Mohamed Said Saadi

# NEOLIBERAL ILLUSIONS

## in the Arab Region

2022

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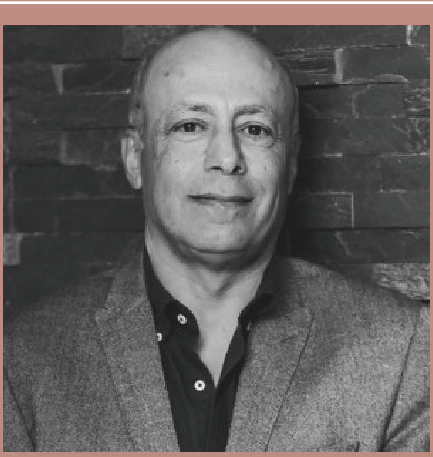

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**Country**: Morocco

**Theme:** Economics, Gender and Development, Euro-Mediterranean Partnership

**Brief :** Mr. Saadi is economist and independent consultant. He has worked as Thesis Director at the Graduate Institute of Commerce and Business Administration of Casablanca (ISCAE) from 2011-2015. He has taught Economics and Management at the ISCAE and the Faculties of Law and Economics of Casablanca and Marrakech from 1972 to 2010. He was also an expert and Member of the Gender and Development Committee of the United Nations Economic Commission for Africa and Secretary of State for Social Protection, Family and Childhood. Mr. Saadi was a research fellow at Princeton University (1997/1998) and Fulbrighter at the University of Texas at Austin(1993). He has written numerous books and publications on Business groups and Development, the Moroccan Economy, Gender and Euro-Mediterranean Partnership, and is a social activist. His research topics cover rethinking development models and developmental states, the impact of the neoliberal and global crisis on Arab countries, industrialization and industrial policies. Mr Saadi was awarded the Morocco's Great Prize of Book for his publication on "Financial Groups in Morocco" (1990).

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# Introduction

## Neoliberal Illusions

In this book, I will tackle the impact of neoliberal policies adopted by Arab countries on development and citizens' economic and social rights. Through a collection of previously published studies, I will attempt to refute claims of neoliberalism's positive impact, highlighting the repercussions of such policies on Arab economies in areas such as trade and economic relations, food security, growing vulnerability and the growth of informal work, and obstacles to accessing basic services under Public-Private Partnerships (PPPs).

This introductory chapter will shed light on neoliberal illusions in solving the development question and realizing economic and social rights. Then it will present the main conclusions of the studies contained in the book.

## 1. Part 1: *Neoliberal Illusions*


### A. Definition

The concept of neoliberalism, according to Ha-Joon Chang and Ilene Grabel,[1] refers to three main components. The first accords the highest value to the free market as opposed to the state in economic governance and facilitating the flow of goods and capital. It involves removing or capping price subsidies, free exchange, and allowing market mechanisms to set the currency rate. The second aims to enhance the private sector's role and scope and encourage private ownership, through privatization and deregulation, for example. The third promotes a specific understanding of "sound economic policy," focusing on balancing the state budget, labor market flexibility, and maintaining a low level of inflation.

Similarly, the definition suggested by Abdallah al-Bridi,[2] focuses on three elements. The first, individualism, considers the individual as the primary unit, not society. It says that individuals are responsible for their own actions. They seek their personal interests with a selfish inclination and in a manner that supports their productivity and innovation. The second element is the free market, which entails unlimited and unrestrained freedom of ownership, investment, trade, acquisition, competition, and monopoly. Finally, privatization is meant to "reduce public burdens through the government's withdrawal from various sectors. This is meant to ensure greater effectiveness of services and goods provided by the private sector and enhance the sustainable growth and expansion of various projects and sectors."

### B. The Rise and Spread of Neoliberalism

Neoliberalism emerged in the late nineteenth century as a political project to counter the rise of the labor movement and the "threat" of socialism.[3] Its main aim was and will remain the maintenance of a capitalist social order to serve the interests of large owners.[4] Although the "Keynesian theory" sought to achieve the same goal, it promoted solutions that broke with the neoclassical theory. It made the capitalist class pay the price for ensuring the capitalist system's stability, which included better distribution of added value in favor of workers and universal social protection and linking productivity to wage increases in the framework of the so-called "Fordian" model.


In the 1970s, neoliberal economists took advantage of the "stagflation" facing capitalist economies. They intensified their attack on Keynesian policies and claimed that "the state was not the solution but the problem." Big capital was mobilized in their support, as several major corporations had been facing the consequences of two major factors, consumer saturation in advanced capitalist countries and the rise in production costs due to skyrocketing global oil prices. It pressed hard on governments to reduce taxes, through "labor market flexibility."

Consequently, these countries adopted the triad of "economic liberalization, privatization, and austerity," prioritizing the maintenance of financial balances. They hoped to create a suitable environment for free market mechanisms to achieve the optimal use of resources.

On the other hand, the neoliberal project in the Third World began with Chile's Pinochet, following a CIA-backed military coup against the democratically elected socialist government led by Salvador Allende in 1973. The model began to spread in the Third World as more countries fell into the debt trap in the early 1980s.

Arab countries were no exception. They were forced to seek the International Monetary Fund (IMF) to reschedule their external debts in exchange for implementing neoliberal structural adjustment programs. Thus, they committed to austerity policies that included cutting down essential subsidies, reducing public spending, freezing wages, and devaluing the national currency. The measures led to violent social unrest, such as in Egypt (1977), Tunisia (1984), Morocco (1981 and 1984), Algeria and Jordan (1989), and Sudan (1982 and 1985).[5]

The neoliberal orientation became entrenched in the 1990s, as Arab countries signed multilateral agreements to liberalize foreign trade in the framework of the World Trade Organization (WTO) and with the EU (the Barcelona Process between the EU and the Arab Mediterranean countries in 1995), added to the Arab free trade area established in 1966. In parallel, several Arab countries began privatizing the public sector and providing numerous incentives to attract foreign investments.

## C. A Critique of Neoliberal Illusions

Neoliberalism is built on several assumptions that turn out to be nothing but illusions both in terms of their internal logic or when matched with actual economic experiences and solid data. The presentation will highlight four such illusions at the core of the neoliberal approach. They are freedom of the market, "trickle-down economics," specialization according to relative comparative advantages, and austerity and fighting inflation as prerequisites for growth, investment, and job creation.

## Illusion 1: The Free Market

**The first illusion is that free markets increase competitiveness, liberating the energies of the private sector to increase investment, thus driving forward growth and job creation. Prosperity for all is achieved through "trickle-down economics."**

The free market's viability is established on the idea that state intervention to impose certain behaviors on market actors does not help optimize the use of resources. If those actors cannot produce profit, they will stop investing and innovating. According to neoliberal economists, they should be free to do what they choose in the market. Thus, followers of Austrian economist Friedrich von Hayek justify their total rejection of government intervention in the market by the latter's ability to correct imbalances through its own mechanisms. If left alone, the free market can achieve balance, happiness, well-being, and freedom for all individuals. Thus, "a market free of any constraints is the best guarantee for capitalism to achieve prosperity for humanity."[6]

Chang refutes these claims by emphasizing the absence of an actual "free market."[7] This unorthodox economist draws attention to the many regulatory controls that limit freedom of exchange in the markets, when trading in arms, drugs, and medicines, for example. Restrictions are also imposed on participation in the market (such as preventing children from entering the labor market), accessing some professions (such as medicine and law), and stock market regulations. The restriction of market freedoms also affects the wage-setting process that takes place under tight control of foreign labor migration, as liberalizing the movement of people across borders would pressure wages downward. The same applies to interest rates, determined through political decisions by central banks.

Then, why are international organizations and the WTO aggressively promoting the free market? As Hisham Bustani points out, following the collapse of the Berlin Wall, "the countries of the South were pushed to adopt actual 'free market' concepts as a condition to borrow from so-called "international" institutions, such as the World Bank and the IMF (through 'readjustment' or 'restructuring' plans, or plain extortion, bribery, commissions, and distributing licenses to people in authority."

Hence, Bustani adds, "the 'free' markets of the South (as desired by the capitalist North) must be completely open. They should be free from protective legal measures, state regulations, customs barriers, and preferential treatment for national goods. Incoming investments from the centers and the free flow of capital must not be restricted. The government should end its support to all sectors, commodities, and services. The state itself should not be a capitalist player or own any sectors, companies, or institutions." However, strangely enough, the conditions imposed on the countries of the South are not applied in developed capitalist countries! In 2020, for example, the EU adopted a new framework to regulate foreign direct investment to restrict Chinese corporations from acquiring European companies considered strategic for EU's sovereignty.[8]

## Illusion 2: Trickle-Down Theory[9]

Neoliberal economists claim that liberating potentials for economic growth and welfare for all involves abandoning excessive taxation and the complexities of regulation. More precisely, proponents of neoliberalism defend what they call the "trickle-down theory." According to the theory, reducing taxes on the rich (and capital in general) stimulates the prosperity of corporations and encourages investment and innovation. Thus, its positive impact on growth and employment contributes to improving the living conditions of the poor.

**Figure 1: Trickle-down theory**

| Tax cuts for the wealthiest segment and large corporations | |
|---|---|
| Impact according to neoliberal economists | Real-world implications |
| - Rise in productive investment<br>- Improved growth rates<br>- Wealth trickles down to the less fortunate | - Increased shareholder dividends<br>- Wealth trickles up<br>- Aggravated inequality and reduced growth |

Source: Dumas A, L'économie du ruissellement : une théorie zombie, La Gazette de la Maurice, 2/2/2021. [10]

Figure 1 summarizes the assumptions underpinning "trickle-down theory" from the perspective of neoliberal economists and counteracts them with their real-world implications. Thus, tax cuts for the rich and big corporations does not inevitably lead to an increase in productive investment but in the profits distributed to shareholders. This reduction contributes to the exacerbation of inequality as wealth flows upwards and not downwards as claimed by the theory's proponents. It also leads to a decline in economic growth rates.

It follows that the true objective behind this "theory" is to justify tax cuts on capital and avoid its displacement to other countries and locations (especially tax havens) in the framework of neoliberal globalization.

## Illusion 3: Specialization according to comparative advantages

Under neoliberalism, free global exchange is a logical extension of the free market mechanism as the main guarantor of the optimal allocation of resources. Thus, the specialization of a particular country in the production and export of specific goods and services according to the theory of comparative advantages would improve its international competitiveness and thus contribute to raising its economic growth rate and improving its population's standard of living.

The above proposition was used to push many developing countries to abandon their protectionist policies that had enabled local productive capacities through import-substitution industrialization. This pressure was supported by the claim that this type of industrialization had led to inflated costs compared to the manufactured goods available in the international market. Thus, it contributed to wasting resources that could have been employed in sectors that are more efficient and more appropriate to these countries' qualifications in terms of labor, capital, and natural resources.

Although seemingly rational, this neoliberal hypothesis does not stand up to lessons from historical economic experiences. Furthermore, it fails to consider the requirements and conditions of "late industrialization" (in the sense that competitiveness can be won through an intentional state policy).

In terms of the first factor, advanced capitalist countries did not historically adopt free exchange as a trade policy before securing their own production capacities and building competitive industries under strict trade protection. The most prominent example in this regard could be the United States, whose economic development strategy has been based on state protection and support of "emerging industries" per the report of the Secretary of the Treasury Alexander Hamilton on industry in 1791. The US and Great Britain are the two countries that resorted most to protectionism to ensure their rise between 1830 and 1940 for the first and 1720 and 1850 for the second. However, they were no exception. Other countries, including Germany and Japan, have embraced similar intentional and protectionist trade policies to join the ranks of rich countries.[11]

The second factor relates to some countries of the South that ensured their rise in the framework of late industrialization, namely China and South Korea. In contrast to the theory of specialization according to comparative advantages, the two countries adopted an unorthodox approach to building competitive industrial and productive capacities and catching up with advanced capitalist countries in the framework of late industrialization. They based their approach on two main foundations. On one hand, productive enterprises were supported and protected through state intervention until the conditions for competitiveness were met through learning and training mechanisms to reduce the cost of production and become competitive. On the other hand, government intervention and support to productive enterprises was linked to achieving tangible and measurable results that would allow them to penetrate and compete in international markets. [12]

The third and final factor is what distinguishes current global trade and its global production chains, where countries become specialized vertically in a specific stage of production (such as, design, production, and marketing) of a particular product.

However, these global chains are monopolized by multinational corporations, especially the back-link that includes innovation activities protected by "intellectual property rights" and the front-link made up of marketing and distribution activities. This double monopoly generates rentier profits that enable these companies to capture the bulk of added value in global supply chains. This distribution of labor limits the countries of the South to purely productive activities, which are known to be highly competitive. It leads to an extremely limited share of added value for producers and workers and does not ensure respect for decent work conditions, as pointed out by several reports by the ILO and UNCTAD in particular. In addition, specialization in some productive links of global value chains limits the possibility of real industrialization in the countries of the South, the main condition for inclusive economic development. [13]

## Illusion 4: Priority for price stability and austerity

From a neoliberal viewpoint, economic stability is necessary to stimulate investment, growth, and job creation. It is achieved through combating inflation (i.e., ensuring price stability) resulting from the public budget deficit caused by the state - and politicians in general - encouraging public spending to satisfy their citizen "clients" and gain their support. Thus, austerity policies become necessary to restore the private sector's confidence in the economy. International financial institutions (the World Bank and the IMF) had attributed the stifling economic and fiscal crisis that led to the adoption of structural adjustment programs to external debt and excessive inflation that characterized the economic and financial performance of Third World countries, especially in Latin America. But how much credibility did this view hold?

First, the neoliberal approach sees inflation, whatever its level, as harmful to investment and economic growth. Therefore, it becomes necessary to limit the acceptable inflation rate to a minimum between 1 and 3 percent and to reduce the public budget deficit to less than 3 percent of GDP in general. However, historical experience indicates that the relationship between inflation and GDP growth rates is not linear. In the 1960s and 1970s for example, Brazil recorded one of the highest per capita income growth rates in the world (4.5 percent annually), compared to an inflation rate of 42 percent in the same period.

In general, studies by the World Bank and other researchers[14] have shown the correlation coefficient between inflation and growth to be equal to zero or slightly positive, in case the inflation rate does not exceed 20 percent. On the other hand, there is evidence that adopting strict policies to combat inflation may harm the economy. In this regard, Chang refers to the experience of Brazil, which managed to reduce the inflation rate to 7.1 percent by raising real interest rates (that is, nominal rates minus the inflation rate) to levels that are the highest in the world in the above-mentioned period (10 to 12 percent annually). However, the results were at the expense of the annual growth rate of per capita income, which did not exceed 1.3 percent,[15] since strict anti-inflation policies eventually lead to a lower investment rate. It becomes more evident when interest rates reach 8 or 10 or 12 percent, encouraging economic actors to choose investments that are profitable than the financial sector's 7 percent profitability rate. According to Chang, the world has witnessed successive financial and banking crises, despite the adoption of strict anti-inflation policies as a "reliable" indicator of economic stability. The main evidence could be the situation in Asia in the 1990s. The above-mentioned UN report noted that South Korea and Thailand, for example, suffered from many external shocks caused by the Asian financial crisis of 1997, despite maintaining a stable rate of inflation and a low rate of debt to GDP.

Furthermore, during the period of inflation control (following the 1980s), economic growth rates turned out to be modest as a natural result of the decline in the rate of investment. The decline impacted wealthy capitalist countries. Although they controlled inflation, they suffered a decline in the growth rate of per capita income from 3.2 percent during the 1960s and 1970s to 1.4 percent between 1990 and 2009. [16]

Neoliberal economists adopt a narrow concept of economic stability, limited to fighting inflation. It leads to a failure in successfully dealing with economic and social development challenges. In the countries of the South, in particular, it poses a challenge to ensuring citizens' economic and social rights, in addition to the shortcomings of the infrastructure. Prioritizing austerity policies led to reduced spending on vital economic and social development areas, such as education, health, social protection, infrastructure, and agricultural investment.

## 2. Part 2: *Main Conclusions of the Studies*

The studies included in this volume address the impact of neoliberal policies on Arab economies. They uncover how the illusions discussed above were clearly manifested in the Arab region.

### A. Renewed Partnership or Perpetual Dependency?

The first study analyzes the EUs proposal on Renewed Partnership with the Mediterranean. It demonstrates how it perpetuates the neoliberal approach underpinning EU-Arab relations since the launch of the Barcelona Process in 1995, especially by adopting free exchange between the two shores of the Mediterranean. The study explains the failure of the various EU initiatives towards the Arab Mediterranean countries in fulfilling their promises of peace, security, and common prosperity. On the contrary, they led to increased dependency and deeper trade inequalities to the benefit of large European capital. They also contributed to the exacerbation of lumpen development, characterized by modest economic growth in contrast to the expansion of the informal sector, unemployment, and social exclusion. On the other hand, the EU's hegemony over the economies of Arab Mediterranean countries led to a significant narrowing of the policy space available to adopt independent economic and social development strategies beneficial to these countries' peoples. As an example, the study looks at the modest EU contribution to the fight against Covid-19 in those countries. It then presents alternatives for building new relations between the two shores, based on solidarity, cooperation, and solidarity, rather than commercialism and maximizing profit in favor of large capital.

## B. Impact of Agricultural Policies on Food Security in the Arab Region

This paper highlights the contribution of agricultural policies adopted by Arab countries since the 1950s to the deterioration of food security and increased dependency on the global capital market. It focuses on the negative impact of agricultural structural adjustment and liberalization of agricultural trade policy, reviewing some of the data that highlight food insecurity and the growth of food dependency. It then presents the key features and limitations of agricultural policies that characterized the Arab region between the 1950s and the end of the 1970s (i.e., agricultural measures, legislation, and laws adopted by the state to achieve specific objectives contained in agricultural plans). Such policies, which entailed a major shift, were based on adopting the neoliberal model, promoting trade, and broad integration in the global capital market to ensure food security. The study also addresses the risks of Arab food dependency during the global food crisis, which demonstrated the exposure of Arab economies to the global market and the fragility of food security due to fluctuations in global food commodity prices. This dependency has led to the continuous rise in the prices of food commodities in the Arab world, prompting Arab governments to adopt a series of policies and measures to reduce these negative effects on food security. The study confirms that promoting the neoliberal export model in the Arab world is not possible due to the weak natural land and water resources and considering its great social and environmental cost. Therefore, food sovereignty is proposed as an alternative capable of ensuring food security for all citizens if the conditions for its achievement are met. However, food sovereignty depends on the developmental role of the state, the emergence of a strong social movement, and deep reforms in the global trading system that ensures framing agricultural trade and coordination aiming at price stability for basic food and agricultural commodities.

## C. Neoliberal Policies and Informal Labor in the Arab Region

The third study shows how macroeconomic policies (mainly financial, monetary, and anti-inflation), trade and investment policies, financing policies, privatization policies, and "reforming" state-owned enterprises contributed to the growth of informal labor and the chronic spread of the informal economy in many Arab countries. It also highlights the role played by IFIs in connection with the growth of informal work, especially because of their pressure on debtor countries to adopt a labor market flexibility, which contributed to the deterioration of working conditions and the growing vulnerability of work and informal work. The study shows the impact of trade and investment liberalization through global value chains and production networks subject to multinational corporations, as Arab exporting countries specialize in the weakest links, i.e., those activities with low added value and intensive unqualified labor. The case studies of the textile, apparel, and red fruits industries and QIZs demonstrated how the pressure of global capital to reduce costs, adapt to market fluctuations, and rapid and on-time supply to the market, in addition to gender discrimination, has led to growing exploitation, vulnerability, and informal work, especially for women.

## D. South-South Development Cooperation in the Arab World

The study attempts to link the rise of the countries of the South and their strengthening position in global politics and economy with the spread of various forms of SSC. This cooperation is not limited to classical development assistance (such as grants and concessional loans). It extends to trade, investment, exchange of expertise, and the transfer of knowledge and technology. The study also highlights the conflict between the South-South development cooperation model, on one hand, and official development assistance (ODA) adopted by the Nordic countries and its conditionalities, on the other. The former is inspired by the Bandung Principles and based on respect for national sovereignty, partnership between equals, the absence of conditionalities, non-interference in internal affairs, and mutual benefit. The latter focuses on macroeconomic balances and fighting inflation as a basic entry point for achieving economic growth (i.e., the neoliberal model). Finally, it focuses on the importance and geographical and sectoral distribution of Arab development cooperation, providing a critical view of the issue in connection with the transformations witnessed in the region following the 2010 and 2011 revolutions.

## E. Towards a Critique of PPPs in the Arab World: The Case of Morocco

The study tackles the impact of "privatizing" public services on citizens' rights related to water, electricity, and solid waste management. It distinguishes between the traditional form of partnership between the public sector and the private sector (the so-called delegated management) and the new forms of this partnership, presenting its institutional framework and highlighting the problems it poses. The study then focuses on the concept of delegated management, showing its failure to activate citizen's social rights, highlighting that its main beneficiaries are the multinational corporations entrusted with managing the public utilities of local communities. Finally, it describes forms of popular resistance and societal mobilization against large foreign capital's takeover of public facilities without regard to social justice or equal access to these vital services.

## F. Impact of IMF Austerity Policies on Social Protection

The final study sheds light on the role of IFIs in influencing the economic and social rights of Arab citizens by focusing on IMF austerity policies and their impact on social protection. It shows how the IMF's focus on austerity in member countries that suffer from macroeconomic imbalances negatively impacts the provision of social protection to all citizens in the Arab world. Finally, it addresses the question of subsidizing essential needs, highlighting weaknesses in the proposed IMF solutions.

# CHAPTER 1:

## Renewed Partnership Or Perpetual Dependency?

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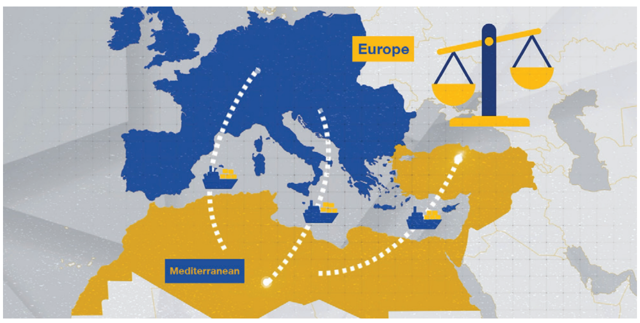
## Introduction

The following research paper seeks to answer a central question regarding the "Renewed Partnership with the Mediterranean" proposed by the European Union (EU) in February 2021 to the Southern Mediterranean countries (SMCs). How does it diverge from the neoliberal model that characterized Euro-Mediterranean relations since the launch of the Euro-Mediterranean Partnership (Euromed), also known as "The Barcelona Process," in 1995? It will also consider the "more for more" approach (more trade and economic integration, more benefit for neighborhood countries committed to democratic reforms) and its validity following the new requirements imposed on SMCs after the Arab Spring and the COVID-19 health crisis. Finally, it will tackle relevant alternatives concerning economic development, the multidimensional crisis linked to COVID-19, and Deep and Comprehensive Free Trade Agreements (DCFTAs)?

These questions were addressed through the literature and analytical review of EU documents and academic and scientific publications on Euro-Mediterranean relations. Arguments are evidenced by references relating to the situation in certain SMCs. Unfortunately, time constraints and circumstances related to COVID-19 have made it impossible to conduct Key Informant Interviews (KIIs) with experts on the subject matter.

The paper starts with a brief historical review of the evolution of relations between SMCs and the EU. The second part evaluates the EU's commercial and investment policies vis-à-vis SMCs. The third focuses on the New Agenda for the Mediterranean and its potential contribution to economic development and promoting SMC populations' economic, social, and environmental rights. In the fourth part, the paper will examine the impact of the COVID-19 crisis on SMCs and the EU's role in mitigating its adverse effects. The fifth part analyses the risks entailed in DCFTAs proposed by the EU to SMCs. Finally, a series of recommendations shall aim to build relations between the EU and SMCs based on solidarity and true partnership at the commercial and investment level.

## Part 1: Brief History of the Relations between the EU and SMCs




Following their independence, the founding States of the European Community (EC) sought to strengthen their relations with the former colonies of the Southern Mediterranean by integrating them via an approach designed to serve Europe's interests and "valu es" (particularly the "market economy," liberal democracy, and human rights). Since the 1970s, three main initiatives were developed in this context, namely, the Global Mediterranean Policy (GMP) (1972-1992), the Euro-Mediterranean Partnership (Euromed) (1995-2003), and the European Neighborhood Policy (ENP) (2004-2020).

## 1.1 The Global Mediterranean Policy (GMP)

The GMP aimed to ensure the overall consistency of the EC's relations with the Southern and Eastern Mediterranean Countries (SEMC) to "Europeanize" the customs privileges that several member States had provided in the colonial context. The GMP eventually led to the signature of many cooperation agreements guaranteeing free access to the EU's common market for industrial products, limited preferential treatment of agricultural products, and some financial protocols. After the fall of the Berlin Wall, it was succeeded by the Renewed Mediterranean Policy, which promised to deepen these already established relations.

## 1.2 The Euro-Mediterranean Partnership (Euromed)

The beginning of the 1990s saw many strategic transformations, including the fall of the Berlin Wall, EU expansion, immigration risks and the rise of religious fundamentalism, "peace" treaties in the Middle East following the Madrid Conference in 1993, and geo-economic competition among the three members of the Triad controlling global economy, the US, the EU, and Japan. As a result, the EU proposed a partnership with what it considers its southern "peripheries,"[17] aiming to transform the Mediterranean into "a region of peace, stability, and prosperity" by supporting the transition to the so-called "market economy"[18] and establishing political dialogue and social and cultural cooperation.[19] The "Barcelona show" sought to adopt an interregional approach but involved concluding partnership agreements based on bilateral negotiations between the EU and Mediterranean countries. Although the Euro-Mediterranean Partnership covered three areas (political, economic, and cultural), economic activities were considered the backbone and aimed to establish a Euro-Mediterranean free trade area by 2010.

## 1.3 The European Neighborhood Policy (ENP)

Initially, the Euro-Mediterranean Partnership sought to promote a "peaceful and stable space" founded on cooperative and inclusive security and respect for human rights. However, the 9/11 attacks and the Partnership's modest outcomes for SMCs and their delayed implementation due to a bureaucratic European administration contributed to refocusing European interests on counterterrorism and immigration. The ENP falls within the framework of the European Security Strategy adopted in 2003 as one of the EU's strategic priorities and the 2009 Treaty of Lisbon. Article 8, paragraph 3 of the Treaty indicates that "the Union shall develop a special relationship with neighboring countries, aiming to establish an area of prosperity and good neighborliness, founded on the values of the Union and characterized by close and peaceful relations based on cooperation."

All considerations relating to political reform and economic development were side-lined, particularly when considering the EU's reservations on using the levers of conditionality to topple the authoritarian regimes supposed to ensure the stability of Europe's southern peripheries.

Four actionable priorities were maintained:
- **Support for civil society** by establishing a civil society department;
- **Support for democratic reform:** election observation missions, European funds for democracy;
- **Economic integration:** negotiating DCFTA with countries engaged in the democratic reforms process;
- **The migration issue:** launching dialogues on migration, mobility, and security to develop partnerships.

The primary implementation modality is based on the principle of "give more to receive more," according to which the countries going the extra mile and expediting their reform efforts benefit from greater EU support. Such conditionality is intended to encourage SMCs to achieve progress at the level of democratic reforms.

