85	17.72
United Arab Emirates (UAE)	5.13	6.75	13.06
Middle East & North Africa (MENA)	1.84	4.74	12.01

Source: World Bank (2009).

Table 4: Human and Institutional development in MENA countries

	Life expectancy at birth, females (2000-2005)	Literacy rate, all adults (2007)	Corruption perceptions index[1] (Transparency International) (2006)	Government Effectiveness Index[2] (2007)	Political Stability and Absence of Violence Index[3] (2007)
Algeria	72.2	75.4	3.1	-0.52	-1.18
Bahrain	76.5	88.8	5.7	0.41	-0.28
Comoros	65.1	75.1		-1.8	-0.4
Djibouti	54.9			-0.98	-0.05
Egypt	72	66.4	3.3	-0.44	-0.77
Jordan	73.1	91	5.3	0.27	-0.29
Kuwait	79.2	94.5	4.8	0.2	0.4
Lebanon	73.2	89.6	3.6	-0.61	-2.09
Libya	75.7	86.8	2.7	-1.07	0.47
Mauritania	64	55.8	3.1	-0.68	-0.33
Morocco	71.8	55.6	3.2	-0.07	-0.52
Oman	75.9	84.4	5.4	0.38	0.76
Qatar	75.3	93.1	6	0.06	0.81
Saudi Arabia	74	85	3.3	-0.18	-0.59
Sudan	57.8	60.9	2	-1.18	-2.3
Syria	74.9	83.1	2.9	-0.88	-0.61
Tunisia	75.1	77.7	4.6	0.46	0.1
UAE	80.5	90	6.2	0.86	0.76
Yemen	61.8	58.9	2.6	-1.02	-1.48
MENA	73.2	83.75	3.3	-0.44	-0.77

Notes: [1]Units, 10=least corrupt, 0=most corrupt; [2]Units: -2.5 worst governance, 0 average, 2.5 best governance; [3]Units: -2.5 worst governance, 0 average, 2.5 best governance

Source: World Resources Institute, Earth Trends Environmental Information, http://earthtrends.wri.org/.

Table 5: Social and infrastructure development

	Health Expenditure Per capita (current US$) 2007	Health expenditure per capita constant 2005 international US$)	Improved sanitation facilities, urban[1] (2008)	Improved water source[2] (2008)	Internet users (per 100 people) (2009)	Logistics performance index[3] (2009)	Quality of port infrastructure, WEF[4] (2009)
Bahrain	902.26	1059.69	100		51.94	3.36	5.549
Oman	375.28	510.50	97	88	19.91	3.06	5.18
Tunisia	211.175	405.58	95	94	27.11	2.56	4.87
UAE	1252.50	1323.20	98	100	65.15	3.81	6.24
MENA	241.99	402.45	91	88	21.14	2.73	4.54

Notes: [1]% of urban population with access; [2]% of population with access; [3]Quality of trade and transport-related infrastructure (1=low to 5=high); [4]1=extremely underdeveloped to 7=well developed and efficient by international standards.

Source: World Bank (2009).

Table 6: GDP per capita and human development

	GDP per capita changes in $ (1980-2005)	HDI changes (1980-2005)
Bahrain	9645	+0.178
Oman	6768	+0.267
Tunisia	1519	+0.214
United Arab Emirates	3344	+0.167
MENA	1556	+0.166

Source: World Bank (various years) and UNDP (2010).