## 1.4 The Renewed Partnership with the Southern Neighborhood

Subtitled "A New Agenda for the Mediterranean," this new initiative proposes strengthening the Euro-Mediterranean Partnership and addressing the new challenges facing SMCs. It focuses on governance, climate, the environment, security, and socioeconomic issues (particularly the reduced economic growth, which is not in keeping with the demographic growth). To that end, the EU proposes a "new Agenda that strives for green, digital, resilient and just recovery, guided by the 2030 Agenda for Sustainable Development, the Paris Agreement, and the European Green Deal." [20]

The proposed Agenda revolves around the following main components:
- An "Economic and Investment Plan for the Southern neighborhood" to help trigger a socioeconomic recovery in the region in the long term
- Combating climate change, greenhouse gas emissions reduction, the durable exploitation of resources, and the acceleration of energy and ecological transition
- A renewed commitment to the Rule of Law, human rights and fundamental liberties, equality, democracy, and good governance
- A united front against the challenges of forced displacement, illegal migration, and reaping the benefits of legal migration due to global partnerships

As for the areas of action with concrete measures in the pipeline, they include:
- Human development, good governance, and the rule of law.
- Reinforcing resilience and prosperity and benefiting from the digital transition.
- Peace and security.
- Migration and mobility.
- Ecologic transition: resilience in the face of climate change, energy, and the environment.

The economic dimension of this Renewed Partnership shall be revisited in the third part. Still, it is worth noting that EU High Representative Josep Borrell did not hesitate to admit the defeat, if not the bankruptcy, of the different EU initiatives vis-à-vis its Southern Mediterranean neighborhood. He declared that the situation "could be worse today than it was in 1995 or 2011" (High Representative's blog, A New Start for the Mediterranean, 2/3/2021). However, the neoliberal approach still clearly underpins the "Renewed Partnership with the Southern neighborhood" despite the addition of some considerations on "human development," which has been reduced to health and youth empowerment. However, the themes of conflict, youth, and migration were discussed at length.

In conclusion, it seems that the EU's approach in the three initiatives above has always sought to confirm its supremacy over its Southern Mediterranean "neighborhood" without ever really managing to restore peace, security, and the shared prosperity promised to SMCs.

As evidenced by the Arab Spring upheavals and consequent instability, the Southern and Eastern Mediterranean region remains volatile. Unfortunately, the Renewed Partnership proposed by the EU does not seem to offer an alternative to this situation, as will be clarified in the third part of this paper.

# Part 2: Critical Evaluation of Commercial and Investment Policies: The Unkept Promises of the Euromed and ENP

The economistic logic that trade liberalization would lead to economic growth and disseminate liberal values (notably democracy and the respect for human rights) was a mirage. Instead, we have witnessed a greater marginalization and dependency of SMCs in their relations with the EU and the rise of the phenomenon of "lumpen development."

## 2.1 General Approach

The logic behind free trade being a vehicle of economic development through private investment (notably foreign investment, i.e., European) was the foundation of the Euromed before becoming ingrained within the ENP framework.

- Within the ENP framework, free trade is supposed to recreate the "successful" experiment of integrating certain countries such as Greece, Spain, and Portugal within the European Community. As confirmed by Vincent Caupin,[21] "the exposure of the local industrial scene to foreign competition (European, in this case) contributed to the reorganization of the industrial scene and substantial productivity gains in these countries." The process is expected to boost the offering of productive sectors in SMC economies by exposing them to the growing international competitiveness while establishing the Euro-Mediterranean Free Trade Zone by 2010. With time, this process should lead to the disappearance of non-competitive import substitution industries and the reallocation of resources towards export sectors where SMCs have a comparative advantage. As such, "structural and neoliberal economic reforms, including improving the business climate, should attract foreign direct investments" (Ibid).

- Regarding the ENP, promoting better integration within the EU Single Market through regulatory convergence falls on institutional reforms more than merely liberalizing trade through removing customs barriers and organizational convergence (adopting EU policies by SMCs). For example, the EU's recognition of Morocco's advanced status aims, in the long run, to establish a shared economic space between the EU and Morocco through deeper integration of the Moroccan economy within the EU by adopting the standards and systems regulating the European Economic Space. This objective required the implementation of a joint-action process within four integrated focus areas: (a) aligning Morocco's legislative framework to the Community acquis (for example, Morocco has adopted laws within the last decade inspired by European legislative texts such as the competition law and the law protecting industrial property), (b) the adoption of a DCFTAs, (c) economic and social cooperation, (d) and Morocco's accession to trans-European networks and sectorial cooperation.

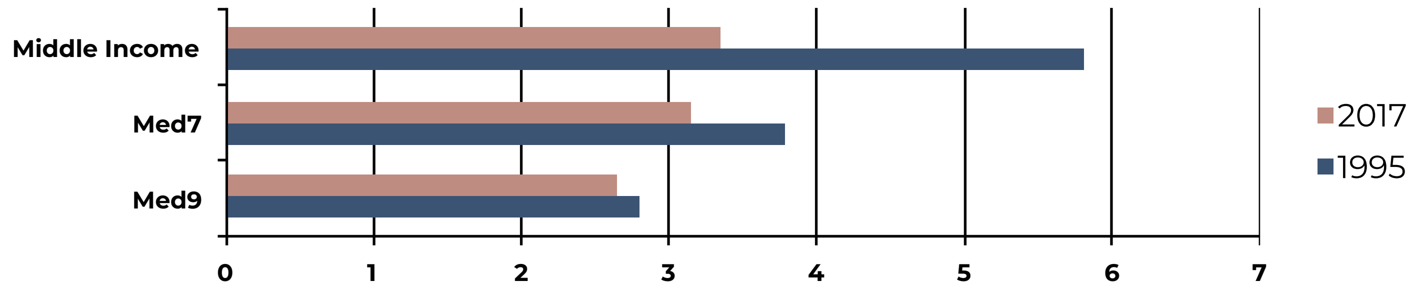
Officials hope that the benefits of these reforms would include improving companies' competitiveness and guaranteeing product quality and security, leading to more protection for Moroccan consumers, who will then benefit directly from this alignment with EU standards. Decision-makers also hope that new regulations, laws, and supervisory bodies attract foreign investors. "Exportation to the European Union, a potential market of 500 million consumers, will be facilitated, and integration within the internal European market will be boosted. Then, locally manufactured products in Morocco will hold the EU quality and standards stamp when leaving Moroccan territories. The absence of this stamp has, to this day, prevented these products from being exported."[22]

## 2.2 The Unkept Promises of the Partnership

### 2.2.1 Disparities in Living Standards and the Illusion of Leaving no One Behind

Contrary to the EU's stated ambitions to achieve "a shared prosperity" with SMCs by making their living standards more aligned with the EU's, we witnessed a stagnation of the promised convergence. However, the EU GDP per capita in terms of purchasing power parity in 1995 was 3.8 times higher than the GDP per capita of 7 Mediterranean partner countries (Algeria, Egypt, Jordan, Lebanon, Morocco, Tunisia, and Palestine), and it remained 3.1 higher in 2017 (cf. Figure 1).

**Figure 1: Comparison of the Relative Disparity* in GDP per Capita in terms of Purchasing Power Parity between Emerging and Developing Countries and the EU in 1995 and 2017**




Source: Extracted from Augier P, Tsakas C, Moukaddem K, Mouley S, and Ventura J, The Private Sector in Mediterranean Countries: The Main Dysfunctions and Opportunities of Social Entrepreneurship, FEMISE 2019 report.

Similarly, the disparities in the Compound Annual Growth Rate (CAGR) of the GDP per capita were high between Europe and Central Asia on the one hand (3.20%) and the 7 Mediterranean partner countries, on the other (1.83%), throughout the 1995-2017 period.

**Table 1: Average Annual Growth Rate of GDP per Capita in terms of Purchasing Power Parity between 1995 and 2017**

| By Country | | By Region | |
|---|---|---|---|
| Algeria | 1,86 | Med9 | 1,99 |
| Egypt | 2,41 | Med7 | 1,83 |
| Israel | 1,63 | East Asia & Pacific | 6,78 |
| Jordan | 1,02 | Europe & Central Asia | 3,20 |
| Lebanon | 0,58 | Latin America & Caribbean | 1,33 |
| Morocco | 2,59 | Sub-Saharan Africa | 1,89 |
| Tunisia | 2,63 | Upper middle income | 4,42 |
| Turkey | 3,41 | Lower middle income | 3,75 |
| Palestine | 1,66 | Middle income | 4,04 |

Source:
WDI 2018, Banque Mondiale. Calculs réalisés par les auteurs.
Med9: Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Tunisia, Turkey, Palestine
Med 7: Med9 except Israel and Turkey

### 2.2.2 From Integration into the European Market to Necessary Disengagement

Despite the intentions, Free Trade Agreements (FTA) did not promote more comprehensive commercial integration between the EU and SMCs. On the contrary, SMCs count less and less in extra-EU trade contracts. For example, based on the data presented in Table 2, the share of 6 SMCs (Algeria, Egypt, Jordan, Lebanon, Morocco, and Tunisia) has decreased from 3.36% in 2008 to 2.7% in 2018. If we exclude Algeria, whose external trade is highly dependent on oil price fluctuations in the global market, this market share becomes marginal and stagnant (1.6% in 2008 and 1.7% in 2018). Similarly, the share of imports from the EU to the 6 SMCs increased from 3.98% in 2008 to 3.91% in 2018 (or from 2.91% in 2008 to 3% in 2018 without Algeria).

**TABLE 2: Value of international trade in goods with ENP-South countries, EU-27**

| | EU-27 imports from partner | | EU-27 exports to partner | | EU-27 trade balance with partner | |
|---|---|---|---|---|---|---|
| | 2008 | 2018 | 2008 | 2018 | 2008 | 2018 |
| Algeria | 27 202 | 18 435 | 15 074 | 18 510 | −12 128 | 75 |
| Egypt | 7 491 | 7 640 | 11 653 | 18 000 | 4 162 | 10 360 |
| Israel | 10 009 | 12 406 | 12 572 | 19 413 | 2 563 | 7 007 |
| Jordan | 276 | 273 | 2 698 | 3 293 | 2 423 | 3 019 |
| Lebanon | 296 | 477 | 3 615 | 6 836 | 3 319 | 6 359 |
| Libya | 34 137 | 16 117 | 5 511 | 4 372 | −28 626 | −11 745 |
| Morocco | 7 986 | 15 366 | 13 859 | 22 476 | 5 873 | 7 110 |
| Palestine | 6 | 14 | 57 | 235 | 52 | 221 |
| Tunisia | 9 036 | 9 963 | 9 651 | 11 445 | 615 | 1 482 |

Note: as reported by EU Member States.

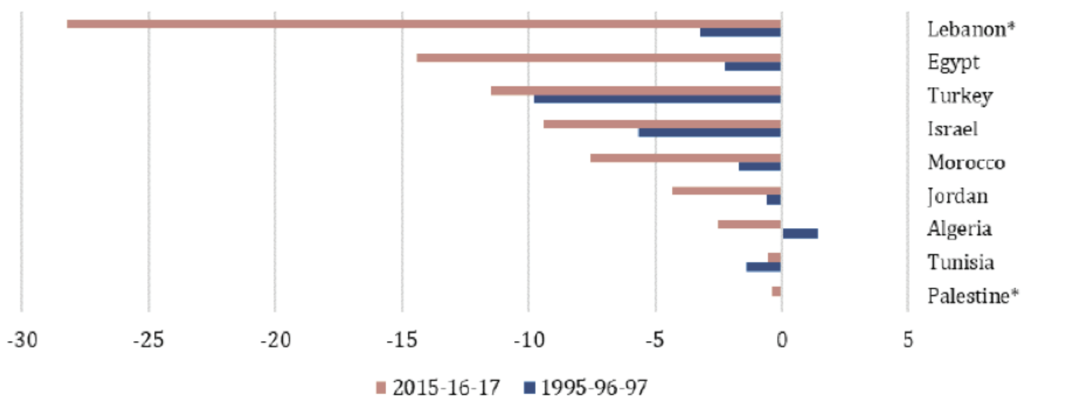
Source: Eurostat, Statistics on European neighborhood Policy countries: South, 2020 edition.

## 2.2.3 Uneven Exchange and Weak Specialization in Technology-Intensive Goods and Services

Figure 2 shows a significant trade imbalance between Mediterranean countries in favor of the EU, especially from the launch of Euromed in 1995 until 2017, particularly in SMCs such as Lebanon, Egypt, Morocco, Jordan, and Algeria (only Tunisia was able to achieve a trade surplus). This deterioration of the trade balance is due to different factors. The most notable is the weak international competitiveness of SMCs disadvantaged by "agricultural exceptions" (meaning the protectionist agricultural EU policy) and specialization in low-tech products. As a result, the share of high-tech exports is only 4%. On the other hand, medium technology exports are at 18%, despite improvements in Tunisia and Morocco (rising from 3% and 0% in 1995 to 13% and 5% in 2017, respectively).[23]

Finally, it is worth highlighting that the deterioration of the trade balance reflects the uneven commercial exchange between SMCs and the EU. It manifests itself through the transfer of substantial financial surpluses to the benefit of the latter, reinforcing the capitalist polarization in favor of the "center" (the EU) at the expense of the "peripheries" (the Arab Mediterranean countries).

**Figure 2. Trade Balance between SMCs and the EU in 1995 and 2007**

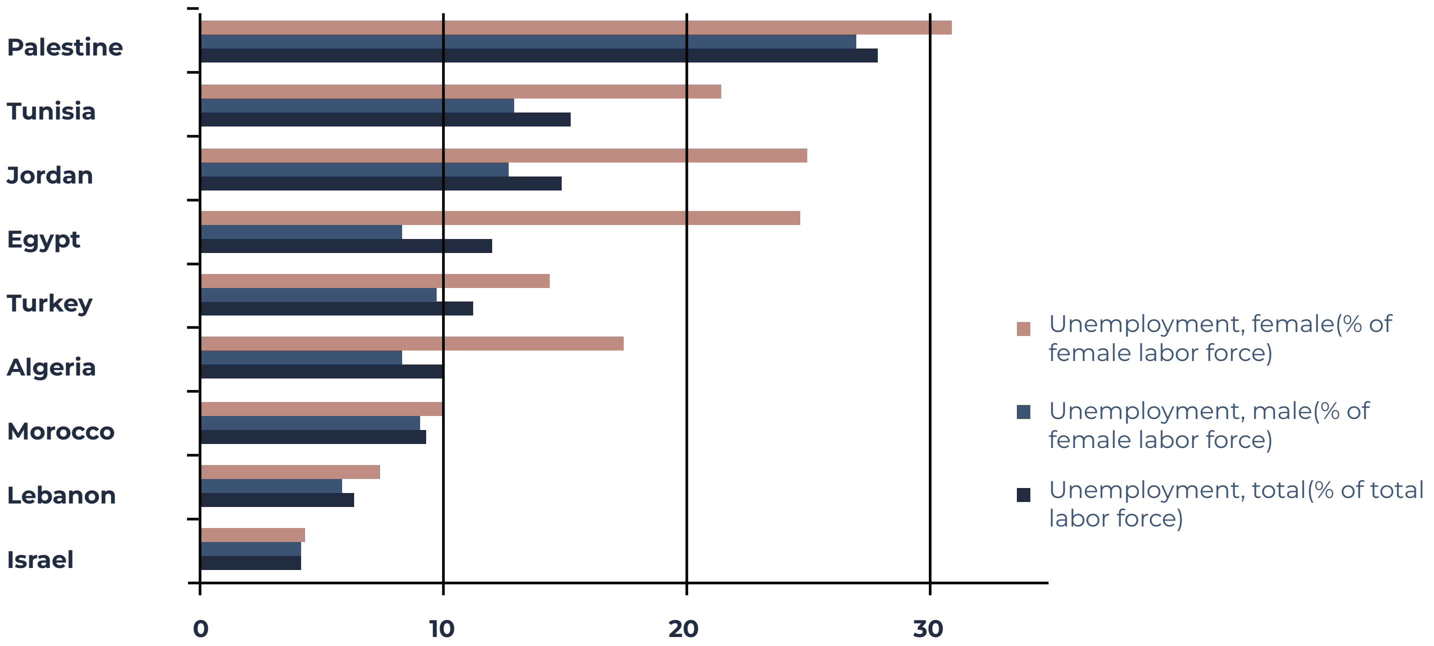



Source: Extracted from Augier P., Tsakas C, Moukaddem K, Mouley S and Ventura J, op. cit. 2019edition.

## 2.2.4 Sacrificed Economic and Social Rights

-Persistent Unemployment
High unemployment rates within SMCs and the Arab region, in general, are still a cause of concern, especially for women, youth, and fresh graduates. On average, the unemployment rate in this region is at 12.4%, exceeding by far other Southern regions (4.1% and 8.3% in East Asia and the Pacific, respectively).[24] This average unemployment rate hides considerable gender disparities, with the unemployment rate for women being much higher than the active population (Figure 3).

**Figure 3. Total Unemployment Rate, Disaggregated by Gender in Mediterranean Partner Countries in 2017 (GDP estimations)**



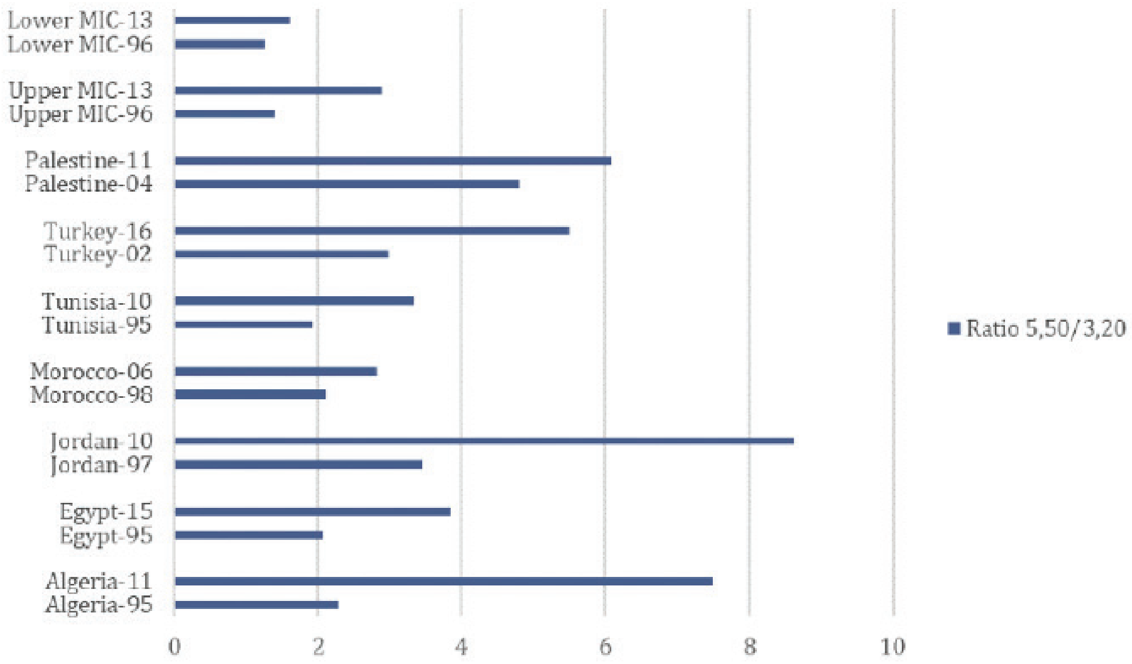

Source: WDI 2018, World Bank

The average youth unemployment rate reached 27%, much higher than other southern countries (11% in East Asia and the Pacific and 18.5% in Latin America and the Caribbean, Augier P. et al. ). Moreover, the average unemployment rate of graduates is particularly disconcerting, having reached 29% (more than double the global unemployment rate) and constitutes a ticking time bomb in Mediterranean partner countries (idem).

-Vulnerability and the Growth of the Informal Economy

While extreme poverty is low in SMCs, the same cannot be said about vulnerability, which indicates the number of individuals living on the edge of the poverty line and who could fall below it at the slightest disturbance. It is the ratio of the share of the population living on less than $5.5 to those living on less than $3.2. Consequently, the vulnerability indicator has increased in all SMCs (Figure 4). FEMISE researchers also note that "compared to other emerging countries, Mediterranean countries are the most to witness an increase in vulnerability to poverty"[25](Augier P. et al., op. cit.).

### Figure 4. Vulnerability to Poverty Indicator for the First and Last Years Available

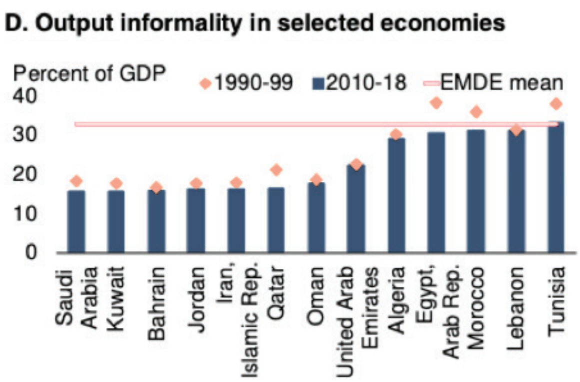



Source: Extracted from Augier P. et al., FEMISE, 2019

The exacerbation of the economic vulnerability of broad segments of SMC populations is part of the growth of the informal economy. The percentage of informal labor in SMCs has risen steadily since the mid-1970s, increasing from 39.6% in 1975/1979 to 53% in 2005/2010. It reached 78.5% in Morocco, 51.2% in Egypt in 2005-2010, and 51.8% in Lebanon (between 2000 and 2004).[26]

More recent data from the World Bank[27] shows that the weight of this informal economy, measured by production in this sector, has not changed much in SMCs between 1990-1999 and 2010-2018, except for Egypt, which saw a decrease in "informal production" (Histogram 1).

### Histogram 1: Informal Economy Production in Certain Countries




Source: Franziska Ohnsorge and Shu Yu (editors). The Long Shadow of Informality Edited by Challenges and Policies, World Bank, 2021.
*EMDE: Emerging Markets and Developing Economies

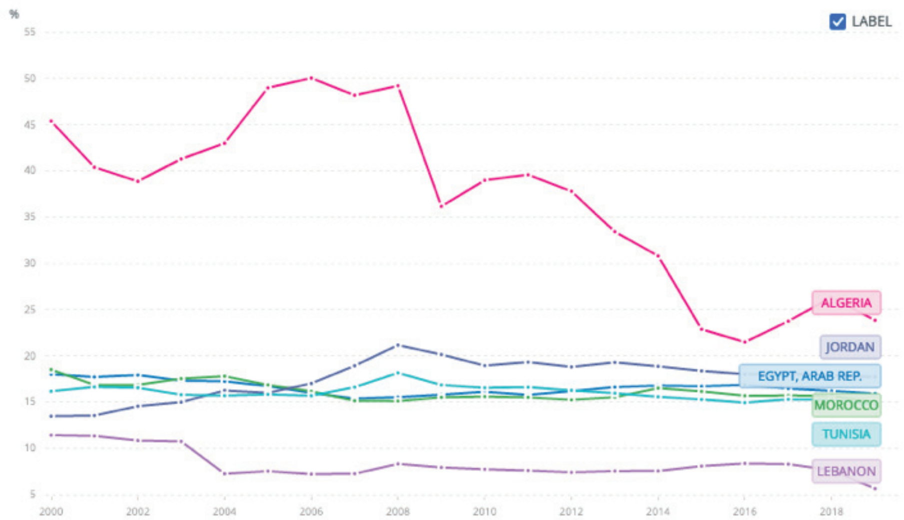
While the proliferation of the informal economy could be linked to several factors (such as red tape, demographic growth, and tax evasion), the implementation of neoliberal policies by SMCs in the 1980s has also been a significant factor. In addition, the decrease in job offers within the public sector following structural adjustments and the private sector's inability to take over, the annihilation of import substitution industries, and the integration of economies within global value chains in search of a low-cost and precarious workforce have contributed just as much to the growth of "lumpen development" in SMCs. The term relates to achieving modest economic growth associated with the informalization of the economy and the spread of poverty, vulnerability, and social marginalization.[28]

## 2.3 The Limitations of Free Trade Myth as a Vehicle for Development

Several reasons explain how free trade has failed to drive development. The first is derived from economic history. It is considered "a baseless myth, as countries currently promoting the adoption of free trade in their relations, starting with the United States and the United Kingdom, have built their might and power on protectionism, which they then decided to demonize."[29] As a consequence, "free trade agreements involving countries with very different productivity levels are bound to fail as poor countries come to realize that this approach will not achieve development."[30] The EU continues to protect its agriculture through the famous Common Agricultural Policy (CAP). It uses the multifunctional character of this sector as an argument, namely the protection of the environment, the preservation of the natural landscape, rural employment, and food and fiber production. However, "the production of primary goods under market conditions (or as close as possible) does not allow for other agricultural functions to be fulfilled adequately for citizens."[31]

The second reason is the failure of the "pledge to openness" upon which the Euro-Mediterranean partnership was established. Several factors contributed to this failure. On the one hand, the theory of reallocating resources towards more productive exportation activities could not be implemented due to the "agricultural exception" (i.e., excluding the agricultural sector from free trade). On the other, the exposure of import-substitution industries to unequal competition from the most productive European products led to the disappearance of a significant number of establishments. Consequently, export industries (particularly the textile and garment sector) lost European market shares due to Asian competitors (Figure 5). These two simultaneous processes resulted in an alarming decline in the share of the manufacturing industry of the GDP. More seriously, it led to a premature decline in the industry due to the "scissors effect" that we have shown. The situation resulted in the disengagement of several local businesses from manufacturing industries to service and rentier activities not threatened by external competition (most notably real estate, finance, tourism, and retail).[32]

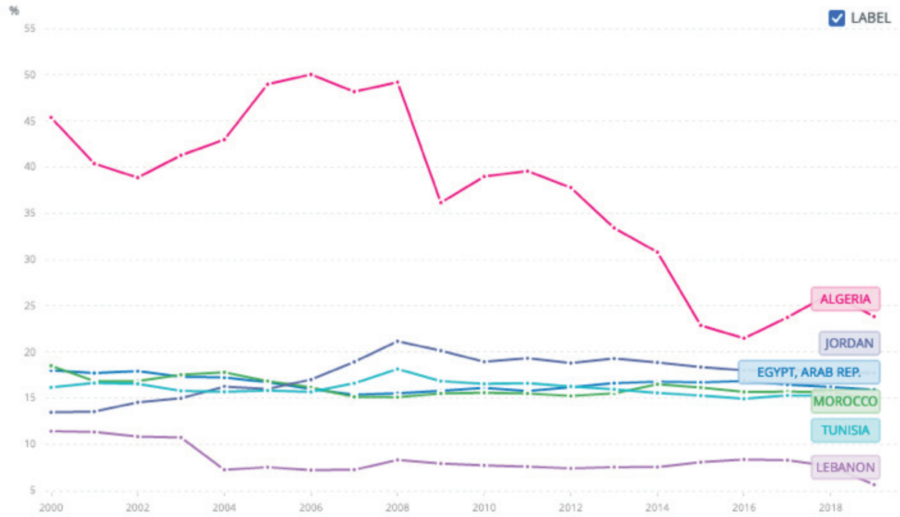
**Figure 5: Evolution of the Share of the Manufacturing Industry in the GDP (in %) of SMCs**




Source: WDI, 2021

In addition, the long-promised direct foreign investments never saw the light. Beyond concluding a free trade agreement intended to bind SMCs to the EU, the fundamental conditions of this economic attractiveness were never met (including economic dynamism, modern infrastructure, qualified "low-cost" workforce, and effective local industries).[33]

**Figure 6, WDI, 2021**




Finally, the financial aid granted by the EU under the MEDA programs was not enough to compensate for the losses resulting from the transition into free trade. According to one study, financial aid within this framework did not exceed 3 euros per capita from 1995 to 2006.[34]

# Part 3: The "Renewed" Partnership (or the New Agenda for the Mediterranean)

This section will present the Renewed Partnership's (or the New Agenda for the Mediterranean) key economic provisions before delving into a critical review. Our main argument is that the RP enshrines the neoliberal model characterizing the economic and financial relations between the EU and SMCs to this day, exacerbating the phenomenon of "lumpen development."

## 3.1 The Key Provisions of the RP at an Economic Level

### 3.1.1 Economic Development Issues

Economic development issues were tackled in Action No. 2 of the critical policy areas titled "Strengthen resilience, build prosperity, and seize the digital transition." These actions aim to bring "support to inclusive, resilient, sustainable, and connected economies."

Economic resilience to shocks must remain a key priority "of the cooperation with SMCs,", especially in a context marked by the COVID-19 pandemic. The macroeconomic stability of SMCs must be a priority, providing them with "economic buffers against future shocks and addressing the balance of payment challenges, including unsustainable debt dynamics."[35] Improving the "business climate" is expected to "build the trust of local and international private sector operators, attract investors, and increase trade." However, the EU's support to SMCs is conditional on commitment "to the coherent and effective implementation of economic and governance reforms" in these areas."

To free the economic potential of SMCs from all constraints, the EU emphasizes trade and investment by "reducing non-tariff barriers and transaction costs." It also seeks to build on the existing network of Association Agreements and DCFTAs negotiations underway with Morocco and Tunisia "encompassing 'areas of investment facilitation, sustainable development, services, and, where relevant, agriculture, to better adapt them to today's challenges"[36] (European Commission, ibid).

In order to achieve these commitments, a series of action points were prioritized, most notably: "developing and supporting joint reform matrices focusing on the investment climate and the business environment"; "supporting initiatives to assist partners in attracting and retaining value chain diversification opportunities in selected sectors"; "supporting regulatory convergence in all transport areas... through Euro-Mediterranean transport projects."

The financing of this program is detailed in "An Economic and Investment Plan for the Southern Neighborhood," in which the EU proposes to mobilize "up to 7 billion euros under the Neighborhood, Development and International Cooperation Instrument (NDICI)." This financial support will serve as a lever to help mobilize "private and public investments of up to 30 billion euros in the Southern neighborhood."

### 3.1.2 Certain Positive Aspects of the Provisions

Undoubtedly, the RP includes some positive elements regarding developing small and medium-sized enterprises (SMEs) and the social economy. In particular, the EU intends to work with International Financial Institutions (IFIs) to develop a comprehensive approach to financial inclusion. It will include micro-finance, social enterprise finance, and new financial instruments, such as venture capital business angels and high-impact finance." Finally, we note the emphasis on research and innovation, mainly through participation in the Horizon Europe framework program.

## 3.2 Critical Analysis of Economic Provisions

Conceptually, the EU emphasizes the need to reinforce "the resilience of states and societies in the Mediterranean neighborhood against shocks," as articulated by the High Representative Federica Mogherini in her intervention before the European Council in Brussels in June 2016. She added that "it is in the best interest of our citizens to invest in the resilience of our eastern neighborhood's States and societies, reaching as far as Central Asia, and our Mediterranean neighborhood, all the way to Central Africa. Vulnerability beyond our borders threatens all our vital interests. Resilience, however, means that States and societies can implement reforms, withstand the internal and external crises they face, and recover from them. It is beneficial to us and the countries in our vicinity and builds solid foundations for sustainable development and dynamic societies. In addition, the EU, through partnerships, will promote resilience in its neighborhood. A resilient State is a safe State. Security is indispensable for prosperity and democracy, and vice versa."[37]

Two key observations can be made regarding such an approach. First, resilience is closely linked to the EU's security relative to its "peripheries," which must be "stabilized" to build supposedly sustainable development. Second, this approach is not aligned with the plan to conceive and implement structural transformation policies, particularly those advocating for the transformation of relations inside societies and internationally. "In fact, policies that are solely focused on resilience, namely preserving livelihoods and the operational integrity of systems, seem to limit concerned social segments to actions of resistance and adaptation, without offering them the opportunity to reflect on, or even understand, global processes of economic and social transformation, and to improve access conditions to basic goods and services."[38]

Another fashionable concept marketed by the EU is "inclusive growth" or "inclusive development," meaning a development that benefits everyone, particularly the poorest. Maïka Sondarjée issued an accurate criticism of this concept, intended to break from the Washington Consensus.[39]

The notion of inclusive development had been confirmed in official discourses through the efforts of the UNDP in particular. However, the researcher notes that the actions within Bretton Woods institutions (the World Bank and the IMF) did not change "the macroeconomic framework…it is similar to the economic framework defended by macroeconomic privatization, liberalization, and stability. We simply proceeded with marginal adjustments to establish a link with poverty."[40]

Moreover, civil society's implication in establishing and evaluating policies and its role as a beneficiary of capacity-building actions is highlighted without actually making it a key partner in the implementation process.[41]

The notion of "civil society participation" was never clearly defined. It may well favor social change or the critique of existing power structures. It may also become a means to ensure civil society's approval and legitimization of previously established policies.[42] The practices of development aid donors, such as IFIs, show that the concept of "civil society participation is often reduced to a series of methods and techniques that do not incur a real transfer of power." If local communities and civil society organizations were called upon to implement socioeconomic projects (for example, projects to combat poverty), the neoliberal macroeconomic framework does not have a participatory process in place and thus remains exclusive to central governments and funders. [43]

More importantly, the RP replicates the same neoliberal project it proposes to further develop through the negotiation of DCFTAs. As a result, considerations of liberalization, privatization, and macroeconomic stability continue to prevail in the EU's "cooperation" policy with SMCs despite their failure, as evidenced by the Arab revolutions of 2011. The limitations of DCFTAs shall be revisited in the last part of this study. We will note that the RP's insistence on respecting macroeconomic equilibrium contradicts the practices that the EU imposes upon itself to combat the health, economic, and social effects of the COVID-19 pandemic by adopting the so-called "Brussels Consensus."[44] In terms of macroeconomic policy, this new approach adopts an accommodative monetary policy led by the European Central Bank (ECB). It suspends the Maastricht Principles (limiting the public budget deficit to 3% and the public debt ratio to 60% of the GDP while ensuring that inflation rates do not exceed 2%). It eases the State assistance framework, allowing States to maximize their capacity to intervene in the economy. It also consists of a massive recovery and investment plan built around the European "Green Deal." It is a fundamental rift, restoring the State's position at the helm of the economy, far from the obsolete precepts of the Washington Consensus.[45]

## 3.3 Conditional Financing

The EU plans on closely engaging with international financial institutions to finance the Economic and Investment Plan for the Southern neighborhood. Implicating international institutions such as the IMF and the World Bank will impose new conditions on the beneficiary SMCs, particularly macroeconomic stabilization, privatization, and deregulation.

## 3.4 Ecological and Digital Transition Provisions

### 3.4.1 The Ecological Transition

Acknowledging the necessity to better prepare SMCs against future systematic shocks, the EU aims to support these countries in implementing the 2030 Sustainable Development Program and the Paris Climate Agreement. Four priorities were set. The first is a shift towards green growth by focusing on climate and environmental governance, supporting carbon pricing initiatives, administrative capacity and targeted technical assistance to implement and enforce legislation, and education and raising awareness. The second involves supporting the development of sustainable finance policies in partner countries. The third focuses on energy transition and security through "a massive deployment of renewable energy," a stronger interconnection of electricity networks, supporting energy efficiency efforts, and the focus on the efficient use of resources, protecting biodiversity and fighting pollution. The fourth relates to supporting sustainable food systems, focusing on food security.

-Positive Aspects of Ecological Transition Provisions
It is important to note that the EU's support could contribute to the advancement of several ecological transition policies implemented by SMCs, most notably the efforts to develop the renewable energies sector in countries like Morocco and Jordan. Moreover, the cooperation in biodiversity protection and the fight against pollution is worth highlighting, given the severity of the situation in SMCs (such as water stress, the depletion of fishing resources, and the pollution of the Mediterranean).

-The Limitations of Ecological Transition Provisions
The EU's cooperation propositions to facilitate the ecological transition of SMCs suffer from many limitations that risk diminishing their effectiveness. First, the EU prioritizes green growth to promote ecological growth in SMCs without questioning the relevance and significance of such a choice. However, the green growth concept does not question the global production and consumption model's economic quantitative growth maximization objective. The system is only based on using innovation ("green" energies such as wind or solar power will take over fossil energies and the combustion engine) to lift ecological constraints and continue economic growth ad infinitum! Nevertheless, it is precisely this model that caused the severe ecological crisis threatening our planet. It is already complicated to reconcile the sustainability of consumable goods in our societies with the demands of financial profitability, which we know all too well. It becomes even more complicated with the prevailing logic of competitiveness, which is not being questioned by what is presented as "green capitalism." [46]

Second, the issue of integrating ecological transition in trade agreements needs to be clarified. The current practice is limited to adding a chapter on "sustainable development," whose actual extent is limited. For example, the EU-Colombia/Peru or the EU-South Korea Free Trade Agreements (FTAs) are neither subject to FTA conflict resolution mechanisms nor related sanctions.[47] Furthermore, the mere mention of the Paris Agreement in cooperation propositions does not guarantee its provisions will be respected. This engagement could be limited to a simple signature by the EU partner country.

Third, there is no mention of the "gender" dimension and its importance in achieving the ecological transition. Men and women play different roles in managing natural resources. For example, men focus mainly on transforming resources into riches, while women generally focus on managing and preserving resources. Therefore, it is essential to target women and provide them with the necessary competencies to ensure proper environmental management.[48]

Fourth, the focus of the renewable energies development strategy on large investment projects did not succeed in attracting sustainable investments. Consequently, emphasis must be placed on micro, small, and medium-sized enterprises offering the best performance in creating employment and transferring technology and their capacity to reach remote and marginalized areas.[49]

### 3.4.2 The Digital Transition

1. Key Provisions
Under "Connected Economies," the RP text only dedicates one paragraph to digital transition in SMCs. European cooperation in support of digital transformation in these countries focuses its work around four pillars: "(i) governance, policy, and regulatory frameworks; (ii) developing infrastructure and supporting universal access to enhanced, affordable and secure networks; (iii) digital literacy, skills, and entrepreneurship; and (iv) digital services."

2. Areas Requiring Additional Attention
Two crucial dimensions must be taken into consideration. First, the impact of COVID-19 has illustrated the urgent need for SMCs to proceed with digital transformation. Consequently, the EU must support SMCs in designing and implementing a digital industrialization strategy built around digital infrastructure and the appropriate public data that could guarantee a robust, competitive, and inclusive digital economy, which would promote a variety of new digital commercial models. [50]
In addition, the appropriate EU financial assistance will contribute to alleviating the financial constraints facing SMCs in their endeavor to achieve digital transformation.

# Part 4: A Limited EU Contribution to the Fight against the COVID-19 Pandemic

## 4.1 COVID-19 Pandemic Related SMC Needs: Initiatives within the RP Framework

Like other countries across the globe, SMCs were affected by the COVID-19 pandemic, which left hundreds of thousands of infection cases and thousands of deaths. Furthermore, adopting restrictive measures to fight the pandemic caused significant health, economic, and social costs, forcing SMCs to cater to massive needs. The situation revealed the modest extent of the EU's support of SMCs.

## 4.1.1 The Costs of the Crisis

*- The Significance of the Pandemic*

Table 3 shows the significance of the COVID-19 health impact on SMCs. Infection cases were exceptionally high in Jordan, Lebanon, and Morocco. However, Egypt was relatively more affected, with a mortality rate of 5.73%.

**Table 3: COVID Statistics (South Mediterranean) (Updated 6/1/21)**

| | Total Number of Deaths | % | Total Number of Cases | Total Number of Cured Cases |
|---|---|---|---|---|
| Egypt | 15,268 | 5.73 | 266,350 | 195,072 |
| Jordan | 9,509 | 1.30 | 739,015 | 719,676 |
| Lebanon | 7,752 | 1.40 | 541,232 | 522,456 |
| Morocco | 9,159 | 1.80 | 520,769 | 508,570 |
| Tunisia | 12,902 | 3.70 | 352,303 | 309,126 |

Source: WHO, Eastern Mediterranean Regional Office

*-Health Costs*

The COVID-19 crisis exposed the vulnerability and unpreparedness of health systems in SMCs in case of a pandemic. Their human resources specializing in epidemiology and ability to prepare for and respond to emergencies are limited. According to Table 4, health-related expenditures of the six SMCs are below the global average (9.8%). Countries like Egypt and Morocco do not allocate more than 4.6% and 5.8% of their GDP for health-related expenditures. According to the Global Health Security Index, the region's countries are underperforming[51] (The World Bank, 2020. Trading Together: Reviving Middle East and North Africa Regional Integration in the Post-COVID Era, 2020).

**Table 4: Health System (SMCs) 2010-2018**

| | Physicians | Nurses and Midwives (per 10,000) | Hospital Beds | Health-related Expenditures (% of GDP 2016) |
|---|---|---|---|---|
| Algeria | 18.3 | 22 | 19 | 6.6 |
| Tunisia | 12.7 | 26 | 23 | 7 |
| Lebanon | 22.7 | 26 | 29 | 8 |
| Jordan | 23.4 | 34 | 14 | 5.5 |
| Egypt | 7.9 | 14 | 16 | 4.6 |
| Morocco | 7.3 | 11 | 11 | 5.8 |
| The World | 14.9 | 34 | 28 | 9.8 |

Source: WHO, Eastern Mediterranean Regional Office

In addition, most of the region's countries are still deprived of full-coverage public medical insurance. As a result, even households benefitting from medical insurance in countries like Egypt and Morocco still have to pay high medical fees, a primary concern during a pandemic[52] (The World Bank, ibid).

In order to halt the spread of the pandemic, SMCs were quick to take different restrictive measures, from announcing a state of health emergency and total or partial lockdowns to closing air and land borders, with social distancing or mandatory masks measures in between.

*-Economic Costs*

The COVID-19 crisis had a massive negative impact on SMC economies, which were already vulnerable due to austerity measures imposed on them following the global financial crisis in 2008. As a result, these economies faced a double shock affecting the supply (goods and services production) and demand (consumption and investment) levels. First, supply was affected by the decrease in the available workforce, mainly due to confinement measures that constricted mobility or infection with the virus. In addition, global value chain disruptions made it difficult to receive supplies, capital, and the intermediate goods necessary for production. Demand for incoming products and services, on the other hand, was negatively impacted due to economic issues all over the world and the disruption of global value chains. Internally, demand was disrupted due to confinement and restriction of movement, while uncertainty regarding the pandemic's evolution significantly reduced consumption and investment. As a result of this double shock, SMCs witnessed a major economic recession, except for Egypt. The sectors that suffered the most from the reduced GDP are petroleum, tourism, financial transactions by foreign workers, and export industries (specifically the textile and automobile industries, services, commerce, and transport). [53]

This economic recession took the form of higher fiscal deficits due to declining revenues following the decrease in domestic demand and the drop in petroleum prices and governmental support measures to mitigate the effects of the health crisis.[54] The most significant fiscal deficits were registered in Algeria (-15.8%), Lebanon (-14.5%), and Egypt and Jordan (-8.2%). The current account balance also deteriorated following the decrease in revenues from petroleum exports, tourism, and export industries (mainly the textile and automobile industries). According to World Bank estimates, the impacted countries were Algeria (-13.4%), Morocco (-9.9%), and Jordan (7.5%).[55]

To mitigate the economic cost of the crisis, SMCs implemented different monetary and budgetary measures (fiscal policy), most notably:

- A fiscal policy: - non-payment or deferred payment of rent or property taxes (Egypt and Lebanon); - postponement or waiver of reporting obligations and payment of certain taxes (Algeria, Egypt, Lebanon); - Suspension or reduction of different duties and penalties due to the State (Algeria, Lebanon, Tunisia); - revalorization and/or increasing unemployment benefits (Algeria, Jordan, Morocco); - increasing monetary transactions for low-income households (all SMCs); - providing subsidized loans for SMEs, enterprises in severely affected sectors, and low-income households (Egypt, Tunisia);
- Monetary Policy: - reducing interest rates (Algeria, Egypt, Jordan, Morocco, Tunisia); - injecting liquidity into the banking system (Jordan, Morocco, Tunisia); - diversifying loan instruments, mainly by reducing reserve requirements and extending deadlines (Algeria, Jordan, Lebanon, Morocco). [56]

*-Social Costs*

- Employment: due to confinement and reduced economic activity, we witnessed a decrease in working hours and an increase in unemployment rates, particularly amongst the youth in Morocco (almost 32%), Tunisia (36.5%), and Jordan (55%) during the last quarter of 2020.[57] Job loss is higher in "at-risk" sectors such as hotels and restaurants, manufacturing industries, retail businesses, and administrative activities.[58] These losses are even worse in the informal

sector. It is estimated that 89% of workers in the Arab world have suffered from confinement measures.[59] Women seemed to have been more exposed to layoffs due to the increased work in home-based care resulting from the pandemic.[60] A more significant drop in revenues was registered due to the weakness and inefficiency of financial safety nets.[61]
The situation seems to have slightly improved in Tunisia and Morocco recently, particularly for men, following the relative resumption of economic activity in these two countries.[62]

***Exacerbation of Poverty**
Poverty could become worse due to the spread of the pandemic for at least two reasons. First, the poor are more likely to be infected with the virus due to pre-existent health issues, crowded living environments, and more difficult access to water and soap. Second, many poor people work in informal sector jobs heavily impacted by the pandemic, worsening their already unstable living conditions. For example, 44% of poor households in Morocco declared that they no longer have an income due to the imposed confinement measures, while this percentage does not exceed 12.3% for “managers.”[63]

Women are more affected by the deterioration of living conditions, considering that they represent 62% of informal sector workers in the Arab World and are in charge of non-remunerated care within the household. [64]

Due to the deterioration of social conditions, authorities in SMCs took measures to mitigate the impact of COVID-19 on disadvantaged population groups. In that respect, the Tunisian government provided monetary transfers for the poorest categories and allocated financial aid for employees and workers suffering from technical unemployment. Similarly, bank loan due dates were postponed for low-income employees, and decisions to cut-off utilities such as electricity, gas, and telephone in case of unpaid bills were suspended.[65]

Such emergency measures would not be enough in case the spread of the pandemic does not slow down significantly and in the absence of the appropriate conditions for true economic and social recovery.

### 4.1.2 The Needs of SMCs Concerning the Pandemic

The priority is to stop the spread of the pandemic as soon as possible by prioritizing the vaccination of at-risk populations and providing adequate medical treatment to everyone without exception. This situation could improve the prospects of resuming economic activity, with growth projections for 2021 for early vaccinating countries on the rise again compared to October.[66]

In parallel, the crisis showed the crucial need for robust and resilient public health systems, away from the austerity and privatization policies imposed by international financial institutions and regional “development” banks in the past decades. Instead, emphasis must be put on investment in infrastructure, utilities, human resources, and prevention. It is the only way to ensure the right to health for everyone and to guarantee that SMCs will be able to forestall and address pandemics in the future.

*-Economic Needs*
Beyond emergency measures, SMCs need to address the medium-to-long-term effects on the economic and social fabric. They will need more maneuvering space for their budgets (budgetary policy space) to finance an economic and social recovery plan. This can be done by assessing the financial needs that must be met for a successful economic and social recovery and making a development paradigm shift away from neoliberal policies implemented by these countries.

Financial efforts in the Arab world to mitigate the pandemic's impact remain modest today. Recovery plans in all Arab countries only cost 102 billion US dollars, barely 1% of the global amount pledged by governments across the world. The recovery plan for the Arab region amounts to about 4% of the region's overall GDP, less than half of the global average (11% of the GDP).[67] SMC countries like Morocco, Tunisia, and Egypt allocated 3%, 2.2%, and 1.2% of their GDP for their respective recovery plans.[68]

Under these conditions, loosening the financial grip becomes an urgent necessity. It is in the best interest of the EU to contribute to this plan. An estimation was made of the minimum financial efforts the three countries in the Maghreb need to make.[69] This study puts forward modest hypotheses regarding economic and social recovery (financing an additional recovery plan capable of replacing part of the losses in revenues and investment) while focusing on absorbing the surplus of current and public deficits incurred during the crisis in 2020/2021. The estimations show financing needs amounting to 13.2% to 22.3% of Tunisia's GDP (the difference in percentages is due to the scenarios adopted with regard to the increase of deficits, the scale of the investment plan, as well as the estimated cost for the fight against poverty), compared to 5.8% to 10% of Morocco's GDP. This exercise is solely designed to explain the extent of the financial needs resulting from the pandemic in SMCs. These needs will be much greater if we assume that there will be a shift away from the existing neoliberal growth model.

*-Social Needs*

In the short term, it is crucial to maintain emergency aid provided for social groups with limited resources and refugees. In addition, economic and social recovery plans must address disparities in income and wealth, health, education, and decent housing in the broader implementation framework of the 2030 Sustainable Development Goals. Special attention must be given to gender equality and combatting discrimination against women.

***-Needs in terms of Democratic Governance and Defending Human Rights***

The COVID-19 pandemic cannot be successfully overcome without eradicating despotic and undemocratic practices (corruption, bureaucracy, nepotism, lack of transparency, and accountability), which have free reign in SMCs. Furthermore, mistrust in these countries' political classes and institutions significantly reduced their capacities to take on the challenges posed by the SDGs, which are in the best interest of their populations. Thus, the opportunities emerging in the post-COVID-19 period must be seized to reinforce social cohesion by respecting human rights, the rule of law, and participative, citizen-based democracy.

### 4.1.3 The EU's Modest Support to SMCs

To support SMCs and alleviate the impact of COVID-19, the EU merely reallocated existing financial resources destined for financing cooperation with these countries. As a result, the aid provided to SMCs in 2020 reached a total of 2.3 billion euros, of which a large sum was in the form of grants. The remaining amount was provided in the form of loans with interest concessions.

These funds cover immediate needs (96.6 million euros), support for the health sector (966.6 million euros), and short- and medium-term support for socioeconomic recovery (1.3 billion euros).[70]

The response to health needs is implemented on a regional and local level. On a regional level, it includes providing technical support to the Southern neighborhood countries and EU membership applicant countries from the European Centre for Disease Prevention and Control (ECDC) to improve their preparedness and capacities in response to crises. On a national level, resources dedicated to cooperation related to national healthcare systems (particularly in Lebanon, Jordan, Morocco, Tunisia, and Egypt) were reallocated to provide emergency care and medical equipment and training and technical assistance in hospitals. Refugees and IDPs also benefitted from European funds.

In terms of socioeconomic support, it mainly consists of providing financial support to SMEs and direct assistance to the budgets of partner countries.

### 4.1.4 Partnership Limitations Regarding the Fight against the Pandemic


EU-SMCs cooperation in the fight against COVID-19 elicits several remarks. First, the EU merely reallocated pre-COVID financial resources that are pretty modest compared to the needs of SMCs. In addition, the EU showed a lack of solidarity by limiting the beneficiaries of the European recovery plan funds (750 billion euros) to member States, disregarding the massive needs of the "Mediterranean neighborhood" countries with their limited budgetary space. In these difficult times, a more effective engagement vis-à-vis SMCs would represent a safety guarantee for the EU against illegal immigration, terrorist-related risks, and social and political upheavals.

Finally, like other wealthy countries, the EU demonstrated a certain level of narrow vaccine nationalism. It monopolized COVID-19 vaccine stocks, which are not destined for at-risk groups. It refused to waive property rights and patents necessary to produce the vaccine (the European Commission favors a multilateral agreement calling for the removal of restrictions on the exportation of the vaccine and its components).[71] However, this form of nationalism will have little to no impact because "if there are not enough vaccines, infections will rise, and every new case will enable the virus to continue its mutation. In other words, new variants of the virus could emerge, different enough from the initial virus to make the vaccine ineffective. If these new variants were to spread on a larger scale, vaccinated people could be infected again, fall severely ill, or die." [72]

# Part 5: Lessons Learned from Current DCFTA Negotiations:

## 5.1 Morocco and Tunisia Cannot Accept the DCFTA proposed by the EU in its current form due to the biased negotiation process and economic and social risks

### 5.1.1 Main Provisions of the DCFTA

DCFTAs are part of the so-called "New Generation" of Free Trade Agreements intended to go beyond reducing/eliminating customs tariffs to achieve the "deep" and gradual integration of these two Maghreb countries in the European market. It would be through harmonizing rules and regulations relevant to organizing production, trade, and establishing foreign enterprises in the concerned country. More accurately, the liberalization process must revolve around the Singapore Issues in terms of facilitating trade, competition rules, public markets, intellectual property, and protection of foreign investors. At the judicial level, the DCFTA is a bilateral treaty between the EU and the long-standing State trading partner.[73]

### 5.1.2 A Rationale Serving European Private Interests (the Monopoly of the Few) Above All

The economic rationale is elaborated in the document titled "Global Europe – Competing in the World."[74] By concluding a new generation of trade agreements, "Global Europe" seeks to provide its enterprises (the monopoly of the few that control the main economic, trade, and financial sectors inside the EU) with access opportunities to external markets by:

- Reducing non-tariff barriers (known as "behind the border" barriers) hindering access to foreign markets: The EU aims to include "priority consultation rights for European enterprises on new regulations that "target" countries could introduce.[75]
- Unimpeded access to natural resources, particularly energy resources, and lifting restrictions in a way that guarantees the access of European enterprises to resources.
- New growth areas: the EU considers intellectual property rights (IPRs), services, investment, internal markets, and competition as areas requiring more aggressive action in the future.

Global Europe's communication shows a clear bias in favor of a European monopoly of the few. It emphasizes that "the more our practices and regulations are aligned with our key partners, the more they benefit European private interests."[76]

Through this "deep integration," the EU seems to be placing its bet on large European capital seizing the opportunity to circulate its products unimpeded between SMCs and Europe and the possibility of exploiting cheap labor. In this regard, it seems similar to the North American Free Trade Agreement (NAFTA), which gave an advantage to US multinationals to expand and organize their production across the continent. Consequently, the EU will be able to expand the scope of its "structural grip" on Southern Mediterranean economies.

## 5.2 An Impeded Process

*-Faltering Negotiations*
In Tunisia, DCFTA negotiations ended in a stalemate following four rounds of unfruitful negotiations. The Objective Management Unit (UGPO) that steers the institutional and negotiation process reached the end of its five-year mandate. A stern resistance to the European offer was noticeable, particularly from civil society, the Tunisian General Labor Union (UGTT), free professions (mainly lawyers), farmers, and SMEs. In addition, the lack of transparency and citizen participation added distrust and skepticism regarding the economic and social benefits of DCFTAs in Tunisia.

In Morocco, EU ambassador Clara Wiedey recently acknowledged the stalling of DCFTA negotiations, declaring that "the DCFTA negotiations, launched in March 2015, have been in a stalemate since 2015. Nevertheless, a political agreement was concluded in 2019 to relaunch the negotiations to expand the free trade zone to include new sectors such as service sectors and investment and to pursue regulatory approximation for priority sectors chosen in agreement by both parties. [...] I believe an analysis must be conducted to identify and understand the reasons behind the current deadlock."[77]

The Moroccan government has put the negotiations on standby as it was not convinced by the impact study conducted by the London-based research and consulting company Ecorys, which had projected that Morocco would be the "big winner" of the DCFTA implementation. Furthermore, the agriculture section of the Association Agreement was also called into question by the Court of Justice of the European Union, also benefitting the Saharan provinces of Morocco (The Polisario front, supported by Algeria, does not consider the Southern Saharan provinces as part of Morocco). As a result, Morocco suspended political dialogue with the EU between 2015 and 2019. Finally, it should be noted that, unlike in Tunisia, where the DCFTA scope and impact triggered a public debate, the Moroccan authorities and the EU imposed a total blackout on the negotiations, which involved the private sector but excluded civil society and social actors.

*-A Biased and Undemocratic Process*
First, the EU is looking to exert influence on the course of the negotiations by financing and organizing the training of the DCFTA Tunisian negotiation team members (according to writer and researcher Haythem Guesmi, "the EU is financing and organizing the training of the DCFTA Tunisian negotiation team members").[78] Tunisian negotiators were taken on a "trip" to understand "European regulations, laws and practices,"[79] which totally contradicts the nature of negotiations between sovereign and independent parties.

Furthermore, the negotiation process should include representative institutions rather than providing only one alternative (either accepting or refusing the DCFTA project as a whole), especially when it subjects the future of the economy and society in SMCs to real risks we shall see.

## 5.3 DCFTA Acceptance Risks on SMCs

With different impact studies struggling to uncover the advantages of DCFTAs for Morocco and Tunisia,[80] this study aims to highlight specific strategic issues that could further jeopardize the future of SMCs and exacerbate their dependence on the EU.[81]

**Increased (Unequal) Peripheral Integration and the Rise of Lumpen Development

According to DCFTA advocates, it is intended to boost economic growth and job creation through broader integration within global supply chains,[82] mainly through trade facilitation measures and the protection of foreign investors. However, a highly concentrated number of multinationals (mostly oligopolists) often control upstream (access to technology and innovation, protected through the WTO's TRIPS agreement) and downstream (access to markets and consumers in the Triad countries) operations. In other words, there is an imbalance of power between these multinational companies and their Southern Mediterranean providers. Thus, the largest share of value-added created by these chains is monopolized at the expense of these countries' workers. An ideal example of these dysfunctions is the food industry's global value chains, controlled by around ten major brands in Europe. These brands impose their conditions on thousands of providers in SMCs, thus monopolizing the largest share of value-added created at the expense of small and medium-sized farmers and thousands of precarious workers (for more examples, see OXFAM's studies on the subject). On the other hand, a few examples of integration within these chains had benefitted the workers, thanks to unions. The latter, however, are being weakened and impeded by labor market flexibility.[83]

Similarly, it is doubtful for a country that merely responds to the attacks of globalized large corporations dominating the global value chains to succeed in building local production capacities capable of ensuring quality economic growth and development that benefit the classes making up most of its population.

*- Cancelling Prospects of Food Sovereignty*
The liberalization of agricultural trade between SMCs and the EU will be in the best interests of agribusiness. For example, the EU is looking to dispose of its excess agricultural production (dairy products, meats, cereals), particularly in the Tunisian market. It wants to expand its

market in return for Tunisian olive oil, a flagship product generating the largest revenues in the agricultural sector. Accepting the European offer within the DCFTA framework is expected to lead to two major consequences. First, it will reinforce Tunisia's specialization in faintly lucrative, bulk olive oil exportation (barely 3 to 4 euros per liter, while packaged olive oil yields around 30 euros per liter). Meager profits and job creation prospects thus risk becoming higher. [84]

Ultimately, this choice would lead Tunisia to forsake the production of cereals and other field crops, farming cattle, and other dairy products for export-oriented agriculture (fruits, vegetables, and olive oil) and relevant agri-food industries, thus threatening the food sovereignty and socio-political equilibrium of rural communities. Additionally, "the Tunisian Union of Agriculture and Fisheries (UTAP) confirms that 250,000 Tunisian farmers could go bankrupt if the DCFTA were ever implemented."[85]

*-Reduced Policy Space for True Development*
The notion of policy space refers to the simple yet fundamental idea of every country having "the freedom and flexibility to choose the policies it believes will enable it to grow, reduce poverty rates, and raise the living standards of its people."[86] In that sense, the diversity of development strategies and policies is crucial. It goes against the "one size fits all" formula pursued by international financial institutions, multilateral "development" banks (EIB and EBRD in particular), and the EU. The content and rationale of the DCFTAs the EU is trying to "sell" to SMCs threatens to significantly reduce any chance of independent and sovereign adoption of development strategies intended to fulfill their populations' basic needs, which is evident on at least three levels:

First, the fact that SMCs should align their competition legislation (the famed anti-trust laws) with European practices could harm industrial development imperatives, encouraging or constraining competition with respect to the industry and its development. For example, "the development of Eastern Asian countries relies fundamentally on the State's intervention, which regulates competition, defines outcome requirements, and adopts several other industrial policy measures."[87]

Second, the EU aims to acquire the same right to access public markets in SMCs as local enterprises. However, opening public markets to European companies is fraught with consequences for SMCs. For example, they will not be allowed to use this public policy instrument as a lever to encourage the development of internal production capacities by implementing national privileges or reserving quotas for local SMEs. Similarly, confrontation with highly competitive European enterprises could annihilate an entire aspect of the national economic fabric (including public sector enterprises) and harm employment. Moreover, the EU is trying to benefit from the same advantages of intellectual property protection as those awarded by certain SMCs (Morocco and Jordan) to the United States under the guise of "TRIPS-plus rules" (extending patent protection from 20 to 25 years as per the WTO TRIPS). These advantages mainly benefit European pharmaceutical companies (data exclusivity, reinforcement of intellectual property protection measures, extension of the term of patent) and reinforce the market power of European companies. They will make access to medicine more expensive and generic medicine production more difficult, similar to the situation in Jordan after the US-Jordan FTA entered into force.[88]

Finally, the EU is trying to reinforce the position of European companies by negotiating the inclusion of a dispute resolution mechanism in the DCFTA between investors and SMCs. Through this mechanism, a foreign investor could challenge these States in a court of exceptional jurisdiction (arbitration tribunal) in case clauses such as "fair and equitable treatment" or "indirect expropriation" are not respected. However, in addition to restricting the capacity of States to regulate investments according to the national interest, this mechanism could cost SMCs dearly in case of compensation that unfairly favors the investors.

# Part 6: Conclusion and Recommendations

## 6.1 Conclusion

The analysis conducted in this paper indicates that the EU trade and investment policies within the framework of its relations with SMCs did not keep the promises made concerning turning the Mediterranean into a shared area of peace and prosperity. On the contrary, we have witnessed the rise of "lumpen development" in the guise of modest economic growth coupled with the digitization of large segments of society and the expansion of vulnerability and social exclusion, far from the promises of converging living standards between the EU and SMCs.

The Renewed Partnership proposed by the EU to SMCs does not seem to be an exception to the rule. This Mediterranean Agenda simply rehashes the same neoliberal choices (DCFTA, prioritizing the private sector and macroeconomic stabilization). Moreover, the use of new concepts such as the resilience of SMCs and their societies masks the unwillingness of the technocracy running the EU from Brussels to consider the international and internal power issues and dynamics hindering the true development of SMCs. In that regard, the "new trade policy" promised by the Renewed Partnership serves, above all, the economic and financial interests of the EU, which aims to reinforce its "structural grip" on Southern Mediterranean economies.

However, the COVID-19 pandemic and its impact on the EU and SMCs is an opportunity to adopt a new approach to cooperation. This paper highlights the massive needs of SMCs and the EU's interest in contributing to their fulfillment.

## 6.2 Recommendations

*-General Principles*

- Reshaping the EU-SMCs relations and founding them on the values of democracy, social and environmental justice, and solidarity instead of free trade, the unrestrained pursuit of profit, and competition. The partnership must be based on the promotion and defense of human, political, economic, social, and cultural rights.
- Ending the "Resilience of States and societies" approach that destroys all hope to design and implement economic and social transformation policies, particularly those advocating for the transformation of social and international relations.

*-The Trade Policy*

- General principle: turning organized trade into a tool instead of an objective in and of itself.
- Prioritizing local production capacity-building instead of trade, whereby only one efficient, productive fabric would allow for better integration into the global economy.
- Trade agreements:
  1- Ceasing all DCFTA negotiations between SMCs (Morocco and Tunisia) due to the lack of citizen and democratic monitoring and public debate regarding the ongoing negotiations.
  2- (Ex post) Participative and transparent evaluation of the Euromed and ENP impact on SMCs, particularly economic and social rights and gender equality.
  3- Conducting an impact study ex-ante of the DCFTA on human rights while integrating the outcomes of constricting the policy space available for SMCs.
  4- Removing all restrictions on unorthodox development policies that have proven their capacity to promote dynamic economic and social development. In this context, the EU must provide SMCs with the necessary policy space and flexibility to implement effective

industrial, trade, and commercial investment policies to ensure the development of local production capacities aimed primarily at fulfilling basic needs, food sovereignty, and ecological and digital transition.

5- Excluding agriculture from DCFTA negotiations.

6- Reviewing bilateral investment treaties as they reach their expiration date to remove the Investor-State arbitration clause and the unfair privileges awarded to investors.

Opting for macroeconomic choices that favor development (Using the Brussels Consensus as a reference).

-*Ecological and Digital Transition*

- Separating the ecological transition from economic growth maximization while privileging quality growth (i.e., revolving around basic needs instead of consumerist production models and prevalent tendencies based on wasting natural resources and undermining biodiversity).
- Providing significant support to SMCs in their aim to ensure consistency between the different public policies and their adequate implementation.
- Shifting focus from sizeable renewable energy projects to decentralization and decentralized production of clean energy and high-performing SMEs in terms of job creation, technology transfer, and their capacity to reach remote and marginalized areas. This support would consist of incentives, expertise, and appropriate financing mechanisms.
- Integrating a cross-sectional "gender" approach in all policies and programs aimed at achieving ecological transition.
- Digital transition:
  - Providing adequate financing on par with digital challenges.
  - Providing specific support to the digital industrialization of SMCs.

-*COVID-19*

- Ensuring that SMCs benefit from the European recovery plan.
- Prioritizing effective public healthcare systems (hospital infrastructure, detection and storage capacities, medical equipment, increasing and motivating medical staff, training).
- Suspending patent protection for COVID-19 vaccines and sharing excess stock with SMCs.
- Ensuring that cooperation with SMCs prioritizes the generalization of social security. The EU must ensure that a portion of the aid provided goes to NGOs advocating for gender equality and women's rights.

-Civil Society:

- Supporting the emergence of an independent civil society that promotes economic and social rights and gender equality in SMCs.
- Closely involving civil society organizations in SMCs in every EU initiative related to trade and investment cooperation, mainly bilateral trade agreements.

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# CHAPTER 2:

## Impact of Agricultural Policies on Food Security in the Arab Region

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## Introduction

Several obstacles and constraints stand in the way of sustaining food security (the ability of members of society to receive adequate food required for their activity and health) and achieving food justice for all in the Arab region. According to FAO (FAO 2014), countries of the Middle East and North Africa are in a critical position in relation to food insecurity, with little progress in this area.


The situation in the region has worsened. Despite a worldwide decline, the proportion of people suffering from malnutrition rose from 6.6% in 1990 to 7.7% in 2014. Food insecurity in the Arab region results from several factors. Their land and water resources are limited, and they suffer from climate change, low productivity, demographic growth, urbanization, unemployment, poverty, war, instability, and excessive reliance on food imports. At least some factors could be traced to economic and agricultural policies' contribution to food insecurity. The 2007-2008 and 2011-2012 food crises and the 2008 global financial crisis impacted the economic and social situation in many Arab countries. They were followed by the outbreak of Arab revolutions in 2011.

This paper highlights the contribution of agricultural policies adopted by Arab countries since the 1950s to the deterioration of food security and increased dependency on the global capital market. It focuses on the negative impact of agricultural structural adjustment and liberalization of agricultural trade policy. The first chapter will review some of the data that highlight food insecurity and the development of food dependency. The second chapter will present the key features of agricultural policies (i.e., agricultural measures, legislation, and laws adopted by the state to achieve specific objectives contained in agricultural plans) that characterized the Arab region between the 1950s and the end of the 1970s. These policies were based on adopting the neoliberal model, promoting trade, and broad integration in the global capital market to ensure food security (Chapters III and IV). The fifth and final chapter will focus on the dangers entailed in neoliberal agricultural policies. It will review the effects of the global food crisis on the Arab region while anticipating the adoption of food sovereignty as an alternative to guaranteeing the right to food for all its citizens.

## Part 1: Food Security Scope and Characteristics in the Arab Region

Food insecurity (i.e., the shortage or deficit in average food per capita determined by global health organizations) is reflected by several indicators. First, the Arab region faces a food crisis where the number of people suffering from hunger rose from 16.5 million between 1990 and 1992 to 33 million in 2015.

Second, seven out of the top ten countries globally receiving humanitarian aid are in the Arab region. Eight Arab countries received a total of 9.5 billion dollars in 2016, according to IRIN News (IRIN 2016). It could be attributed to the spread of wars in the region and the resulting displacement and disruption of agricultural production, leading to a significant deterioration in food supply levels. The third indicator is that the Arab region is one of the most food-insecure due to its significant food deficit, measured by the food gap (the difference between domestic production and imports), which reached $33.8 billion in 2015, while the average gap between 2001 and 2015 was about $3.8 billion.[1] The gap in the cereal group accounts for 71.2% of the total food gap in 2015, with wheat ranking first in terms of importance in the cereal list, representing about 44.0% of the grain gap and about 31.4% of the total value of the food gap (Figure 1, Arab Monetary Fund, Consolidated Arab Eco-nomic Report 2017). It is important to note that Arab countries are among the largest wheat importers globally (See Table 1).

**Figure 1: Evolution of the total value of the food gap in the Arab region (Billion USD)**

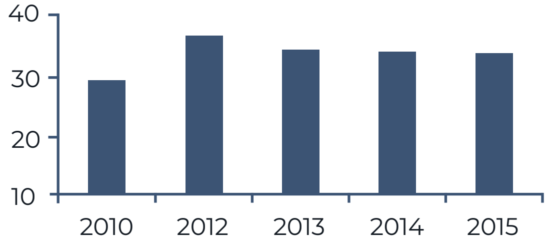
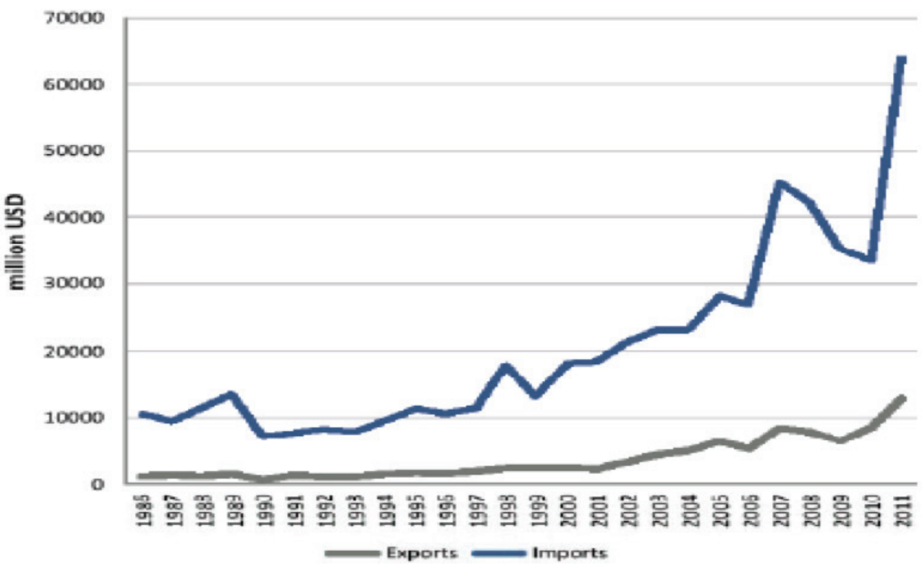



**Table No. 1: The world's 30 largest importers of wheat (2019), in 1000 tons**

| | |
|---|---|
| Indonesia | 10962.2 |
| Egypt | 10424.4 |
| Turkey | 10004.8 |
| Italia | 7474.4 |
| The Philippines | 7153.7 |
| Algeria | 6775.9 |
| Brazil | 6576.3 |
| Japan | 5331.4 |
| Spain | 5292.7 |
| Holland | 5266.2 |
| Mexico | 4804.4 |
| Nigeria | 4660.3 |
| Bangladesh | 4595.1 |
| China | 4559.2 |
| Belgium | 3876.1 |
| Morocco | 3844.8 |
| The Republic of Korea | 3746 |
| Germany | 3191 |
| Vietnam | 2760 |
| Tiland | 2698.1 |
| Uzbekistan | 2186 |
| Sudan | 2133.9 |
| Peru | 2011.1 |
| Kenya | 1998.8 |
| Yemen | 1997.8 |
| Tunisia | 1849 |
| South Africa | 1826.5 |
| Malaysia | 1385.9 |
| Portugal | 1360.9 |

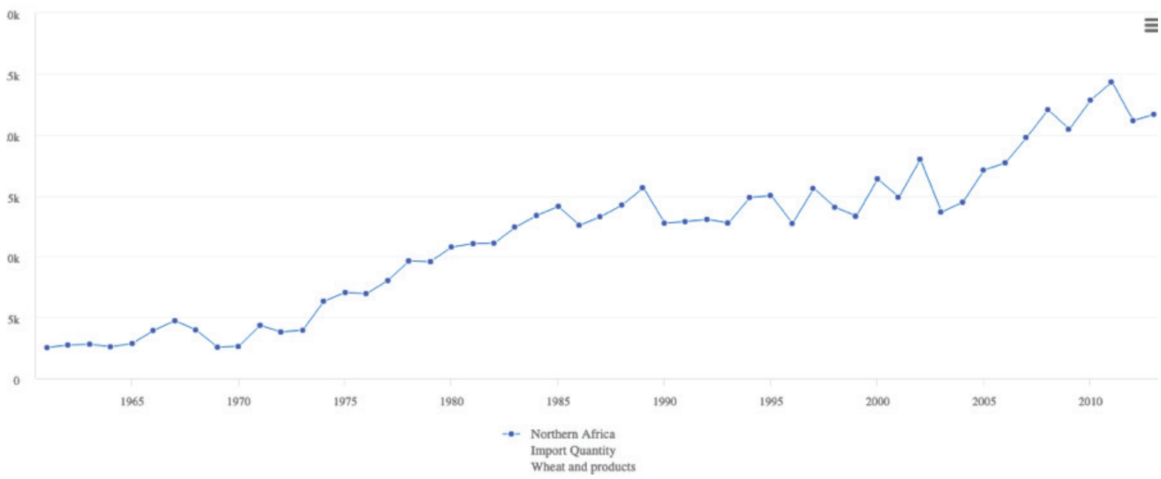
On the other hand, despite the relative improvement in domestic food production, which rose by 4.3% annually from 1994 to 2014, it was not enough to abate the worsening of the food trade deficit (the difference between exports and imports) in the Arab region. Imports grew at an unprecedented rate during the first decade of the current century in connection with the global food crisis 2006-2007 and 2011, compared to a modest growth rate in exports (Figure 2).

**Figure 2: The Middle East and North Africa's rising trade deficit for food and agricultural products (FAO,2015)**




Source: FAO

**Figure 3: Increase in North Africa's grain imports (1000 tons)**




Source: FAOSTAT

Table 2 shows the structural and chronic nature of food security dependency in the Arab Countries, where the overall agricultural trade balance deficit increased by 175% between 2000 and 2019. However, this deficit almost stabilized between 2010 and 2019.

**Table 2: Evolution of the net agricultural balance of Arab countries (millions of Dollars)**

| 2019 | 2010 | 2000 | Country |
|---|---|---|---|
| -7341 | -5407 | -2399 | Algeria |
| -9558 | -7981 | -2560 | Egypt |
| -8472 | -6048 | -1861 | Iraq |
| -2390 | -1235 | -486 | Jordan |
| -3899 | -2087 | -1109 | Kuwait |
| -2235 | -1895 | -815 | Lebanon |
| -2624 | -2018 | -1006 | Libya |
| -558 | -301 | -136 | Mauritania |
| -707 | -1662 | -793 | Morocco |
| -3010 | -1472 | -407 | Oman |
| -2832 | -1790 | -346 | Qatar |
| -15075 | -12285 | -4428 | KSA |
| -370 | | | Sudan |
| -1199 | -865 | -373 | Syria |
| -604 | -737 | -186 | Tunisia |
| -7050 | -6952 | -1722 | UAE |
| -2274 | -2357 | -683 | Yemen |
| -53284 | -55092 | -19310 | TOTAL |

Source: FAOSTAT

This food dependency entails exacerbating "food security risks" (the extent of the country's financial potential to sustain food security) in the Arab region. The food security risk index ranged between 9.8% and 5.9% in that decade. However, it does not reflect the region's divergent economic and financial conditions, where rent-earning Arab countries are side-by-side with less developed countries. The calculation of this indicator at the level of Arab groups according to average income is higher in low-income countries. It ranges between 26.9% and 19.0% compared to 3.5% and 5.8% for high-income countries, indicating a worsening food security risk in the less developed countries. The number of undernourished people in the Arab region also increased, particularly in low-income countries (Salem Tawfiq Al-Najafi 2013). In 2015, the self-sufficiency index declined to 45.6% (Arab Organization for Agricultural Development, Food Security Situation 2015).

Finally, it should be noted that wars and conflicts in the Arab region negatively impact food security, especially in Yemen, Sudan, Iraq, Syria, the West Bank, and Gaza (Tables 3 and 4).

**Table 3: Food insecurity in war and conflict countries**

| | Yemen | Sudan | Iraq | West Bank | Gaza |
|---|---|---|---|---|---|
| Population(millions) | 23 | 41 | 29 | 2.5 | 1.5 |
| Food insecure (millions) | 10 | 11 | 6.4 | 0.4 | 0.3 |
| Food insecure % Population | 43 | 27 | 2.2 | 16 | 20 |

**Table 4: Number of undernourished people in the MENA region and sub-regions, 2004/2006-2015/2017 (million)**

| | 2004-06 | 2006-08 | 2008-10 | 2010-12 | 2011-13 | 2012-14 | 2013-15 | 2014-16 | 2015-17 |
|---|---|---|---|---|---|---|---|---|---|
| MENA Total | 41.6 | 42.6 | 43.1 | 44.9 | 44.7 | 46.1 | 47.9 | 50.0 | 52.0 |
| MENA Subregions | | | | | | | | | |
| Conflict Countries | 24.1 | 25.0 | 25.8 | 28.2 | 28.2 | 29.5 | 31.1 | 32.6 | 33.9 |
| Non Conflict Countries | 17.4 | 17.6 | 17.3 | 16.7 | 16.5 | 16.6 | 16.8 | 17.4 | 18.0 |

Source: FAO, 2018, Near East and North Africa - Regional Overview on the State of Food Security and Nutrition, Cairo, 2019.

# Part 2: Key Features and Shortcomings in Self-Sufficiency Policies (1980-1950)

Two basic considerations govern the nature of agricultural policies adopted by many Arab countries between the 1950s and the 1980s, namely the geopolitical factor, the nature of the state's political structure, and the character of the social forces controlling it. The first factor is the risk of dependence on the outside to meet society's food needs in the context of global conflicts and fluctuations. Arab countries had been prompted several times to seek self-sufficiency through local production of basic food commodities due to the interruption of supplies from the outbreak of the first and second world wars, to the United States' threats to stop supplying Arab countries with basic foodstuffs as a reaction OPEC's oil export embargo on the West in the early 1970s, to its use as a weapon to put pressure on wheat-importing countries. This option led to the adoption of agricultural policies in which the state intervenes to stimulate domestic production to meet growing demand due to population growth. On the other, Arab countries were divided into two economic categories: "socialist" and "liberal," reflected in the content of agricultural policies they applied. However, this policy divergence will have limited results in terms of self-sufficiency.

## 2.1 Agricultural policies of a "socialist" nature

(This section relies mainly on the valuable contributions of Muna Rahma, 2013 and Ruqaya Al-Jabouri, 2012).

Arab countries that went through political revolutions (Egypt, Iraq, Syria, and Algeria) adopted a "socialist" approach that soon became a form of authoritarian state capitalism. These reforms included the distribution of large monopolies controlled by a few landlords to poor farmers to provide for the livelihood of peasants. Price control policies were also implemented (adopting a protectionist trade policy to encourage domestic production, supporting production inputs such as fertilizers, pesticides, seeds, feed, and fuel, for example). Priority was given to major irrigation projects, especially dams. The Egyptian state promoted agricultural cooperatives in the countryside, nationalized trade in cotton, and encouraged a cooperative market for crops. It controlled production decisions, crop composition, product pricing, the incentives system, the consequent policies of direct and indirect support for production, collective

marketing decisions for products, and compulsory supply quotas that farmers had to supply at low prices. Thus, the state took control over the various stages of agriculture, from production to consumption to export to marketing, distribution, and manufacturing.

However, these "agrarian reforms" were limited to land tenure distribution. They did not include the reorganization of agricultural operations to achieve productive efficiency and maximize food production. Thus, they could not minimize the risk of food insecurity in the region. The only exception was in the Egyptian experiment, which adopted an approach of gathering parcels within agricultural cycles, helping overcome the problems of tenure fragmentation in the agricultural sector (Salem Tawfik Al-Najafi, 2013).

Thus, it was no surprise that these "socialist" experiments failed to achieve social and economic progress. The agricultural sector was far from economic efficiency and intensification of production, mainly due to the administrative problems faced by state farms and agricultural cooperatives, the lack of trained and specialist organizers, and bureaucratic procedures. Another reason for the decline in agricultural production was the low government pricing of crops, which was biased towards urban consumers and focused on maintaining their purchasing power at the expense of farmers. These problems resulted in the failure of adopted agricultural policies to bridge the gap between the demand for food and domestic production. The four models of agricultural reforms show that demand is much higher than the increase in production.

## 2.2 Agricultural policies of a "liberal" nature

Agricultural policies adopted by liberal or semi-liberal regimes provide simple guidelines to restructure the existing infrastructure in the right direction. Liberal agriculture reforms consist of a range of government interventions aimed at gradual and convincing agricultural reform, including the provision of tax and financial incentives to the private sector in the hope of the emergence of a type of local agricultural capitalism. These policies have been mainly applied in Saudi Arabia, Morocco, Jordan, and Tunisia.

A system of unrestricted private investment has been adopted in the form of broad directives, from which productive farms can implement what they want and what they can. In the second half of the 1970s, Saudi authorities adopted a generous policy to support crops with grants and subsidies. On the other hand, Morocco avoided drastic changes to agricultural structures, where land reform was limited to land reclaimed from official colonization without including the land of private colonists. At the same time, notables and the affluent close to the palace benefited from numerous incentives and facilities to form a local agricultural bourgeoisie. In Tunisia, agrarian reform was characterized by boldness through the "Cooperative Units for Agricultural Production" policy, which involves the integration of small properties into mandatory production units ranging from 500 to 1,000 hectares. This policy, however, did not produce the desired results for several reasons, including strong opposition from large farmers, inadequate public investment, lack of technical expertise, and surplus agricultural labor. , resulting in underemployment and limited family returns. The termination of this experiment resulted in the significant impoverishment of small farmers and the destruction of the small agriculture structure in Tunisia.

Ultimately, liberal agricultural policies adopted in these Arab countries did not significantly improve the agricultural sector. On the contrary, agricultural production and profitability recorded little or no progress, if not a decline. At a particular magnitude or time, the absence of a single factor of production (e.g., equipment, efficient labor, or fertilizer) adversely impacts the effectiveness of other factors. Moreover, what applies to technical factors also applies to all actions and programs included in agricultural policies.

To conclude this chapter, it should be noted that all reform attempts adopted by various Arab countries, regardless of their ideological and political orientation, failed to build an agricultural sector capable of meeting society's demands. Growth in demand for most agricultural commodities, particularly basic goods, exceeded growth in production to a large degree. In 1984, the self-sufficiency ratio in Arab countries reached 60%. The highest level was recorded in Sudan. However, it fell to between 75% and 95% in Tunisia, Morocco, and Somalia and reached the lowest levels in Jordan and some GCC countries, where it did not exceed 10 to 20%.

## Part 3: Structural Adjustment Stage

Transition to the agricultural export model went through two main stages: structural adjustment (the early 1980s to the mid-1990s) and trade liberalization (mid-1990s to 2007-2008). This chapter is devoted to the first phase. The second phase, agricultural trade liberalization, will be developed in Chapter 4.

Neoliberal[2] criticism of state intervention in the agricultural sector considers that it leads to price distortions and poor resource allocation (e.g., customs), resulting in a rise in the prices of agricultural products at the local level. It diverts resources such as land, labor, and water to the agricultural sector at the expense of more efficient and dynamic export sectors. Thus, resources should be allocated according to competitive advantages, which means directing several Arab countries (especially in the Mediterranean) to focus on fruit and vegetable exports and the import of grains. International financial institutions (the World Bank and the International Monetary Fund) have generally pushed third-world countries to switch to export activities to earn the hard currency necessary to import food. Based on this analysis, structural adjustment policies resulted in dismantling the forms of support and control over domestic prices and the agricultural sector in general, "to allow rural markets for land prices, labor, loans, agricultural products, and agricultural production requirements more free-dom and maximum efficiency in resource exploitation" (Mona Rahma, 2000). In particular, "structural agricultural adjustment programs" have been shown to reduce public investment, increase subsidies on primary inputs and consumables, and privatize or weaken public agricultural institutions, such as those providing training and technical support for farmers and marketing institutions. Foreign trade also witnessed gradual liberalization.

In Morocco, liberalization impacted input prices and trade, leading, for example, to a significant increase in the price of fertilizers, which rose by 38%. It was applied in two phases during the 1980s, with a potential negative impact on smallholder farmers in the first place. The elasticity of demand in the case of a higher input price is more significant for small holdings. At the same time, the incentives provided to major agricultural exporters and the lucrative prospect in the European market allow them to bear these increases (Kydd, J. and Thoyer, S., 1992).
The price of services provided to farmers by public institutions increased, such as land preparation for plowing or artificial insemination, to cover its total cost. The same procedure for water and marketing services provided by irrigation agencies was also introduced. On the other hand, public spending on agriculture was reduced by 25% between 1985 and 1987. In contrast, grain prices were raised by 35% (Kydd, J. and Thoyer, S., 1992).

In Tunisia, family farming felt the brunt of several structural adjustment programs (Jouili M, 2008). As a result, public investment in the agricultural sector declined significantly (the statistical index dropped from 100 in 1986 to 81 in 2005), especially since 1996. The share of agriculture in private sector investments also declined from 20% between 1986 and 1990 to 17% between 2001 and 2005. This decline was prompted by the cancellation of input subsidies, which led to higher prices and, thus, higher agricultural production costs. However, this rise was not matched by an increase in the prices of agricultural commodities or productivity. On the other hand, the commercialization of land (i.e., its inclusion in the real estate market) and the privatization of collective lands led to the fragmentation of ownership of agricultural holdings and their concentration to the benefit of large farmers.

The situation in Egypt was distinguished by eliminating the agricultural reform gains of the Nasser era (1952-1970). This decline took place in phases (see, for example, Saqr al-Nur, 2017). In the first phase in 1974, Egyptian President Anwar Sadat ratified the lifting custodianship over agricultural land confiscated by the Agrarian Reform Commission from the feudalists and handed over to the peasants to be cultivated through leases. As a result, hundreds of small farmers lost the land they were cultivating.

The decline accelerated during the era of President Hosni Mubarak. In 1992, the Egyptian parliament ratified a law to “reform the rental relationship between landlord and tenant.” The law increased rent value from 7 times the tax applicable to agricultural land to 22 times during the five-year transition period. The “law of supply and demand” was thus free to determine the rent value. Law No.96 of 1992 had a decisive impact on the dismantling of Egyptian farmers’ gains through land reform laws adopted in the Nasser era, mainly “rent security” and the definition of “tenant and participant” as “holder of land” on equal footing with landowners. Several rights were provided to landowners related to tenure, such as “voting in the association,” access to seeds and fertilizers at reduced prices, and borrowing from the Credit Bank, the Development Bank, and the Agricultural Credit Bank.

The law led to the displacement of 904,000 tenants, even though they had been planting 23.7% of cultivated land in Egypt.

On the other hand, support for agricultural fertilizers was removed. In addition, agricultural seed and pesticide markets were liberalized, and agricultural land belonging to the government was privatized.

The indiscriminate application of structural adjustment policies resulted in “destroying the pillars of Egyptian excellence, such as long-staple cotton, which had a global reputation, and the neoliberal policies of neglecting to protect Egyptian agricultural breeds, agriculture based on local seeds, and local fertilizers. Last but not least, these policies not only failed to reduce the food gap but also led to its exacerbation.” As a result, Egypt became one of the largest importers globally of vital food commodities such as wheat, butter, sugar, and others (see Ahmed Bahaa El-Din Shaaban, 10 December 2016). In addition, neoliberal policies, including the liberalization of external agricultural trade, also influenced the structure of crops. As a result, higher profitability meant that fruit and vegetable production expanded at the expense of cotton, wheat, and rice. This development was negative, considering the economic importance of cotton and wheat and their background and frontal relations with other economic activities, making them an essential pillar in the fight against poverty and achieving food security at the family level (FAO, 2001).

## Part 4: Trade Liberalization Policies Exacerbate Agricultural Dependence in the Arab Region

Trade policy generally includes all measures establishing the conditions for cross-border movement of goods, services, and capital. It covers export, import, subsidy taxes, or legislation relating to the movement of capital at home and abroad. Agricultural trade policy is part of the macro policies directly impacting the agricultural sector. It utilizes various tools, such as tariffs (a tax levied on an imported commodity) or a percentage of the CIF (Cost+Insurance+Freight) price, aid, loans, restrictions on quantities, government spending, and taxes.

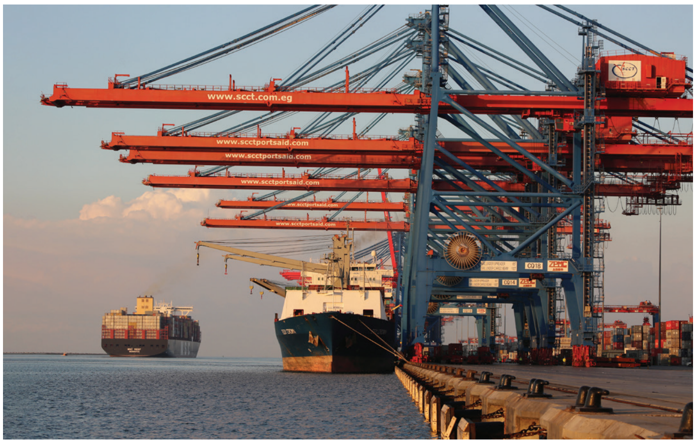
There is a clear divergence in trade policies adopted by Arab countries, with a general trend towards trade liberalization (Ahmed Farouk Ghoneim, 2010), prompted by developments in the global trading system in the 1990s, the Uruguay Round, and membership in the WTO. It was also influenced by the accession of several Arab countries to regional free trade agreements. However, many Arab countries have not yet become members of the WTO: Syria, Algeria, Sudan, Yemen, Iraq, Comoros, Somalia, and Djibouti. It should also be noted that external agricultural trade liberalization is complementary to the structural adjustment measures that led to the liberalization of agricultural markets, albeit to varying degrees, from one country to another. In addition, the implementation of GATT and WTO rules led to the partial liberalization of global trade and the subsequent impact on Arab agricultural markets.

The gradual liberalization of agricultural trade policy in the Arab region took two tracks, which will be reviewed in succession: the multilateral track (i.e., within the framework of the WTO) and the regional track (with a focus on trade relations with the EU).

### 4.1 Multilateral Track

The questions concern Arab countries' commitments within the WTO, especially concerning agricultural trade liberalization. The Agreement on Agriculture was adopted in 1994 (to enter into force in 1995). It aimed at "redressing imbalances in the structure of international trade in agricultural products and making agricultural policies more market-oriented by a set of disciplines designed to support the capacity of Member States to access markets, especially in terms of eliminating barriers to imports, working to abolish domestic support for agriculture, and working to abolish export subsidies." The agreement also defined the transactions and timeframe for activating its requirements by both developed and developing countries to reduce tariffs, levels of domestic support, and export subsidies. In this context, several Arab countries have renounced quantitative protectionism and reduced customs rights on some agricultural products.

For example, Lebanon, a country in the advanced stages of WTO accession, is one of the most open countries in the region, where customs rights range between zero and 5% for 84% of tariffs, with a maximum of 75%. The only quantitative protection it retains is for potato seeds. Since its accession to the WTO in 2000, Jordan has also fixed agricultural tariffs such as for tomatoes, olive oil, and cucumber to 30%, with the highest ceiling going to citrus, grapes, garlic, and figs at 50% during particular months of the year (Sustained Project, 2012).



In terms of market access requirements, Egypt committed itself to linking all tariffs on agricultural products with a commitment to reduce these rates gradually. Thus, the unweighted average of bound rates in 1998 was about 48%, lower than that for the base period (62%). In addition, the maximum tariff was reduced to 50% starting in 1991. In terms of domestic support, in 1999, Egypt reported for the first time on support measures in 1995-1998 concerning expenditures on the Green Fund and special and differential treatment. However, in terms of export subsidies, Egypt did not mention any export subsidies in the table of obligations reported to the WTO. On the other hand, the country lifted the ban imposed on exports, which was previously applied to some agricultural products such as tanned and raw leather. In addition, the quota system applied to the export of wool, wool waste, cotton residues, and tanned leather was also eliminated (Information on Egypt and Morocco, FAO, 2001).

In terms of market access, Morocco linked all tariffs on agricultural products to the Uruguay Round. It set tariff equivalents for all agricultural products subject to border measures, with a commitment to reduce them by the end of 2004 (For example, the basic tariff on wheat will fall from 190% in 1995 to 144%, the level of the final tariff bound in 2004). As for domestic support, Morocco began gradually reducing its support to agriculture in the late 1980s as part of structural adjustment programs. However, it linked the AMS as part of its WTO commitments and committed to a 13% reduction between 1995 and 2004. In contrast, in the Uruguay Round, Morocco did not announce support for agricultural exports during the base period and therefore had no experience concerning reduction commitments in this area.

## 4.2 Regional Track: Agricultural trade within the framework of relations with the EU

### 4.2.1. Important Junctures

EU-Arab relations went through two significant junctions, the Euro-Mediterranean Partnership Initiative of the Barcelona Process (1995) (the Arab countries concerned included Morocco, Tunisia, Syria, Jordan, and Lebanon) and the proposal submitted by the EU to the countries of the southern and eastern Mediterranean following the Arab Spring, with the adoption of deep and comprehensive free trade agreements (DCFTAs) (Mohammed Saeed Al Saadi, 2014). Although the Barcelona Process aimed to build a “wide region of free exchange for prosperity and security” encompassing the countries surrounding the Mediterranean Sea, it was limited to processed products and excluded agriculture as a “sensitive” sector. This “exception” was founded on the importance of the agricultural sector in southern Mediterranean countries and some Euromed and the negative economic and social repercussions of its liberalization. Thus, the EU and the Arab States exchanged limited exemptions (in whole or part) on agricultural products, processed agricultural products, and specific agricultural calendars. A quick review of Euro-Arab partnership agreements shows that they provided partial or total exemptions for agricultural products. In addition, they included full or partial exemption from customs duties imposed on those goods when imported into European markets, but in many cases with quantitative quotas or subject to reference levels in terms of price and quantity.

However, the adoption of the European Neighborhood Policy (ENP) in 2004 opened the door for negotiations between the North and South Mediterranean countries to accelerate the gradual liberalization of agricultural trade (see Abis A. and Echaniz P.C., 2009). The possible exception would be the sale of “sensitive” agricultural products and adopting the principle of asymmetry in implementation by allowing Arab countries to use a longer calendar in this field compared with European countries. The goal of this mutual, gradual, and framed liberalization is to push partner countries to specialize in producing and exporting agricultural products in which they have comparative competitive advantages. It will enable European countries to develop grain, dairy, and meat crops for export to the Arab Mediterranean countries in return for importing fresh fruits and vegetables from these countries.

It should be noted that trade preferences granted to partner countries (Egypt, Morocco, Tunisia, and Jordan) are reflected in the reduction or elimination of tariffs for specific quotas of products or all exports. The signed agreements also include the need to adhere to quality standards applicable within the European common market, especially concerning sanitary and phytosanitary measures. Thus, the agricultural agreement between Jordan and the EU provides for the total liberalization of imports from Jordan, except for a range of agricultural products (especially tomatoes, cucumber, citrus, cut flowers, potatoes, and olive oil) subject to quota or preferential entry prices in specific periods of the year. In contrast, most tariffs on agricultural products and processed agricultural products imported from EU countries have been gradually reduced, depending on product sensitivity.

As for Egypt, the EU-Egypt Association Agreement signed in 2011 provides for the expansion of the list of Egyptian agricultural commodities that can be exported to the EU to more than 100 commodities in exchange for 25 commodities per the 1977 Agreement, divided into four groups (EU-Egypt Partnership Agreement 2018):
- Commodities with specific quotas and export seasons (exemption from quotas)
- Commodities with quantitative quotas and no specific export seasons (customs exemption within quotas)
- Commodities with export seasons and no quantity quotas (exemption from customs duties within export seasons)
- Commodities without quantity quotas or export seasons

In return, the Egyptian side committed to reducing or eliminating customs on imports of some agricultural commodities from the EU, such as meat and dairy products. On the other hand, the agreement adopted partial and limited liberalization of manufactured agricultural goods exported from Egypt to the EU. As for Egyptian imports of processed agricultural goods, the agreement stipulated arrangements applied to EU exports, whose liberalization is based on three different lists.

Morocco, one of the EU’s most prominent partners and a preferred partner since 2008, has been nominated to “deepen political relations with the European side, integrate into the domestic market by bringing together legislative structures and promoting sectoral cooperation and the humanitarian aspect of partnership” (EU and Morocco, 2018). The 2012 Agricultural Agreement provides for the gradual and orderly liberalization of European exports to the Moroccan market, with a transitional period of up to 10 years. The liberalization is based on three types of products:

- The first type concerns liberalization over 10 years related to productive animals and fertilizers.

- The second type, which takes between 5 and 10 years, involves the production of processed milk and chocolate.

- The third type is liberalization according to specific quotas (cereals, milk, olive oil).

The implementation of this liberalization will enable the elimination of tariffs on %70 of the EU’s agricultural and fishing product lines exported to Morocco.

In return, the agreement provided Morocco with a relative and limited improvement in its agricultural exports to the EU market. Thus, Moroccan agricultural products can enter the European market without any tariffs but with important exceptions related to tomatoes (the most critical Moroccan agricultural export), garlic, clementines, strawberries, cucumber, and zucchini (EU-Morocco Agricultural Agreement, 2012). According to the agreement, 55% of Morocco's agricultural exports to the EU were liberalized.

Finally, after the outbreak of the Arab Spring, the EU proposed to Morocco, Tunisia, Egypt, and Jordan to move to an advanced stage of integration in the European domestic market through the conclusion of DCFTAs. The primary leverage of trade liberalization in these agreements is the achievement of a kind of subsidiarity in regulations and legislation through the progressive absorption by the Arab partner countries of the "collective gains" of the EU, that is, the legislation, standards, and regulations of EU laws. In the agricultural sector, DCFTAs seek greater liberalization of agricultural trade, including the trade of manufactured agricultural goods and fishing products, considering the unique situation of "sensitive" products. Negotiations are also expected to include achieving legislative and regulatory harmonization of European sanitary and phytosanitary standards between the EU and Arab countries.

### 4.2.2 Limited agricultural trade liberalization between the EU and Arab countries and its risks to Arab food security:

It is clear from the above that several constraints restrict the ability of Arab agricultural exports to enter the EU market due to the strict protectionism of the EU trade policy aimed at protecting European farmers on the northern side of the Mediterranean (ESCWA, 2005). Except for Lebanon, the coverage remains very limited and restricted regarding agricultural goods eligible for preferential treatment or agricultural seasons in which they are allowed to enter European markets. In addition, tariff reductions granted under the partnership agreements are applied to the relative or value charges, leaving fixed fees and taxes unchanged. Also reducing the preferential margin is the EU's use of the so-called entry price and predetermined reference quantities to reduce competition by limiting minimum import prices and quantities at the European borders. The EU thus ensures support to European farmers without crowding their agricultural products in local markets, especially for fresh fruits and vegetables. In addition to the above constraints, the EU's strictness in technical specifications, obstacles to agricultural exports, and other non-tariff barriers are evident, particularly those related to the environment, pesticides, and market traceability requirements for genetically modified food products.

On the other hand, some available data and research show that structural adjustment policies and agricultural trade liberalization have negatively impacted Arab food security. For example, the Arab food deficit (i.e., the difference between Arab exports and imports) rose from an average of $12.02 billion between 1985 and 1993 to an average of $13.79 billion from 2001 to 2003, or an increase of 14%. In addition, most of the food commodities in the Arab region recorded an increase in trade deficit between the two periods. The increase was about 21% for grains, 30% for potatoes, 65% for pulses, 713% for fruits, and 34% for meat (AOAD, 2006).

There are undoubtedly many factors behind the worsening agricultural trade deficit during the Arab countries' transition to neoliberal policies. They include increased demand for food due to population growth, rising income levels for some segments of society, migration of rural populations to cities, corresponding low production and traditional production levels, exclusion of research and development, and the absence of mechanization and modern technology techniques from production processes. However, the adoption of agricultural policies relying on structural adjustment and trade liberalization has contributed to exacerbating dependence on external sources to secure the right to food. It did not happen by improving agricultural export capacities, as promised by the promoters of these policies, to enhance the possibilities of covering community needs for food commodities. On the contrary, this trend led to a significant increase in imports covered by other revenues, such as tourism, remittances, foreign capital flow, or borrowing from international organizations, such as in the economies of the less developed Arab countries (Salem Tawfiq Hanafi, 2013). Moreover, the increase in agricultural imports led to the exposure of a range of crops to external competition, resulting in a reduction in areas used for production. On the other hand, these developments led to increased production of sugar beet, tomato, orange, and tangerine crops.

A recent study on the problem of food security in Arab countries pointed to the negative impact of the demand for food from the global market to meet society's food security, agricultural, and national sovereignty requirements. Based on a stand-ard study of the most critical factors governing the function of wheat production as well as agricultural production in some Arab countries (Algeria, Egypt, Jordan, Sudan, and Saudi Arabia), the following results were obtained:

- A constantly exacerbating food gap exists due to weak domestic production and the consumption of certain commodities, such as wheat, due to the changing consumption patterns of the majority of the population.

- High population growth rates have harmed most Arab countries.
- All the "modeling" results confirmed that the currently cultivated areas are insufficient and that their increase could contribute to ensuring food security in most Arab countries.

- The major obstacle to achieving food security in these countries seems to be intrinsically linked to dependency on the outside, particularly the volume of imports of essential consumer goods such as wheat, which is still imported at high levels (Harakati Fatih, 2018).

The most significant danger that will inevitably result from adopting neoliberal reforms by several Arab countries, especially agricultural trade liberalization, is the threat to food security by eliminating small farms and family farming. Agricultural trade liberalization, albeit gradually as in the EU-Arab agreements, threatens millions of small and medium-sized farmers who produce grain mainly for self-consumption and sale in the local market. Their exposure to European imports, which are more competitive and subsidized by the government and will benefit from eliminating tariffs, will lead to loss and migration to cities. Many will suffer from poverty and marginalization, endangering their food security. Finally, growing dependence on the global commercial market increases the vulnerability of Arab agricultural economies to fluctuations in the global prices of food commodities and their dependence on exporting agricultural countries' decisions. This issue is discussed in the last chapter of this paper.

# Part 5: From the Global Food Crisis to Arab Food Sovereignty

The global food crisis of 2008 and 2011 harmed food security in the Arab region and is considered one of the main reasons behind the eruption of Arab revolutions in 2011. This chapter will present the factors that dominated the emergence of this crisis and its impact on the Arab countries before briefly addressing the possible alternatives to ensure Arab food sovereignty.

## 5.1 The Main Causes of the Global Food Crisis

The world witnessed unprecedented increases in the prices of main foodstuffs, especially cereals, whose prices during the first three months of 2008 reached a -50year high. The average increase in wheat prices between 2006 and 2008 was %72. Rice prices rose by about

%123 in the same period. According to the World Bank, these increases have left or pushed 105 million people into poverty in low-income countries (World Bank, 2013).

After 2008, global food prices jumped twice. The first occurred in early 2011 when the World Food Price Index rose significantly by %30 between mid-2008 and mid-2010 and reached its 2008 apex again in February 2011. The second jump occurred in mid-2012 when global food prices resumed their increase. The World Bank's Food Price Index rose by %14 from January to August 2012, with global corn prices rising to an unprecedented level in July 2012 and surpassing the 2008 and 2011 peaks, jumping by %45 in one month (World Bank, 2013). The 2011 jump in food prices adversely impacted 40 to 44 million people in the middle- and low-income countries. In addition, the continuous rise in food prices imparted a heavy strain on the balance of payments in food-importing Global South and Arab countries.

It should be noted that price increases and volatility are likely to continue in the foreseeable and distant future.

High food prices are a result of several interrelated and diverse factors. These causes combined exacerbated the problem into a catastrophic humanitarian crisis and are represented as follows (Attia Hindi, 2009):

- Due to bad weather and low global stocks, there is a decline in the production of major commodities in several producing countries.
- Many countries are exposed to natural disasters or droughts due to climate change.
- Improved income levels in China and India resulted in increased consumption of plant foods and increased feedstock used for animal production.
- The significant rise in global oil prices led to increased fixed and variable costs and high transport costs. In addition, the rise in oil prices, in particular, led to higher prices of other types of energy, increasing the cost of fertilizers, pesticides, and production costs in general.
- Lack of investment in the agricultural sector, especially after its restructuring in developed countries.
- Population growth, especially in poor countries, and their increased food needs.
- Reduction of subsidies on some materials by countries providing significant and trade-distorting support.
- The use of agricultural products on which humans depend for their daily sustenance to extract biofuels or as feed for livestock negatively impacted the availability of food commodities and increased their prices.
- Growth of large production companies and the "oligopoly" controlling food prices.
- Speculation in global markets: The globalization of the capitalist economy, the rapid development of communication technology, and the increased use of the Internet have facilitated the entry of speculators into international agricultural commodity exchanges. It increased the number of speculators in global stock exchanges, thus increasing demand and raising prices.

## 5.2 Impact of the Food Crisis on Arab Food Security

Between 2007 and 2008, the Arab region saw a steady rise in the prices of food commodities in comparison to previous years. The increase during that period averaged between %24.3 for cereals, %17.3 for vegetable oils, %6.8 for tubers, %15.1 for legumes, %2.8 for sugar, %15.8 for fish, %13.1 for milk, %11.8 for red meat, and %15.8 for white meat (LAS and AOAD, 2009).

The rise in food commodity prices in 2008 was due to a global increase, considering that Arab countries are net importers of food and other factors specific to the situation. For example, they include the decrease in quantities produced from food crops due to the unsuitable conditions in the 2008-2007 season in some Arab countries. The increases were also due to the high costs of inputs for agricultural production, especially imports, and high transportation costs.

Some Arab countries chose the following series of policies and actions (LAS and AOAD, 2009) to address the unprecedented rise in world food prices in the second half of 2007 and the first half of 2008:

- They adopted a policy of relative self-sufficiency instead of relying on the foreign trade policy adopted in the 1990s and earlier by some Arab countries, to ensure food security in main food commodities, especially grains.
- They allocated additional financial resources for agricultural sector development.
- They supported and strengthened strategic stocks of main food commodities.
- Some Arab countries invested directly in the agricultural sector of other countries with agricultural production potentials within and outside the Arab world. They aimed to ensure that agricultural food commodities (such as wheat, rice, and soybeans) are available in Arab countries at reasonable prices and that their access is secured.
- Some Arab governments resorted to increasing public sector salaries and urged the private sector to provide direct financial assistance to the poorest.
- Several basic foodstuffs were exempted from customs duties and taxes, in addition to exemptions or customs reductions on agricultural production inputs to support local production and agro-industries and enable them to compete and produce high-quality goods at reasonable costs.
- Some Arab countries have placed restrictions on exports of major food commodities and green fodder.
- Some Arab countries have abandoned the privatization of some agricultural projects.
- They encouraged the establishment of consumer cooperatives and companies whose mission is to purchase, store, and sell basic foodstuffs from the source directly to citizens at low prices and with a small profit margin.

## 5.3 Some Proposals for Arab Food Sovereignty

The adoption of neoliberal agricultural policies in several Arab countries since the 1980s has led to the spread of intensive industrial agriculture (increasing the number of crops grown in the same area per year or growing more than one crop in the same area and at the same time in parallel). It also encouraged export-oriented production, the dominance of multinational corporations in global value chains, and the development of a global diet based on animal proteins instead of plant proteins. This trend resulted in aggravating food dependency and the marginalization of family agriculture. The spread of this neoliberal production model is impossible in the Arab world due to the lack of resources from land and water and its social and rural costs. Therefore, an alternative agricultural and food system based on food sovereignty must be an essential entry point to ensure food security and the right to food for all.

In 1996, La Via Campesina defined food sovereignty as “the right of peoples to healthy and culturally appropriate food through environmentally sound and sustainable methods, and their right to determine their food and agricultural systems favorable to their conditions.”

Food sovereignty includes:

- Priority for local agriculture to feed the people and the access of farmers and non-owners of land to water, land, seeds, and credit, thus the need for agrarian reform to fight against genetically modified organisms to allow for free access to seeds and water conservation.

- The right of farmers to produce food and the right of consumers to determine the quality of what they want to consume, who produces it, and how it is produced.
- The right of states to protect themselves from low-cost agricultural and food imports.
- The need to link agricultural prices to production costs so that countries have the right to impose taxes on low-priced imports, commit to sustainable farmers' products, and control production in the domestic market to avoid surpluses.
- People's participation in agricultural policy choices.
- Recognition of the rights of farmers who play a significant role in agricultural and food production.

The political nature of food sovereignty must be emphasized as a project of participatory local democracy in food and agriculture decision-making (Attac Morocco, 2017).

Prioritizing food sovereignty to ensure the right to food addresses two fundamental issues. First, it responds to the need to provide policy space and margin for maneuver to adopt agricultural policies that respond first and foremost to the needs of the citizen rather than the dictates of international institutions (World Bank, IMF, WTO) calling for the liberalization of agricultural trade and specialization by comparative advantage. Second, it reduces dependence on the outside and focuses on agriculture directed to the domestic and regional markets. However, the real gamble revolves around proceduralizing and realizing the concept of food sovereignty in the Arab context. Primarily, this would entail the integration of food sovereignty into a development project centered on sustainable human development. In addition, this approach must be institutionalized through constitutions, the establishment of related institutions, and the development of the concept through agricultural policy and programs. However, it is not enough to include food sovereignty in constitutions, as the Egyptian example shows, as it was not accompanied by a change in agricultural policy and the developmental model, which is still typified by the dominance of neoliberal ideology.

On the other hand, the concept of food sovereignty poses the question of which actors are supposed to realize it on the ground, especially as food sovereignty focuses on the direct participation of producers in policy-making and programming. Therefore, this new approach can not be successful without positive interaction between the state, civil society, and social movements. The state must also adopt a clear development orientation and genuine decentralization that enables solidarity between producers' associations and local elected institutions and authorities (Clark P., 2013).

The state should play a pivotal role in formulating a clear and ambitious agricultural policy to support small producers and family and ecological agriculture. It should strengthen popular and solidarity economies, particularly in the financial, technical, marketing, land, water, seeds, forestry, and fishing fields. It also requires a trade policy that protects this agriculture from uneven competition for essential agricultural and food commodities, especially commodities supported by advanced capitalist countries. Agricultural trade and coordination must be framed at the international level to stabilize agricultural prices to avoid a significant and sudden rise in prices and competition against the stability of global agricultural exchanges, which entails a profound reform of the multilateral trading system (Boussard M. et al., 2007).

At the level of civil society and social movements, local and Arab networks must be established to fight for food sovereignty locally, nationally, and regionally. There are some encouraging signs in this regard, including the Palestinian Via Campesina Movement, under the banner of the global movement (Ahmad Melhem, Al-Monitor, 17-10-2017). This movement seeks to benefit from the global vision to help establish sovereignty over food, land, resources, and water and adopt the issues of Palestinian farmers and their rights violated by Israel, such as the inability to control their land and water resources. The Palestinian farmers' movement also intends to protest local authorities and the government to amend laws to suit farmers' needs. The movement is also planning to build a movement of Arab farmers.

Also noteworthy is that two organizations from the Maghreb (the National Federation of the Peasantry from Morocco and the Struggle of the Land from Tunisia) joined the global movement Via Campesina.

The above highlights the importance of developing an Arab agricultural integration centered on ensuring Arab food security by adopting a food sovereignty approach as an essential entry point for every effort in this field.

## Conclusion

This study focused on the impact of agricultural policies adopted by Arab countries on their food security. It attempted to show how these policies have contributed to Arab food insecurity since the 1950s. Between the 1950s and the 1980s, socialist-oriented countries failed to achieve food security due to the dominance of bureaucratic procedures in managing state farms and agricultural cooperatives and crop pricing policies that were unfair to farmers.

On the other hand, liberal-oriented countries were unable to achieve food security due to the lack of private sector initiatives in the agricultural field and the marginalization of family agriculture, resulting in an inconsistent duality in the agricultural sector.

In the early 1980s, due to the debt crisis in several Arab economies and IFI interventions, agricultural policies entered the stage of structural adjustment and trade liberalization. The policy was to dismantle the system of state intervention in the agricultural sector as a constraint on the freedom of market mechanisms that would achieve the highest possible efficiency in exploiting resources and thus maximize export-oriented agricultural production. As a result, governments were prompted to liberalize agricultural trade and ensure food security by importing basic agricultural and food commodities from global markets. The decision was built on the premise that agricultural exports will provide the necessary financial resources to cover the cost of these imports. Agricultural trade liberalization was carried out through two main tracks: the multilateral track and the regional track through EU-Arab “partnerships.”

The adoption of these neoliberal policies has exacerbated food dependency on the outside world through significantly increasing agricultural and food imports covered by tourism revenues and ex-pat remittances and, to a lesser extent, by foreign capital inflows or borrowing. As a result, a variety of crops are exposed to external competition, resulting in a reduction in the areas allocated to them and the threat of family farming, which produces the most food products in the consumption pattern of the majority of citizens, namely wheat and cereals.

The dangers of Arab food dependency have become evident in the wake of the global food crisis, highlighting the vulnerability of Arab economies and food security to the fluctuation of food commodity prices in the global market. This dependence has led to a continuous rise in food prices in the Arab world, prompting Arab governments to adopt several policies and measures to curb these negative impacts on food security.

The generalization of the export-oriented neoliberal model in the Arab region is impossible due to weak natural resources in land and water and the tremendous social and environmental costs. Therefore, food sovereignty as an alternative can ensure the food security of all citizens if the conditions for its achievement are met. They are mainly focusing on the developmental role of the state, the emergence of a robust social movement, and a profound reform of the global trading system to frame agricultural trade and coordinate the stability of prices of basic food and agricultural commodities.

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[1] For more information, see Azzam Mahjoub and Muhammad Munther Belghith, 2018, Paper on the Right to Food and Food Sovereignty in Arab Countries through International Data and Indicators, this report.
[2] Neoliberalism is based on three principles: economic liberalization, privatization, and prioritizing macroeconomic balances. It focuses on the efficiency of market mechanisms as they enable the achievement of useful economic results.

# CHAPTER 3:

## Neoliberal Policies and Informal Labor in the Arab Region

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### Introduction

According to the ILO definition, the informal economy encompasses all workers' economic activities. It also covers the economic units that are not covered by official requirements and regulatory measures, either because this category of workers is active in sectors that are not covered by laws or because laws that are supposed to protect them are not applied. This definition means that the informal economy encompasses the informal sector and informal positions inside formal or structured companies (Bureau International du Travail 2002).

Given the importance of the legal approach to this topic, the concept of "informal or unstructured labor" is more appropriate as it focuses on "jobs and workers" and the lack of workers' rights. Furthermore, focusing on the jobs avoids the complexities of the enterprise-based concept and allows monitoring of the progress of decent work (منظمة العمل الدولية 2008). The gender approach and gender equality require attention to unwaged care workers (cooking, children care, housekeeping, hosting visitors, organizing weddings and funerals, for example).

The informal economy is no longer limited to the agricultural sector or Southern countries. It is becoming more widespread in developed capitalist countries and many sectors like electronics, textile, apparel, construction, tourism, and domestic services (Bureau International du Travail 2012). For example, in the MENA region, 28% of the GDP of standard countries comes from informal labor, which accounts for 65% of the country's active population (Gatti R. et al., 2014).

In addition, informal labor represents 45 to 55% of the labor outside the agricultural sector in Mediterranean Arab countries (Martin I. 2009).

There are multiple reasons for the spread of informal labor in the Arab region. They include demographic factors (particularly the significant increase in the percentage of the active population who entered the region during the demographic transitional period). They also encompass exodus to cities, noncompliance between education results and labor market requirements, growing poverty, social exclusion, administrative obstacles, and social and cultural obstacles preventing women from accessing the labor market. However, economic policies adopted in the region since the 1980s have played a vital role in the growing phenomenon of informal labor.

Economic policies mean macroeconomic policies (financial policy, monetary policy, and fighting inflation), trade, investment, and financing policies, in addition to the policies of privatization and "reforming" State-owned enterprises (محمود عبد الفضيل، 2012). The neoliberal analysis is based on the restricted State development model prevailing in the 1960s and 1970s, which led to the external debt crisis in many developing countries according to those who adopt this analysis. It focuses on the need to adopt alternative economic policies based on the efficiency of free markets in terms of the optimal allocation of resources, the importance of valuing the role of the private sector and individual ownership, and the need for preserving macroeconomic balances. These policies would accelerate growth, improve productivity and competitiveness, and encourage exports to create new jobs and reduce unemployment (Chang H.J. and Grabel I., 2014).

This paper aims to refute these assumptions by studying the effect of neoliberal policies on informal labor in the Arab region, showing its contribution to the chronic spread of the informal economy. Available literature and studies were used to prepare the paper, despite the many missing aspects on the phenomenon of informal labor in the Arab World. The first part explores the content of these policies as implemented in many Arab countries, highlighting the role of international institutions and their relation to the growing phenomenon of informal labor. The second and third parts will analyze the impact of the policy of liberalizing external trade and then macroeconomic policies on informal labor in the Arab World.

## Part 1: Neoliberal policies in the Arab World and the Influence of International Institutions

### 1.1 Neoliberal Policies in the Arab World

Internal and external factors have converged to prompt many Arab countries to adopt neoliberal policies, hoping that they would help their economies overcome the crisis in the 1970s and 1980s. The restricted performance of the state's capitalist system, focusing, to varying degrees, on import substitution industries by Arab countries (except for GCC countries), and the absence of people's participation are all factors that aggravated the economic and social situation in these countries. In addition, the profound transformations at the global level (abandoning the Bretton Woods system, freeing capital from controls) and economic tensions (significant shocks in the oil market, the high-interest rate at the global level, the economic recession in wealthy capitalist countries) have worsened the sufferings of relevant Arab countries. In addition to internal factors, these factors have aggravated external debt and the deterioration of macroeconomic balances. Arab countries resorted to international financial institutions (IFIs) (such as the World Bank and IMF) to obtain financial support and "technical consultation." Countries like Egypt, Morocco, Tunisia, and Jordan, for instance, applied the so-called "Washington Consensus" based on three pillars: liberating the economy, privatization, and financial austerity. The key objective of this new economic trend was to integrate these economies into the globalized capitalist system, fulfill the expansion needs of major monopolies and multinationals, and achieve more capitalist accumulation and global dominance.

Policies adopted through stabilization and structural adjustment programs focused on restoring macroeconomic balances (public finance and balance of payments), the progressive liberalization of economic, commercial, and financial sectors, privatization, and lifting administrative and regulatory restrictions on private sector initiatives. Restoring macroeconomic balances requires implementing strict austerity measures such as reducing public spending, reducing wage pressures, and stopping subsidizing basic materials. As for liberating regional economies, Arab countries have mainly adopted more liberal commercial policies (reducing customs duties, alleviating non-customs obstacles, partial liberalization of the services sector) after joining GATT and the WTO and signing several regional commercial agreements (أحمد غنيم، 2012).

Privatization was used as the main element in economic "reform" and restructuring policies and as a key tool to shift to the so-called market economy and redistribute the roles between public and private sectors in the Arab World. Many Arab countries have also extended the participation of the private sector to the infrastructure sector through BOT, particularly in electricity projects and building independent power generation stations. Privatization projects tried to take into consideration the social aspect. People working in the privatized corporations (Morocco and Jordan) were retained, and some privatization revenues were used to pay early retirement pensions and subsidies for laid-off workers (Egypt and Tunisia) (محمود عبد الفضيل، 2012).

As for regulations and controls, changes were particularly focused on the "business environment," i.e., the governmental measures regulating business activities (companies' registration, issuing construction licenses, cross-border trade measures, tax payment, economic activity liquidation, labor market flexibility). It is worth noting in terms of labor flexibility closely related to the phenomenon of informal labor, as we will explain later, that the different non-oil Arab countries have changed their labor laws to make business relations flexible due to pressures by IFIs and the local private sector, whereas these relations were always flexible in terms of oil ownerships (Cammett et al., 2010).

## 1.2 IFIs and the Growth of Informal Labor


During discussions about the effects of globalization on labor in the first decade of this century, the ILO, the World Bank, and the IMF played a crucial role in guiding discussions and setting policies. The ILO has influenced discussions on the informal sector and economy since the 1970s, defending the need to respect international labor standards. The two other institutions influenced the growth of the labor market and informal labor through neoliberal policies imposed on debtor states, primarily through focusing on labor flexibility as a central tool to encourage private sector investments and therefore create new jobs.

ILO focused on the negative aspects of the informal economy, which can "can trap individuals and enterprises in a spiral of low productivity and poverty… From the perspective of unprotected workers, the negative aspects of work in the informal economy far outweigh its positive aspects. They are not recognized, registered, regulated or protected under labor and social protection legislation, and are not therefore able to enjoy, exercise or defend their fundamental rights" (مكتب العمل الدولي، 2014).

However, the discussion launched in 2002 on decent work and the informal economy shifted the way ILO approached the issue, and the term "informal sector" was replaced by "informal economy.". Therefore, the ILO considered that "as long as it persists, the informal economy will remain the most serious obstacle to the goal of decent work for all." It stressed the "importance of a comprehensive approach across the Decent Work Agenda to address its negative aspects through protection and incorporation into the mainstream economy while preserving its job creation and income-generating potential" (Ibid.). In addition, the ILO has set several policies to curb the informal economy. They are quality employment generation and growth strategies; the regulatory environment; social dialogue, organization, and representation; promoting equality and addressing discrimination; measures to support entrepreneurship, skills, and finance; and the extension of social protection; and local development strategies" (Ibid.).

On the other hand, the two financial institutions added labor market flexibility to the structural "reforms" package aiming to liberalize goods, capital, and labor markets. Legislations and laws on the minimum wage, social protection, and the regulation of employment and layoffs reduce the companies' competitiveness and impede their owners' adaptation to market fluctuations, restructuring requirements, and labor shifts to promising export sectors, as per the vision of these

IFIs. Thus, business people are not encouraged to create new job positions. This "narrowing" of capital's freedom to deal with labor led the informal sector to avoid administrative complexities and restrictions in the labor market. The growing phenomenon of informal labor, according to IFIs, is the result of the state's interference in regulating the labor market. Thus, labor market flexibility should be reinforced by removing all obstacles to increasing private investments, improving competitiveness to create more positions, and reducing the spread of informal labor. Particular emphasis is placed on the fact that labor flexibility reduces labor costs and facilitates recruitment and layoffs. This is in addition to lifting restrictions on term employment contracts and giving company owners more freedom to specify working hours. This situation inevitably results in more vulnerable situations for workers and helps in spreading informal labor. This approach favors investors and capitalists to the detriment of workers' rights, which are no more than a cost that must be pressed to win the competitive bet in "free" and open markets worldwide. Moreover, some research has revealed a direct relationship between labor market flexibility and informal labor (Stalling B., 2010).

It is worth noting that ILO has cooperated with international financial institutions, particularly the World Bank, to integrate international labor standards in the programs of the institutions mentioned above and according to the conditions of obtaining loans from Southern countries. For instance, the International Labor Office and the World Bank proposed incentives to the units working in the informal sector (simplifying administrative procedures and laws, improving public services) to shift to the formal economy because this positively impacts economic growth. They also proposed to create social safety nets and limited contributions to guarantee the social protection of informal workers (ILO-World Bank, 2010).

However, practical experience shows that, in dealing with debtor countries, IFIS focus on labor flexibility according to several conditions to obtain the required loans (Anner M. and Caraway T., 2010).

Labor market flexibility is also a key factor in measuring the ease of doing business. Therefore, the World Bank and IMF need to liberalize private sector capacities, particularly recruiting and laying off workers due to "excessive employment, layoff cost, and working hours." For instance, the employment index evaluates the countries allowing the adoption of fixed-term employment contracts – i.e., temporary. However, such contracts are widely used in Southern countries to avoid registering the relevant workers in social security and thus depriving them of other social services (Polack S, 2007).

## Part 2: The impact of external trade policies and investment on informal labor

In general, neoliberal globalization means reducing the obstacles impeding external trade, liberalizing capital, technology spread, and workers' migration. It is also reflected in the internationalization of production by creating global value chains (or global production networks) (for formalizing these chains, please refer to figures 1 and 2 in the annex). These chains benefit from reduced transportation and communications fees and the liberalization of commercial exchange to nationalize parts thereof in different countries to benefit from competitiveness (cheap labor, proximity to the markets in developed countries or emerging regional markets, and developed technological structures). The result is subcontracting on the global level in seeking to reduce the production cost in the framework of competition between capitalist monopolies – the leading guide of globalization – which contributes to more vulnerable labor and growing informal labor inside and outside the official or formal sector (Carr M. and Chen M.A., 2001).

Neoliberal globalization in the 1990s led to informal labor in many sectors and countries. Globalization helps open new markets and generate new jobs, but many of these jobs are fragile, and the new outlets are not accessible to small and marginalized producers. In the Arab region, external trade liberalization started by implementing structural adaptation programs as a first phase and then by signing free trade agreements by Arab countries, particularly Mediterranean ones, with their regional (especially the EU) and international counterparts (US).

What we are interested in is first to examine how trade and investment liberalization policies influence informal labor.

Trade liberalization and investment affect informal labor to various degrees based on its type. Therefore, owners of small informal companies can leverage the demand for some commodities exported from Southern countries to the USA, Europe, and Japan (like Shea butter or shrimps). On the other hand, many small enterprises are going bankrupt due to competition from imported commodities. As for those who work for themselves, their inability to receive loans, training, technology, and information about the markets prevents them from leveraging the opportunities resulting from external openness. However, this type of informal labor is endangered by competition from imported commodities. Therefore, informal-waged workers remain the category most exposed to the negative implications of trade and investment liberalization. Thanks to free movement on the global level to accommodate labor, capital cannot put pressure to get the lowest employment costs according to more vulnerable and unstable conditions. The pressure made by the private sector to achieve labor market flexibility under cover of the need to improve the business environment to promote competitiveness and productivity contributes to this new situation. The situation of informal workers is also affected by the quality of the sector they work in (transformational industry such as exporting cloths or non-traditional agricultural export activities) (Ibid.).

In the Arab region, directing economic activities towards exports did not bring the expected results yet. The export of labor-intensive and cheap industrial products was impeded by tough competition from more productive and lower-cost countries – mainly Asian exporting countries. Shifting to exports was also doomed to failure, knowing that most Southern countries counted on dominating the markets of developed capitalist markets, which complicated the success of this strategy. For example, the apparel industry in Tunisia and Morocco lost a part of its share of the global market (Bernhardt T.,2016).

On the other hand, competition from external markets was harsh to the extent that it led to the employment of increasing numbers of women as they usually protest less. Thus it is easier to control them to maximize added value or force them to accept low wages without social protection or decent working conditions. The relative increase in exports went hand in hand with vulnerable working conditions, particularly in labor-intensive value chains, such as textiles, apparel, and export agriculture. According to Bernhardt (Ibid.), the apparel sector lost many jobs between 2000 and 2012, and real wages have not improved much. In Tunisia, the real value of wages decreased, whereas employment in this sector slightly increased. These changes affected labor vulnerability and contributed to increasing informal labor. In Morocco, trade unions complain about the exploitation of women working in the textile and apparel sector. Women represent 41% of the total labor in transformative industries and 70% in the textile and apparel sector. The majority of women in the sector are illiterate and do not belong to any trade union. They also suffer from vulnerable working conditions and are concentrated in unskilled jobs. The involvement of women in the labor market is necessary to improve family income due to the low wages of heads of families (Meddeb R., 2000). In Tunisia, the involvement of industrialists in global value chains in the context of association agreements with the EU has contributed to the growth of labor-intensive sectors that employ unskilled women workers who are limited to assembly activities.

Especially after the amendment of the Labor Law of 1996, the above sectors saw a significant increase in their share of temporary workers (with or without fixed-term contracts) earning low wages and enjoying insignificant social protection. For example, according to the International Labor Office, 68% of workers in the textile sector were on temporary contracts (Smith A.,2015). The situation deteriorated after the Arab Spring when most apparel companies started counting on temporary workers to meet the requirements and pressure of the European fashion sector, leading to higher marginalization and vulnerability of temporary workers amid growing unemployment and the rising cost of living.

In the Arab Mashreq, the examination of qualified industrial zones (QIZs) shows a discrepancy in the implications of informal labor between Jordan and Egypt. QIZ agreements enabled Jordan and Egypt to attract substantial foreign investments, particularly from South-East Asia for Jordan, to benefit from the significant customs exemptions in textiles and apparel sectors, and circumvent the US quota system imposed on this industry. Agreements also resulted in a significant increase in industrial exports to the US market, especially for Jordan (for instance, Jordanian exports increased by 1.25 billion USD in less than ten years). Moreover, tens of thousands of Asian workers were brought in, women representing 66.5% in 2004 and 50% in 2010 (Azmeh S., 2014).

According to investors, this option has many reasons, including their belief that women workers “are more suitable and more committed to the work.” Furthermore, wages of foreign labor “must be left to the market according to the rule of supply and demand,” and the business community considers that the “applicable minimum wage policy only suits local labor” (العراب نيوز، بدون تاريخ). These words reveal one aspect of the exploitation and discrimination faced by the labor force in Jordan. For example, trade unions and government reports unveiled the scale of blatant violations against foreign labor in the QIZs. They included “seizing passports, not renewing work permits for some workers, delaying and even not paying salaries, long work hours and undercounting over time, and exposure to humiliation and abuse, including physical and sexual abuse” (صحيفة الغد، 2016). Furthermore, most companies operating in QIZs do not grant social protection to their workers who do not sign any contract (Better Work Jordan, 2015).

However, vulnerability and informality are initially due to pressures by US companies – controlling the value chain of the textiles and apparel sector – on its importers in Jordan in order to quickly meet market needs and fluctuations with the lowest costs, in addition to gender-based abuse.

The situation is different in Egypt, where laws do not allow more than 10% of foreign labor, although there are cases in an informal framework and outside the scope of the rules in force (Azmeh, 2014).

Male and female workers are also able to resist overexploitation in Jordan. It could be prompted by the low wages compared to other sectors, making them seek new job opportunities. Another reason is that married women’s wages are considered a complementary income for the family, and traditions and customs prevent single women from relocating to QIZs for work. Moreover, the daily long commute to and from workplaces makes working for extra hours more difficult (Ibid.).

**Frame 1: Qualified industrial zones agreements**

Qualified industrial zone agreements provide preferential treatment, such as exporting some commodities from Egypt and Jordan without customs to the US market. In March 1996, a US senator proposed to amend the free trade agreement between the US and Israel to allow the entry of commodities produced in the Gaza Strip and West Bank or the QIZs between Israel and Jordan and Israel and Egypt. Jordan signed the qualified industrial zones agreement with Israel under US patronage in 1997, whereas Egypt signed this agreement in 2004. According to these agreements, commodities approved by the US must be produced in geographic locations inside Egypt and Jordan pre-defined by the US. In addition, factories benefiting from this agreement must be registered in a given unit at the trade ministries in Egypt and Jordan to guarantee the application of specific conditions. The critical condition is using a given Israeli component to legally abide by the free trade agreement between Israel and the US to secure access without customs to US territories.

The main goal of these agreements from the US perspective was to encourage the peace process in the Middle East. As for Egypt and Jordan, their economic and commercial goal was to keep their market share in the US, particularly for textile products and ready-made clothes, and achieve regional integration between Egypt, Jordan, and Israel.

Reference: Ahmed Farouk Ghanim, The commercial policy in the Arab countries, 2012, p. 92 أحمد فاروق غنيم، السياسة التجارية في الدول العربية

The spread of informal labor in the Arab region through global production networks included the agricultural sector. However, due to the lack of information in this field, we will only highlight the Moroccan experience.

In Morocco, export agriculture evolved significantly through agricultural agreements with the EU, which allowed the preferential access of Moroccan products to European markets. As a result, Moroccan exports were organized within global production networks dominated by Europe. One example is illustrated by studies conducted by civil society organizations working in Morocco on the impact of the red fruits sector – for agricultural and industrial purposes – on informal agricultural labor (villages) and informal industrial labor (canning factories). They showed that the value chain or production network of strawberries is composed of many circles, starting with the agricultural village, then the factory, before being exported to Europe. Thus, exported commodities reach the distribution networks of European consumers through importers. (Red fruits are produced in villages often owned by large Moroccan farmers, whereas subsidiaries of multinationals have a strong presence in the canning industry). Field studies conducted under the supervision of Oxfam showed that the majority of workers in the "Moroccan circle" of the production network are women, knowing that 60% of the agricultural labor in Morocco is composed of women seasonal workers. Agricultural labor is generally vulnerable because Labor Law requirements are not respected (such as minimum wage, number of working hours, social protection, and leave). As a result, workers' economic and social rights are blatantly violated. For example, in the red fruits sector, observed violations included the unavailability of social security cards, not applying the minimum wage, and not declaring the working hours fully. Moreover, women are exposed to all forms of violence and psycho-social pressure, like harassment, sexual exploitation, and degrading treatment, such as insults and degradation inside workplaces or on the way to work (أوكسفام–أنترمون 2009).

So far, the analysis has focused on the impact of the involvement of some Arab economies in value chains and scientific production networks on informal labor. The impact of liberalizing trade on informal labor is also reflected by the repercussions on the sectors focused on the local market, particularly import substitution industries. This issue is complex and not settled on the theoretical and empirical levels (Shepherd B, 2013), which prompted the increased focus on the issue that did not get enough attention from researchers in the Arab region. There are only a few studies about Morocco and Egypt. The first is relatively old and is about the impact of "reforming external trade" on production factors, i.e., capital and labor (Currie J. and Harrison A., 1997). The researchers concluded that this impact is relatively restricted in terms of employment. Most companies reduced their high profits and improved their productivity to face the fierce external competition resulting from reduced customs duties and non-customs barriers instead of laying off workers. The exception was the textiles, apparel, and beverages sectors, where workers were laid off. However, the number of temporary workers increased significantly, which meant more labor vulnerability and growing formal labor with no employment contracts or social protection.

The second study is new and covers the industrial sector in Egypt (Selwaness I and Zaki S., 2015). Through a political economy approach, researchers noticed that informal labor is increasingly widespread due to liberalizing external trade. A third study (AlAzzami S., 2016) shows that the gender gap in terms of wages is growing due to trade liberalization, given the weak negotiation capacity of women compared to men and their weak qualifications and experience. On the other hand, commercial openness negatively affected women's labor in the Egyptian industrial sector. The bottom line is that companies compensated for their decreasing profits due to fierce competition from imported products by putting pressure on the "weakest circle," female workers. To face this deterioration in the labor market, we can say that some of the laid-off female workers shifted to the informal economy to feed themselves and their families.

## Part 3: The impact of macro-economic and privatization policies and reforming State-owned enterprises to cope with informal labor

The spread of informal labor in Southern countries in the last few decades coincided with their implementation of stabilization and structural adjustment policies in the 1980s (Charmes J, 1991). Thus, what are the mechanisms through which macro-economic policies (particularly financial policy), privatization, and reforming State-owned enterprises in the Arab World affect informal labor?

### 3.1 Adverse Effects

The financial austerity policy of Arab countries had adverse effects on growth, employment, and poverty. For instance, public spending in non-oil and labor-intensive Arab countries (Egypt, Jordan, Lebanon, Tunisia, and Morocco) dropped from 50% of the GDP in the early 1980s to 30%of the GDP in the early 1990s. Public investment also dropped significantly in most Arab countries, from 14-15% to 6-7% during the same period (Cammett M et al., 2015). The reduction of public spending by reducing public expenses (freezing wages, freezing or reducing public employment, and freezing or reducing the subsidization of basic materials) and investment expenses resulted in a decline in public employment. From 1990-2005-2010, it decreased from 58% to 30% in Algeria, from 32% to 27% in Egypt, 26% to 11% in Morocco, and 32% to 22% in Tunisia (Ibid.). The private sector did not compensate for this drop in the MENA. The percentage of private investment to GDP improved slightly from 13.82% in 1971-1990 to 15.33% in 2001-2010. Thus, this sector could not meet the needs of the new and numerous comers to the labor market, and so they shifted to the informal economy.

On the other hand, reduced public spending resulted in reduced gross local demand, and thus formal labor dropped. Moreover, the decline in public spending has harmed the state's capabilities in enforcing laws and regulatory procedures, facilitating the growth of informal labor. As a result, the size of the informal sector is evolving contrary to the size and capacity of the state's regulatory capacities. For example, the low budget allocations to labor and social affairs ministries in the Arab countries mean that low funds are allocated to the management and control of employment conditions and compliance with applicable laws. However, contrary to neoliberal orthodoxy, lifting administrative and organizational constraints opened the door wide for the growth and prosperity of an informal private sector dependent on informal labor for its activities (for example, see Kus B., 2014).

Financial policies could positively impact growth, poverty, and inequality. A recent study evaluating the pattern of public spending policies in Jordan showed that government transfers raise net income, and disposable income reduces poverty significantly (46.8% in 2006, 44.4% in 2008, and 46.2% in 2010). When adding transfers to the net income, the effect on the disposable income takes the form of reduced inequality (Gini coefficient) by 10% in 2006, 11.4% in 2008, and 10.7% in 2010. The peak of the capital expenditure multiplier is estimated at 5.8 (Sarangi N.et al., 2015).

These austerity policies primarily affected the growth rate, capital accumulation, and the ability of Arab economies to provide productive jobs that preserve human dignity. Therefore, the average per capita income growth rate has declined significantly in many Arab countries, namely in 8 out of 18 countries, including Oman, Egypt, Tunisia, Syria, Morocco, Jordan, and Algeria, or remained stable at low levels in Iraq, Qatar, and Yemen (Pedrosa-Garcia J.A. and Ali Z, 2015).

This weak economic performance continued over the past decades until 2013, when the annual per capita growth rate fell to 1.1% (الاسكوا، 2016).

Due to low or slightly high growth rates at the beginning of the third millennium, unemployment continued to rise in almost all Arab countries, with most Arab countries experiencing unemployment rates above 10 percent (الأمم المتحدة،2002). The Arab region also has the highest levels of unemployment globally, as shown in Figures 3 and 4, especially among young people and women (Sarangi N., 2015).

It should be noted that increasing the growth rate does not always indicate the creation of many productive job opportunities and decent work conditions. The latter depends on the growth rate, quality, and integration aspects. From this perspective, the Arab region did not provide decent jobs (i.e., jobs that meet the aspirations of job seekers and middle-class expectations) despite reasonable growth rates (5% annually) during the first decade of the 21st century. Most of these positions have been developed by low-value-added service sectors using unskilled labor such as construction, trade, transport, and other services. However, the industry rate remains low, stable, or declining, as in the case of Tunisia, Morocco, Jordan, and Egypt (Cammett et al., 2015).

On the other hand, due to neoliberal policies applied in several Arab countries, informal labor is characterized by an upward trend in Algeria, Egypt, and Morocco. This situation is especially evident in Egypt, where new informal sector jobs increased from 1 out of 5 in 1970 to 6 out of 10 in 1998 (ILO-World Bank, 2010). A close relationship is noted between the growth of the informal sector in Egypt and the decline in employment. The proportion of active workers in the informal sector increased from 60.8 percent in 1998 to 67.3 percent in 2006. This percentage for the public sector declined from 46.8 percent to 39.1 percent during the same period (Gatti R. et al., 2014).

In general, the Schneider informality Index increased annually by 0.69 from 2000 to 2007 in the MENA region, the third-highest percentage globally after Latin America, Europe, and Central Asia. The annual increase for own-account labor between 2000 and 2011 was 2.1% in the MENA region, the fourth-highest globally (see Figure 5).

## 3.2 The impact of privatization policies and restructuring of State-owned enterprises on informal labor

Privatization and restructuring of State-owned enterprises are presented as tools for economic reform by getting rid of what is described as inefficiency, rampant bureaucracy, squandering, and corruption in State-owned sectors. However, the social cost of this policy may be heavy, as it might result in higher unemployment and higher numbers of people joining the informal economy under its different forms. Furthermore, the neoliberal hypothesis on the ability of privatization to create new jobs does not take into account the profit-based behavior of the private sector and its excessive sensitivity to risk, which makes it prefer unproductive financial and real estate investment. Therefore, this hypothesis overlooks the possibility of "growth without jobs." Due to the absence of sufficient studies and data on the social impact of privatization in the Arab region, we will merely describe some examples of the negative impact of this policy on employment in Arab countries.

In Egypt, the government tried to limit the repercussions of privatization and restructure public companies by using part of the revenues of privatization to establish an early retirement fund. The fund was created to enable workers laid off from privatized or restructured enterprises to obtain early retirement pensions under specific conditions and requirements. Around 610,000 workers and employees were estimated to have been laid off from public sector companies following this process by 2002, either due to reaching the legal age of retirement or early retirement. However, due to the hardships and the low-income levels of those obliged to choose, those who freely opted for early retirement used what they received to cover expenses. As a result, it prevented the early retirement scheme from being transferred to small projects. Ultimately, the majority became unemployed and candidates for informal labor in the hope of maintaining a minimum of decent living (عبد المجيد راشد،2007). According to other estimates (احمد السيد النجار2009, 495,600) workers were laid off from businesses from the beginning of the privatization program until mid-2006. Early retirement was the only recourse for many civil servants, especially with "many new owners of companies deliberately incurring losses to avoid paying incentives and profits to employees."

In the same context, the impact of privatization on employment in Sudan was negative, as it led to an average decline of 44% following a study of employment in 13 privatized enterprises. Increases were only seen in two enterprises, with an average of 17%. The number of people affected by the privatization and rehabilitation of State-owned enterprises in Sudan was estimated at 61,820 workers until 2004 (يوسف الفكي، 2006). In Jordan, the effects of privatization on civil servants varied from one company to another and from one sector to another. Employees integrated into the cadre benefited significantly in terms of salaries, benefits, and training. However, 20.4% of the labor in the restructured sectors was laid off. The number of workers receiving pensions after their layoff was 9% of total employees when the privatization program started. However, 10.4% of the laid-off labor force included workers who did not meet retirement requirements. They were dismissed for financial incentives and could not find alternative jobs, knowing that the financial compensation neither makes up for the pension nor for the moral suffering of those who wish to continue to work (طاهر حمدي كنعان وحازم تيسير رحاحلة، ٢٠١٦).

# Conclusion

The present paper focused on the relationship between neoliberal globalization and its manifestations through the adoption by Arab countries of economic policies inspired by neoliberal economic theory on the one hand and the evolution of informal labor on the other. IFIs have played an influential role in encouraging the adoption of these policies in the region. For example, they pressured debtor countries to adopt labor market flexibility, contributing to the deterioration of working conditions and the growing vulnerability of labor and informal labor. This paper focused on the contribution of trade and investment liberalization, macroeconomic policies, the privatization of the public sector, and the restructuring of state-owned enterprises to the growth of informal labor in the informal sector and the formal economy. It is built on analyzing specific cases of Arab economies for which studies and research papers are available or have provided relevant data and statistics.

The impact of trade and investment liberalization can be detected in at least two channels. The first channel goes through global value chains and production networks controlled by multinationals. Arab countries are considered among the weakest circles, i.e., low value-added and unskilled labor-intensive activities. The study of textiles, apparel, red fruit products, and QIZs showed how global capital pressure to reduce costs, adapt to market fluctuations, ensure quick and timely supply for the market, and gender-based discrimination has led to growing harms of exploitation, vulnerability, and informal labor, especially for women. On the other hand, if the impact of external competition on domestic enterprises is complex and not determined on the theoretical and empirical levels, this effect was negative in Egypt. Trade and investment liberalization in that country contributed to the growth of informal labor, with worse effects on women's employment.

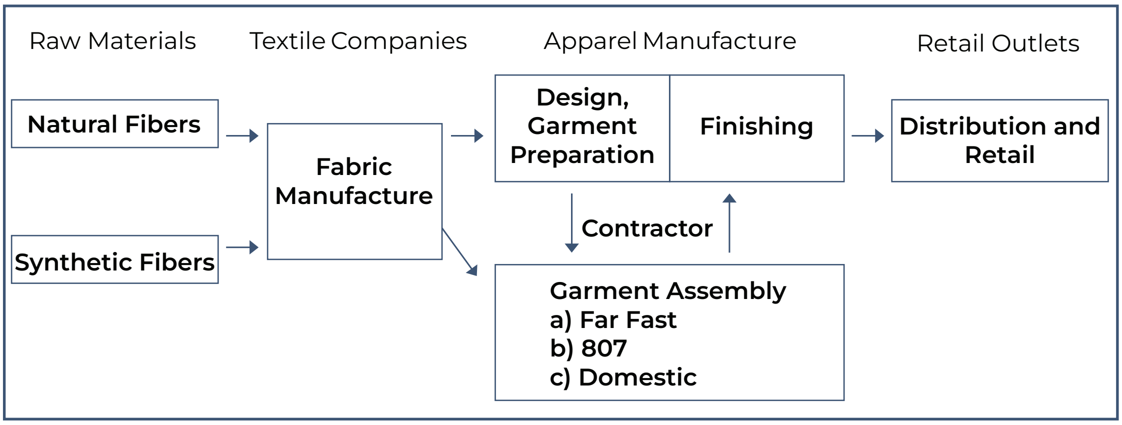
At the macroeconomic level, austerity financial policies implemented in the framework of stabilization and structural adjustment programs have been harmful to employment, particularly informal labor. The decline in public spending prevented jobseekers from joining the public service, especially young people and learners, in light of the private sector's failure to compensate for the state in pushing the economy forward. The decline in public investment also adversely affected growth and employment. In these circumstances, the unemployment rate has risen, and the unemployed were forced to find a foothold in the informal sector. The decline in the state's economic role has also slowed the pace of growth and contributed to the spread of unemployment, especially among young people. As a result, many unemployed were forced to resort to informal labor to earn a dignified living.

Last but not least, privatizations resulted in laying off large numbers of workers in Egypt, Sudan, and Jordan. The consequences for women became worse, especially for those who used to work in better conditions in the public sector in Egypt. At least part of them is now in the informal sector as a way to compensate, even partially, for their involuntary exit from the public sector.

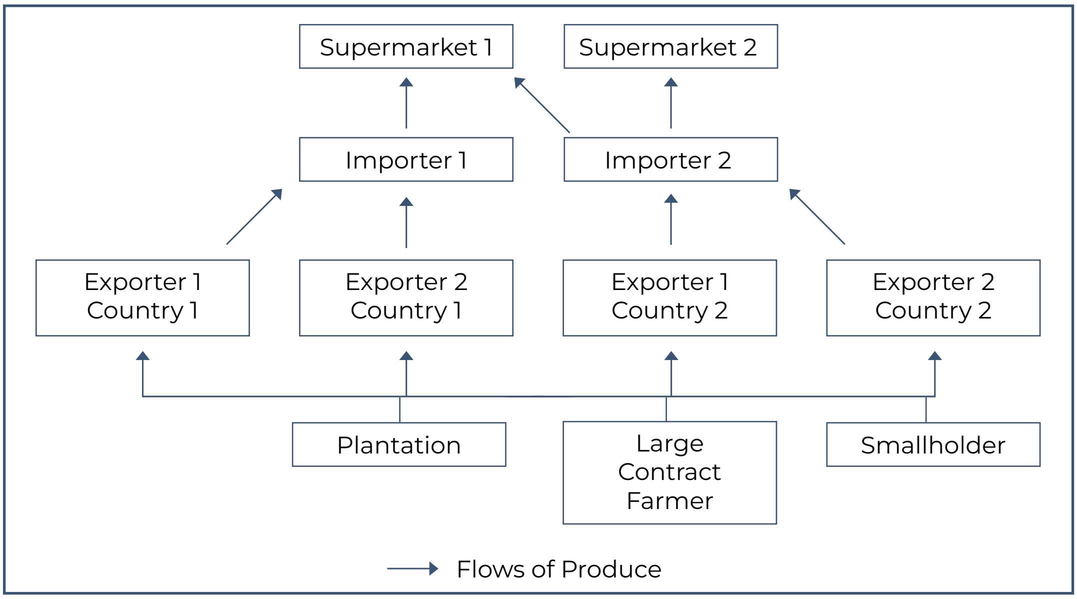
# Figures

Source of figures 1 and 2: Carr M and Chen M.A., 2001. Globalization and the informal economy: How global trade and investment impact on the working poor, WIEGO.

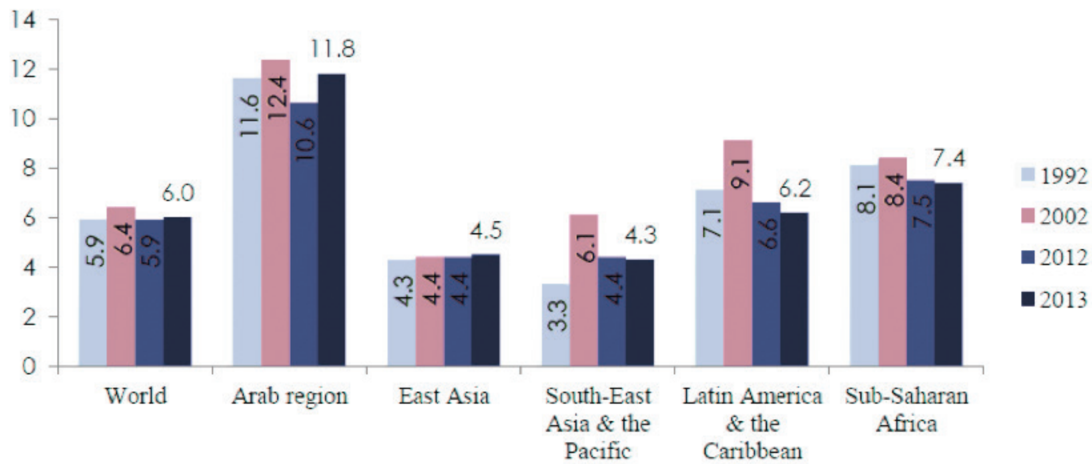
## Figure 1. Fashion-Oriented Chain




## Figure 2. Flows of Produce in African FV Chain

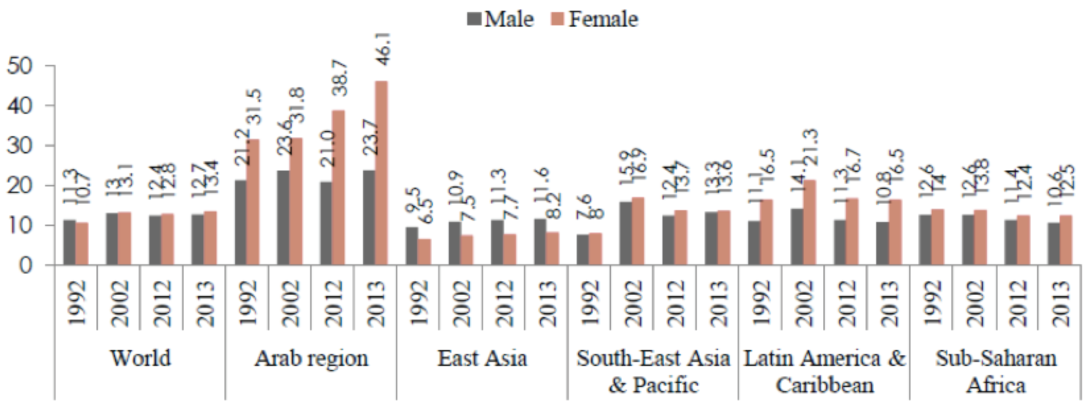



## Figure 3. Unemployment rate (%) across regions, 1992-2013



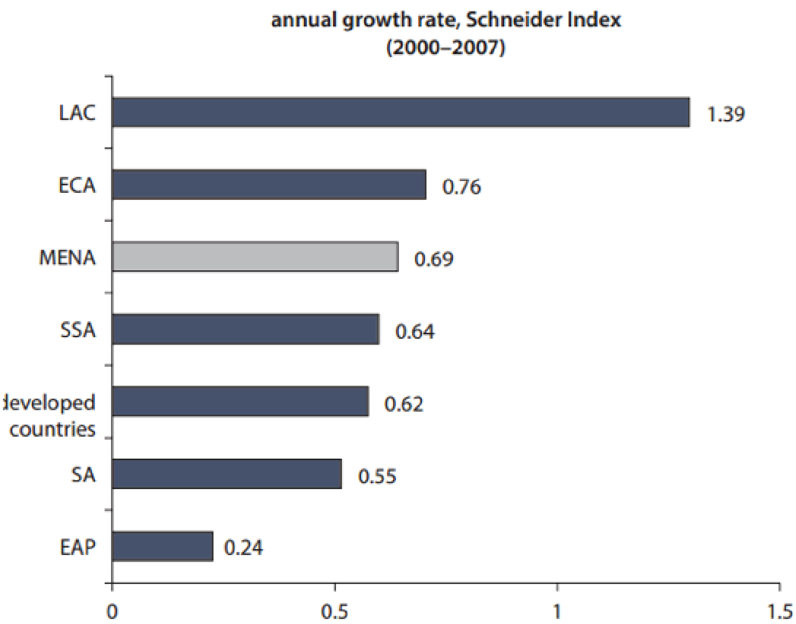

*Source:* ILO ( 2014).

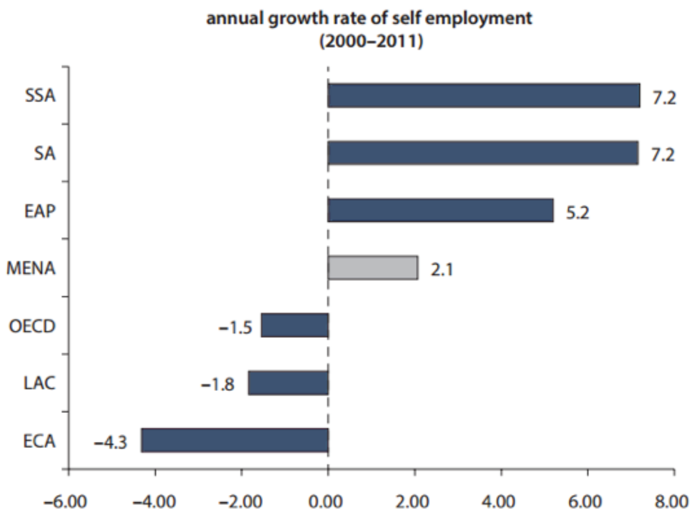
## Figure 4. Youth female and male unemployment rate (%) across regions, 1992-2013




Source: Sarangi N, 2015. Economic growth, Employment and Poverty in Developing Economies: A focus on Arab region.

## Figure 4. Youth female and male unemployment rate (%) across regions, 1992-2013




Source: World Bank, 2014 .Striving for jobs.

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# CHAPTER 4:

## South-South Development Cooperation in the Arab World

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# South-South Development Cooperation in the Arab World

This paper aims to identify the characteristics and features of South-South Cooperation (SSC) and its manifestation in the Arab world. The study links the rise of the nations of the South and their strengthening position in global politics and economy with the spread of various forms of SSC. This cooperation is not limited to classical development assistance (such as grants and concessional loans). However, it extends to trade, investment, exchange of expertise, and the transfer of knowledge and technology. This paper also focuses on Arab development cooperation regarding its importance and geographical and sectoral distribution. It provides a critical view of its content and dimensions, especially in light of the changes taking place in the Arab world after the revolutions that shook it in 2010 and 2011. The final part of this paper examines Arab regional integration as a primary mechanism for SSC by assessing the experiences of the Gulf Cooperation Council (GCC) and the Arab Maghreb Union (AMU), their limited achievements, and the magnitude of the challenges faced by these two entities. The study shows that SSC in the Arab world lags far behind compared with other regions in the South and is based on geopolitical considerations rather than economic interests.

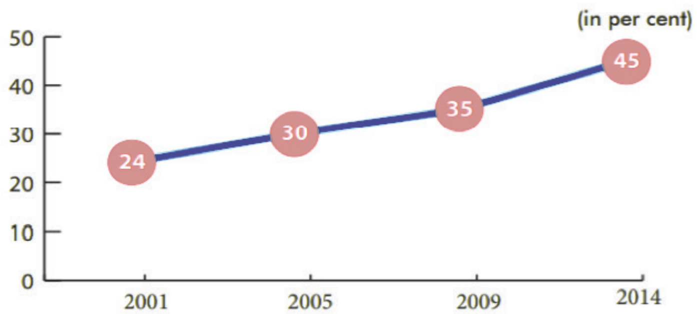
## Part 1: South-South Development Cooperation: Data and Conceptual Framework

The growth of SSC is related to the steady rise of the South and its increasingly strong standing in the global economy. This cooperation seeks to bypass official development assistance provided by countries of the North to "developing" countries. Maximizing the developmental benefits of SSC requires outlining the conceptual framework within which it operates and developing an appropriate approach to evaluate its implications.

### 1.1 Economic Rise of the South

There is now a consensus among international organizations, such as the UN, the OECD, multilateral institutions, and academic circles, that several countries in the South have achieved remarkable economic advancements. They were able to transform into emerging economies that could compete with developed capitalist states and aspire to alter the global power balance. The South's share of global production rose from 24% in 2001 to 30% in 2005 and 35% in 2009, and then to 45% in 2014 (Figure 1).

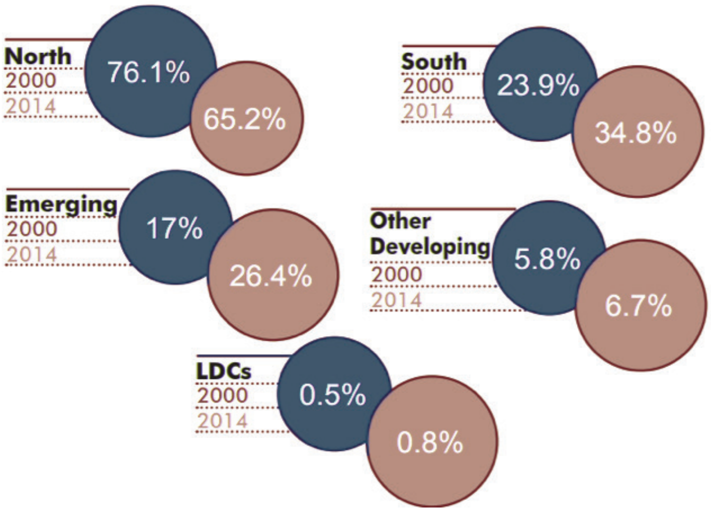
**Figure 1. Contribution of the south to the World Output**




Source: Resurging South, Stylized Facts. RIS, New Delhi.

This increase was at the expense of Northern countries, whose share of global GDP declined from 76.1% in 2000 to 65.2% in 2014 and then from 23.9% in 2000 to 34.8% in 2014 (Figure 2). The group of emerging countries, especially China, India, Brazil, and South Africa, was the largest beneficiary of this shift. Their share rose from 17% in 2000 to 26.4% in 2014. In contrast, other developing countries made minor improvements, as their share of the global GDP rose from 5.8% in 2000 to 6.7% in 2014 (Figure 2).

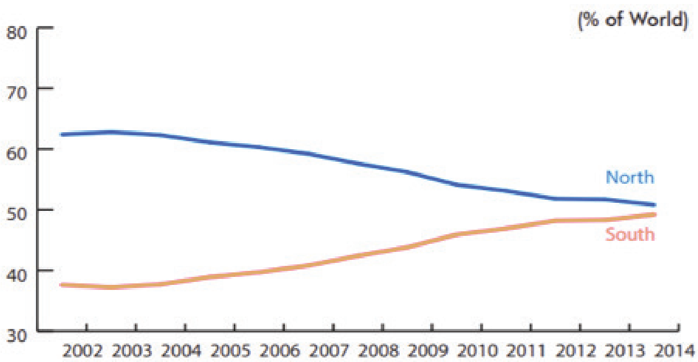
### Figure 2. GDP share in the world




Source: Resurging Facts.

Trade has contributed significantly to this increase. The share of the countries of the South in global trade underwent a qualitative leap between 2002 and 2014, in contrast to a significant decline in the share of countries in the North (Figure 3).

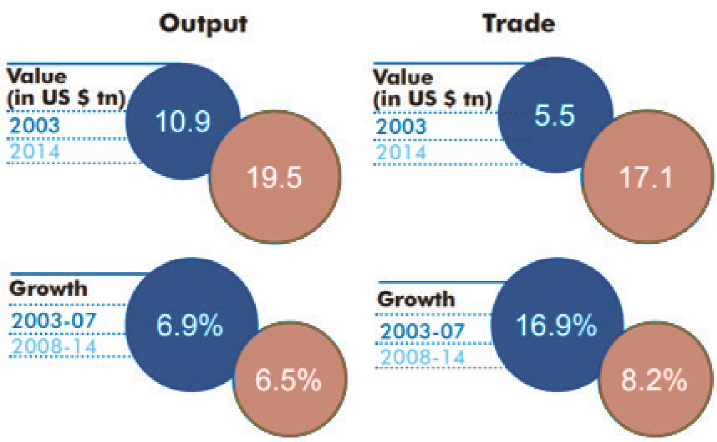
### Figure 3. Surging trade share of the south




Source: Resurging Facts.

Engaging in global and regional production chains has contributed to the commercial rise of countries of the South, as illustrated in Figure 4.

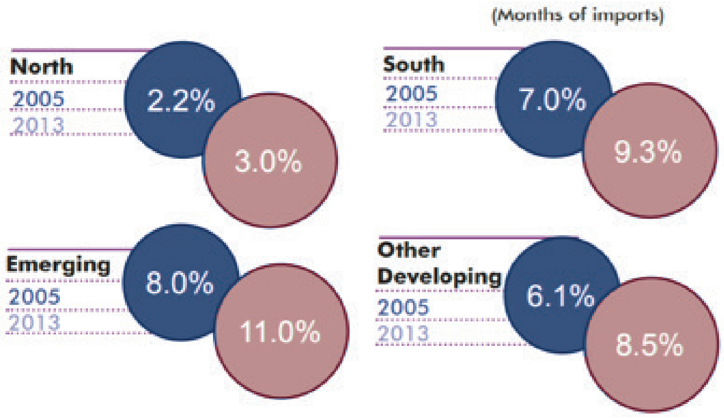
### Figure 4. Trade growing faster than output in the south




Source: Resurging Facts.

This figure shows that the South's share of global exports under these chains rose from 32% in 2002 to 47.9% in 2014. On the other hand, its share of global imports increased from 41.9% in 2002 to 51.3% in 2014. The South countries' improvement in trade strengthened their hard currency balance with a growth rate of 7.0% in 2005 and 9.3% in 2013 against 2.2% and only 3.0% for the countries of the North. The group of emerging countries recorded higher rates reaching 8.0% in 2005 and 11.0% in 2013 (Figure 5).

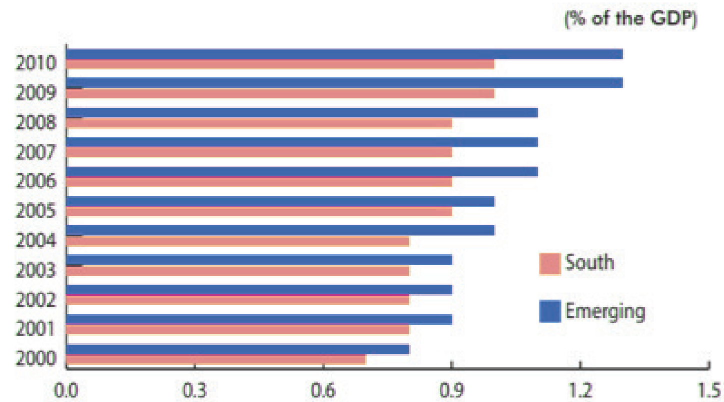
### Figure 5. Robust growth in reserves




Source: Resurging Facts.

Last but not least, the interest of the countries of the South in general, and the emerging countries in particular, in knowledge and technological progress has increased by allocating a significant percentage of their GDP to research and development, as shown in Figure 6.

### Figure 6. Growing R & D expenditure




Source: Resurging Facts.

The rise of Southern countries is expected to continue, and emerging markets could reach top positions in terms of the size of the economy globally by 2050 (Table 1).

### Table 1: Emerging markets among the top 10 economic positions (in terms of share of GDP)

| | 2016 | 2050 | |
|---|---|---|---|
| China | 1 | 1 | China |
| US | 2 | 2 | India |
| India | 3 | 3 | US |
| Japan | 4 | 4 | Indonesia |
| Germany | 5 | 5 | Brazil |
| Russia | 6 | 6 | Russia |
| Brazil | 7 | 7 | Mexico |
| Indonesia | 8 | 8 | Japan |
| UK | 9 | 9 | Germany |
| France | 10 | 10 | UK |

Source: United Nations Office for South-South Cooperation, 2021.

Last but not least, the rise of the South should not hide the reality of the significant disparities within this bloc, where the countries of South and East Asia (especially China and India) dominate. China relies on unconventional development policies, dealing with the engagement in the global economy cautiously and selectively. Other unhelpful external factors include the protectionist policies of developed capitalist countries in the agricultural, textile, and clothing trade.

## 1.2 From South-South Cooperation to South-South Development Cooperation

The first building blocks of the SSC were first laid with the struggle of the peoples of the Third World against colonialism and the first attempts to build independent national states during the 1950s. The Bandung Conference in 1955 was the first step in laying down the foundations of the SSC. It set the principles that would govern the relations between Asian and African countries. The most important of these principles included the sovereignty and unity of all nations, the non-interference in their internal affairs, the respect of human rights, the peaceful settlement of disputes, and the development of their mutual interests and cooperation. The Conference paved the way for establishing the Non-Aligned Movement in 1961 and then the Group of 77 in 1964.

Various forms of cooperation developed among countries of the third world, especially after the United Nations Conference on Technical Cooperation among Developing Countries in 1978 in Buenos Aires. The Conference launched several initiatives for regional integration between countries of the South by creating common regional markets and customs unions, establishing political and institutional cooperation, and transport and communication networks between states. They also included many forms of cooperation and coordination in international forums, especially within multilateral organizations, and in building military alliances and cultural exchanges. The Nairobi Final Act of the United Nations High-level Conference on South-South Cooperation for 2009 confirmed that "South-South Cooperation is a manifestation of solidarity among the peoples and countries of the South... and the essence of this cooperation and its agenda must be determined by the countries of the South and should continue to be guided by the principles of respect for national sovereignty, national ownership, and independence, equality, non-conditionality, non-interference in domestic affairs and mutual benefit." The SSC has developed significantly over the last two decades, for example, in trade, investment, development assistance, technical cooperation, and other financial flows. For example, the SSC's share of global trade rose from 8.1% in 1980 to 16% in 1991 and then to 30% in 2011. On the other hand, the share of the North fell from 46% to less than 30% between 1980 and 2010.

One of the benefits of the South-South trade is that it limits dependence on markets of the North, reduces transport costs given the geographical proximity of its countries, and helps diversify the basket of goods exchanged. The South-South foreign direct investment (FDI) inflows have followed the same upward trend, as their share of global inflows rose from 6% in 1980 to 31% in 2012. Other data also show that South-South FDI inflows have become a distinct phenomenon, growing at an annual rate of 21% and accounting for about 14% of total foreign investments globally. The trade between Brazil and Africa, for example, has jumped dramatically from $4 billion in 2000 to $28 billion in 2012. This development was one of the critical factors that led Brazil to increase its number of embassies in Africa to 37, exceeding the UK's. China has also become the most important trading partner of the African continent.

The SSC is characterized by its diverse forms and contents. This paper focuses on the aspect of this cooperation that involves development assistance.

The latest statistics published by the Organization for Economic Co-operation and Development (Table 1) indicate that the development cooperation provided by the ten largest donor countries in the South continued to increase between 2010 and 2015, rising from $10.1 billion in 2010 to $28.8 billion approximately in 2014. However, these numbers do not account for the contributions of donor countries of the South to multilateral organizations, particularly those belonging to the United Nations.

**Table 2: Estimated gross development co-operation from emerging providers with annual expenditures of over USD 300 million (in 2013/2014)**

| Country | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Brazil | 500 | 469 | 411 | 316 | n.a. |
| China | 2564 | 2785 | 3123 | 2997 | 3401 |
| India | 708 | 794 | 1077 | 1223 | 1398 |
| Kuwait (KFAED) | 639 | 526 | 482 | 541 | 598 |
| Mexico | n.a. | 99 | 203 | 526 | 169 |
| Qatar | 334 | 733 | 543 | 1344 | n.a. |
| Russian Federation | 472 | 479 | 465 | 714 | 876 |
| Saudi Arabia | 3494 | 5239 | 1436 | 5825 | 13785 |
| Turkey | 967 | 1273 | 2533 | 3308 | 3591 |
| United Arab Emirates | 542 | 796 | 854 | 5493 | 5193 |

n.a. = not available

Source: Luijkx W and Benn J,2017, Emerging providers' international cooperation for development, OECD, Paris, p 7.

According to the same source (Table 3), SSC accounted for 5.2% of the international development cooperation in 2011, 5.6% in 2012, 6.8% in 2013, and 7.0% in 2014. However, methods of calculating aid coming from South countries tend to underestimate their actual size. This issue is elaborated in Section 1.3 (see Correa ML, 2017).

**Table 3: Estimated global development co-operation (gross disbursements, current prices)**

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2014 (% of total) |
|---|---|---|---|---|---|---|
| ODA from 28 DAC member countries | 141.2 | 150.1 | 140.1 | 151.7 | 150.8 | 83% |
| ODA from 19 emerging countries providers that report to the OECD-DAC | 6.7 | 9.1 | 6.5 | 16.7 | 25.0 | 14% |
| Estimated development co-operation flows from 10 non-reporting emerging providers | 4.3 | 5.2 | 5.6 | 6.8 | 7.0 | 4% |
| Subtotal: development co-operation from 29 emerging providers | 11.0 | 14.3 | 12.1 | 23.4 | 32.0 | 17% |
| Estimated global total | 152.3 | 164.3 | 152.2 | 175.1 | 182.8 | 100% |

Source: Luijks, and Benn, 2017, op.cit.

*Note: i) From OECD 2016. ii) The 29 providers include 19 countries that report to the OECD (Israel, Kazakhstan, Kuwait, Liechtenstein, Russian Federation, Saudi Arabia, Thailand, Timor-Leste, Turkey, United Arab Emirates and the 9 EU members that are not members of the DAC) and 10 countries for which the OECD makes estimates (Brazil, Chile, China, Colombia, Costa Rica, India, Indonesia, Mexico, Qatar and South Africa). iii) Brazil and Qatar have not published data on their development co-operation for 2014. To complete the table, Brazil's, and Qatar's development co-operation in 2014 is estimated to the at the same level as in 2013. iv) The sum of ODA by 19 reporting providers (14%) and estimates on 10 non-reporting providers (4%) is 17% due to rounding.*

Saudi Arabia, China, Turkey, India, and the United Arab Emirates are the major donor countries. On the other hand, the sectoral distribution of the SSC varies according to the donor country. For example, China focuses on public utilities, industry, and infrastructure, prioritizing ready-made projects. However, Brazil is concerned with humanitarian assistance, technical assistance, scientific and technological cooperation, research grants, and expenses for refugees. On the other hand, India focuses on health, education, information technology, and hydropower generation. At the same time, South Africa is mainly interested in technical cooperation in peacekeeping, security, and governance. It should be noted that these states also resort to triangular cooperation in partnership with multilateral organizations such as the World Bank, UNDP, WFP, and OECD countries.

From another perspective, it is worth noting that SSC derives its principles from the Bandung Conference and seeks to establish bilateral and multilateral relations based on solidarity and cooperation rather than hegemony and dependency, as is the case in North-South relations. It means building horizontal and non-hierarchical relations among equals rather than partners of unequal powers, and relations characterized by respect for national sovereignty, non-interference in domestic affairs (rather than colonial or neo-colonial relations), non-conditionality (in contrast to the conditionality imposed by Northern countries), and mutual benefit (in contrast to the patriarchy of "The West"). Box 1 illustrates the distinction between the Nairobi Conference's (2009) normative principles for the SSC and the North-South relations. However, it also reveals some similarities in the operational principles, such as transparency, development effectiveness, coordination, results-based initiatives, and the integrative multi-stakeholder approach (we will return to this later).

### Box 1: Nairobi principles of South-South Cooperation

**Nairobi principles of South-South Cooperation**

**Normative principles**

- Respect for national sovereignty
- Partnership among equals
- Non-conditionality
- Non-interference in domestic affairs
- Mutual benefit

**Operational principles**

- Mutual accountability and transparency
- Development effectiveness
- Coordination of evidence- and results-based initiatives
- Multi-stakeholder approach

Source: Country Case Studies on South-South Cooperation 2016, p14.

## 1.3 Conceptual Framework for the South-South Development Cooperation

The traditional approach to development cooperation adopted by OECD member countries derives its theoretical grounds from the Harrod-Domar model. The model closely links the economic growth rates of countries to the volume of investment in equipment in particular, and hence the proportion of GDP allocated to the formation of fixed capital (or investment). However, the financing of this investment effort by less developed countries is hindered by weak domestic savings, making the need for external resources crucial. According to this approach, developed capitalist countries had to aid with the development of countries of the South, especially since the dangerous spread of communism threatened many developing countries during the Cold War in the 1950s and 1960s.

The debt crisis affecting many “developing” countries in the 1980s forced them to adopt “economic reforms” under pressure from international financial institutions (IFIs). These “reforms” were based on the neoliberal model, which relies on the idea that economic growth depends on liberalizing the economy, opening up markets, adopting privatization, controlling macroeconomic balances, and good governance. More specifically, these “reforms” were based on the principles of the Washington Consensus. They mainly entailed avoiding a significant increase in fiscal deficit to GDP, redirecting public spending from subsidies to sectors that benefit the poor (especially education and health), introducing tax reforms, liberalizing interest rates and subjecting them to market mechanisms, implementing competitive exchange rates, facilitating the flow of foreign investments, privatize the public sector and state-owned enterprises, lifting restrictions on the freedom to access and exit from the market through the abolition of restrictions that negatively impact competition, and legally protecting intellectual property rights.

In this context, assistance for development has been used as a conditionality tool to make countries of the South adopt structural adjustment programs designed under international institutions such as the World Bank and the IMF. By the turn of the 21st century, more emphasis has been placed on linking assistance for development to trade under the term “assistance for trade.” This trend aims to push Southern countries towards more integration into the global capitalist economy by allocating development assistance to finance the infrastructure necessary for trade. It includes the construction of ports, airports, and roads that serve as the interface between production zones and markets. Assistance for trade is also provided to fund training and capacity-building and support institutional reforms (e.g., customs administration).

Three main factors have prompted official and academic circles and public opinion to question the efficacy of the neoliberal model adopted as a reference for development assistance. Firstly, the structural adjustment programs imposed by IFIs, such as the World Bank and the IMF, have failed to accelerate growth in many countries of the South. However, they have been revised to include an institutional conditionality under “good governance” (Stiglitz, 2002).
Secondly, in practice, focusing on investment as the decisive factor in stimulating growth is inaccurate. Multiple and complex factors affect the level of growth achieved by countries receiving development assistance (Easterly W, 2001). The problem is particularly evident in official development assistance (ODA). A study of ODA’s impact on growth over three decades has revealed that it was absent, weak, or even negative (Shahid Yusuf with Deaton A, Dervis K, Easterly W, Ito T, Stiglitz E, 2009).

The third factor is the global financial crisis of 2007 and 2008, which proved the invalidity of the argument that market mechanisms can correct themselves without the need for state intervention. Keynesian-style solutions have saved the banking and financial sector in developed capitalist countries. On the other hand, this crisis has had disastrous effects on the vulnerable and middle classes in the North and South alike. It pushed these groups to resist the neoliberal model and contributed to many popular uprisings, most notably the outbreak of the Arab revolutions in 2011. Given these circumstances, “developing” countries in the South became more attracted to emerging countries for development assistance as a replacement for traditional assistance by donor countries of the North.

This rapprochement has provided a new spirit to SSC, whose principles were established in the 1950s and 1960s. On the other hand, this geopolitical shift served as an opportunity for emerging countries to strengthen their presence and position at the regional and international levels to shift the balance of power towards a multipolar world. While it is still premature to speak of an alternative model of development cooperation based on a different approach to development and international cooperation, the experiences of some countries of the South may help touch upon some of its emerging elements. What comes to mind first is the so-called Beijing Consensus, which holds that there is no single model that can be generalizable and that there is no single solution to development challenges. That is because the nations that succeeded in developing did not implement the Washington Consensus but were inspired by different experiences of development, particularly the new wave of Asian development models. More accurately, the Beijing Consensus considers that development depends on the presence of a long-term vision and a national project in which the developing state plays a pivotal role and prioritizes technological innovation geared towards a less polluting industry. A fundamental principle of this Consensus is the independence of states and their right to self-determination in the face of the world's dominant pole – the US.

The successful economic rise of China, in comparison to the failure of the countries that had adopted the Washington Consensus, and its relentless efforts to strengthen its regional and global position allowed it to link various SSC relations on different levels, in contrast with the traditional approach adopted by countries of the North. For example, India has adopted a structural approach to the economies of the South to chart its strategy for development cooperation (Indian Development Cooperation, 2016). This approach considers that there are challenges related to weak productive capacities and supply, which prevents the economies of the South from developing, particularly in agriculture, industry, services, infrastructure, and social services. Therefore, the development cooperation policy must respond to the demand and characteristics of the countries of the South and encourage the redistribution of income through the creation of small enterprises that generate employment in specific regions within the concerned country. This approach goes against the ODA policy adopted by the countries of the North based on conditionality, especially concerning the focus on macroeconomic balances and the fight against inflation as the keys to economic growth.

In conclusion, emerging countries will adopt a different approach to SSC compared to what is prevalent in the literature and the practices of the countries of the North under the OECD. Box 1 illustrates the differences and convergence between the two approaches. At the level of normative principles, the Nairobi Document emphasizes respect for national sovereignty, equal partnership, the absence of conditionality, non-interference in internal affairs, and mutual benefit. On the other hand, the two approaches intersect at the level of practical principles, focusing on mutual accountability and transparency, development effectiveness, and the need to coordinate results-based initiatives and stakeholder approaches.

## 1.4 Towards a New Approach to Assessing the Quality and Impact of South-South Development Cooperation

It is difficult to speak of a single approach or framework for assessing the impact and quality of SSC, given the recent interest in this subject compared with the accumulated experience in development assistance as formulated by the Development Assistance Committee of the OECD. Therefore, we will present some of the attempts suggested by South researchers and academics to present a briefing on the subject.

### - The Definition Problematic

SSC is considered more comprehensive than the ODA of the Development Assistance

Committee of the OECD. It also includes peacekeeping, debt cancellation, scholarships, humanitarian and refugee assistance, trade facilitation, and measures to stimulate investment. However, it should be noted that the definition of SSC requires some flexibility to account for the particularities and circumstances of the countries of the South.

### - Measuring SSC

There are several difficulties facing any attempt to measure SSC. The first is the lack of necessary information in many countries of the South due to the weak institutional structures concerned with development cooperation or political reasons. The second is the objection of some countries in the South, such as Brazil or India, to giving a monetary value for their contributions to development because that would belittle them or would not reflect the spirit of solidarity on which the SSC is based (Di Ciommo M, 2017).

Undermining the value of the SSC is because the prices of goods and services are lower in the South compared to developed capitalist countries. This discrepancy may lead to underestimating the development support provided by countries in the South. Therefore, there are alternative proposals that focus on the outcomes and implications of SSC rather than its inputs and that would give a broader view of this cooperation and demonstrate its added value and contribution to the development of partner countries. However, official approaches to development cooperation do not provide this type of information.

### - Evaluation of the Impact of SSC

The assessment of the impact of SSC poses several difficulties, especially given the lack of data and the absence of a standard definition for SSC. The first problem concerns the appropriateness of the term "results-based management (RBM)" adopted by traditional development assistance donors to assess SSC programs because of their technocratic nature and their focus on the technical aspects of planning and reporting. However, these shortcomings did not prevent the emerging countries of the South from using RBM to assess the impact of their development programs and interventions in the South. For this reason, some experts suggest that this approach should be used in conjunction with the concept of "mutual benefit," which characterizes SSC. This addition would include in the impact assessment both the "donor" and the "beneficiary" country, as opposed to North-South cooperation, where the development impact assessment is limited to the country receiving the official development assistance (NeST Africa, 2015).

The second problem is the issue of the criteria to be adopted to assess the developmental impact of SSC. It is known that OECD donors rely on five criteria for evaluating development programs: relevance, effectiveness, efficiency, impact, and sustainability. The question is whether these criteria are appropriate to assess the impact of SSC, which is fundamentally different from North-South cooperation. Some countries, such as India, have proposed a new network of impact assessment criteria as follows: (i) Empowering local groups, citizens, and partner countries, (ii) building trust among local groups and citizens and within the partner countries themselves, (iii) mutual benefit for citizens, local groups, and partner countries, (iv) impact on local groups, citizens and partner countries, and (v) sustainability of social, human, natural, environmental and political resources in partner countries (NeST Africa, idem).

The third problem relates to the methodology of development impact assessment. Opinions differ between support for quantitative approaches and the tendency to consider qualitative approaches due to the small size of SSC projects. Therefore, mixed approaches are more appropriate to assess the developmental impact of such cooperation, and participatory approaches are preferred because they open up a joint impact assessment involving all stakeholders. However, given the paucity of data on SSC, case studies remain the easiest and most commonly used method to assess its impact.

### - Analytical Framework for Assessing the Nature (or quality) of SSC

The following are the main elements of the analytical framework for evaluating the quality of development cooperation (Besharati, N.A., Rawhani, C & Rios, O.R., 2017).

This framework consists of five dimensions and 20 indicators, as shown in Table 3.

- The first dimension concerns national ownership, consisting of five indicators: "multi-stakeholder partnerships" (indicator 1). In most cases, SSC depends on inter-governmental relations, which is why it is necessary to ensure the participation of all stakeholders, including non-governmental actors and CSOs. The same applies to "people-centered inclusivity" (indicator 2), which means that all SSC activities should seek to improve the economic and social conditions of the poorest and most disadvantaged groups. These indicators will ensure that SSC is consistent with partner countries' national needs and priorities (indicator 3). SSC should not include any restrictions that might undermine the sovereignty of the partner country (indicator 4).

- The second dimension is "horizontality," which means equality between the two partners and the absence of any hierarchy between them. Mutual benefit (indicator 5), shared decisions, and resources (indicator 6) are emphasized in this context. "Trust and solidarity" (indicator 7) are also important to emphasize "horizontality," and this can be measured, for example, by the frequency and quality of communication between the two partner countries and the depth of bilateral relations between them. According to the same analytical framework, a component of the SSC is the existence of "global political coalitions" (indicator 8) in the form of common positions adopted by partner countries in international forums.

- The third dimension of "self-reliance and sustainability" seeks to reduce external dependence, which could be achieved by strengthening local capacities (indicator 9) and transferring knowledge and appropriate technology (indicator 10). "Use of country systems and human resources" (indicator 11) and "domestic revenue generation" (indicator 12) can help "recipient" countries provide the resources necessary to finance the development process.

- The fourth dimension focuses on "accountability and transparency." It is linked to the existence of adequate "data management and reporting systems" (indicator 13), which refers to the political will to collect, analyze and disseminate information on memorandums of understanding and agreements and project implementation. It also requires an effective monitoring and evaluation system (indicator 14). Furthermore, all stakeholders must be informed of this data (indicator 15) to ensure transparency. Similarly, enhancing transparency on SSC and providing mechanisms for joint reviews would lead to "mutual accountability" (indicator 16).

- The fifth and final dimension relates to the general efficiency of the SSC in achieving the development objectives envisaged. This dimension is measured with five indicators. First, "flexibility and adaptation" to the local environment to respond to needs and priorities expressed by partner countries (indicator 17). Second, efficiency in project delivery and time and cost management (indicator 18) is an SSC strong point. Third, efficiency is also linked to the coordination and integration within, or between, bodies in the SSC and their relations with partner countries (indicator 19). Fourth, achieving development goals requires the promotion of South-South coherence and cooperation in trade, investment, security, and migration policies (indicator 20).

**Table 4**

| Analytical framework for assessing the China-Pakistan development partnership | | | | | |
|---|---|---|---|---|---|
| **Dimensions** | **Inclusive national Ownership** | **Horizontality** | **Self-reliance and sustainability** | **Accountability and transparency** | **Development efficiency** |
| | (1) Multi-stakeholder partnerships | (5) Mutual benefit | (9) Capacity building | (13) Data management and reporting | (17) Flexibility and adaptation |
| | 2) People-centered inclusivity | (6) Shared decisions & resources | (10) Knowledge and technology transfer | (14)M&E systems | (18) Time and cost efficiency |

| | | | | | |
|---|---|---|---|---|---|
| | (3) Demand-driven | (7) Trust and solidarity | (11)Use of country systems and human resources | (15) Transparency and access to information | (19) Internal and external coordination |
| | (4)Non-conditionality | (8)Global political coalitions | (12)Domestic revenue generation | (16)Mutual accountability and joint reviews | (20)Policy coherence for development |

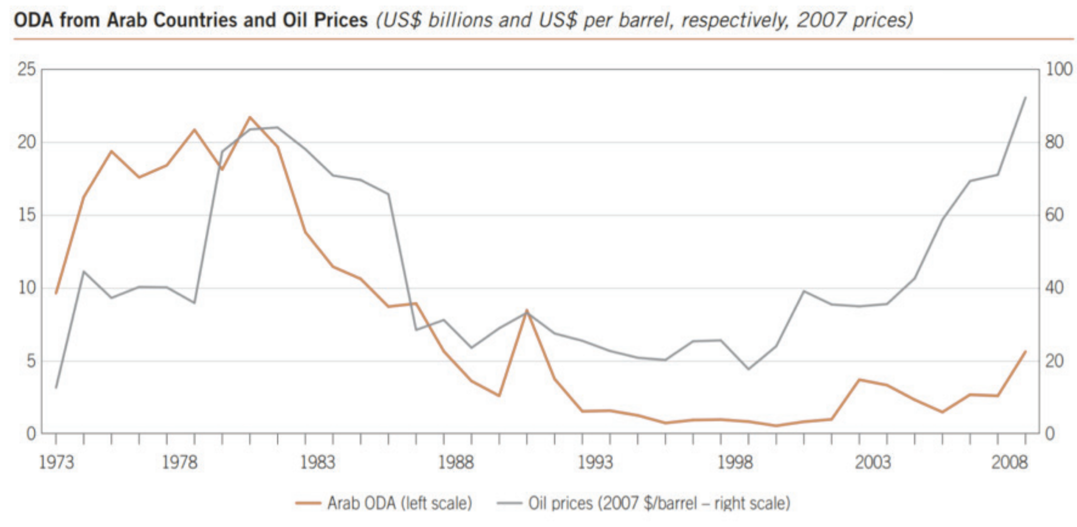
Source: Besharati et al., 2017

# Part 2: Arab Development Cooperation

## 2.1 Size of Development Assistance:

Development cooperation is considered one of the most critical aspects of SSC between Arab countries or in their relationship with the rest of the South. This cooperation manifested clearly during the 1970s after the oil boom provided significant financial resources to Arab oil countries, which used part of those resources for development assistance. Figure 7 shows the strong relationship between the development of Arab development assistance and the level of world oil prices, which culminated in 1980 and 1981. The amount of official development assistance (i.e., total development assistance commitments from Arab donor countries) and assistance from the coordination group institutions (IDB, Abu Dhabi Development Fund, OPEC Fund for Development, Saudi Fund for Development, Arab Fund for Economic and Social Development, International Fund for Agricultural Development, The Arab Bank for Economic Development in Africa, the Arab Gulf Development Program (AGFUND), the Arab Monetary Fund and the Qatar Development Fund) in addition to other development funding on concessional terms, reached an annual rate of 6.3 billion dollars between the years 2011 and 2015 (relating to net spending). Statistics included in this chapter are taken from OECD (2017).

**Figure 7**




Source: World Bank, 2010, p.6

By comparison, the countries of the Organization for Economic Co-operation and Development (OECD) – a club of wealthy capitalist countries – allocated $13.3 billion for development assistance during the same period. Development assistance from Arab countries accounts for 47% of the total development cooperation provided by non-OECD donor countries. Saudi Arabia, the United Arab Emirates, and Qatar are among the largest donors to bilateral development assistance, with contributions exceeding 0.7% of the gross national income.

## 2.2 Donors:

Figure 8 shows a map of the Arab donor countries and institutions. In the following paragraph, we will focus on the key donor countries and the national and regional Arab financial institutions.

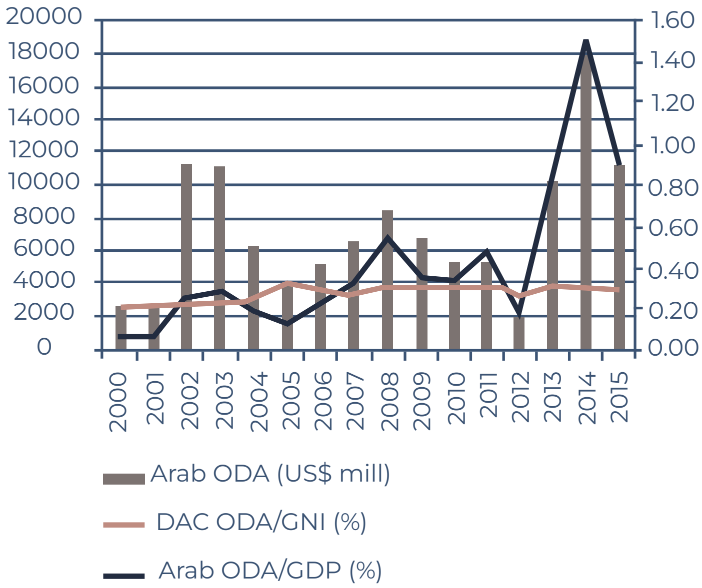
**Figure 8: Arab providers of development co-operation**


Source: OECD, 2017.

### 2.2.1 Bilateral Development Cooperation:

Development assistance provided by the major GCC countries has been steadily increasing since the global financial crisis (2007-2008), both in absolute and relative terms (Figure 8). The share of Kuwait, Saudi Arabia, and the United Arab Emirates compared to the total development assistance provided by rich capitalist countries increased from 2.8% of GDP during the four years preceding the global crisis to 4.0% during the crisis period (2008-2010) and then to 7.5% during the period following the Arab Spring (2011-2015). On the other hand, the annual rate of assistance provided by Kuwait, Saudi Arabia, and the United Arab Emirates has doubled during the global financial crisis and after the Arab Spring. This assistance peaked in 2014 when it reached $19 billion. Saudi Arabia is the largest donor country, with 65% of the total assistance provided by the three GCC countries from 2011 to 2015, followed by the United Arab Emirates (33%) and Kuwait (2%). Moreover, these countries provide the most significant proportion of development assistance through bilateral channels and grants (90%) (World Bank, 2018).

**Figure 9: Total net ODA disbursements of Kuwait, Saudi Arabia and the UAE**




Source: World Bank, 2018

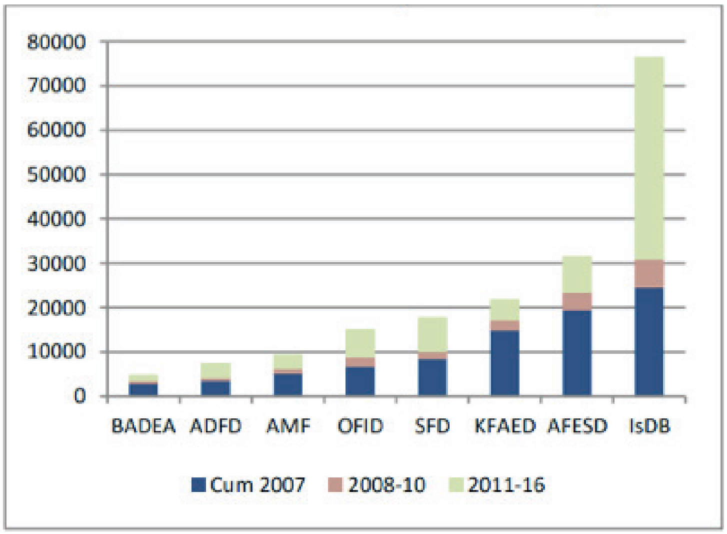
## 2.2.2 Development Assistance Provided by National and Regional Arab Financial Institutions.

The regional funds consist of the Arab Fund for Economic and Social Development (1967) and the Arab Monetary Fund (1976). The national funds consist of the Kuwait Fund for Arab Economic Development (1961), the Abu Dhabi Fund for Development (1971), and the Saudi Fund for Development (1974). Finally, there are international financial institutions, namely the Islamic Development Bank (1975), 70% funded by Arab countries, and the OPEC Fund for Development (1976), which derives two-thirds of its resources from seven Arab oil countries. These financial institutions have formed the "Coordination Group" to enhance cooperation, coordinate Arab development assistance, and avoid duplication in granting loans. These funds provide loans on concessional terms, namely, low interest rates, length of grace periods, and repayments, as well as an increase in the grant component, which is 45%, significantly higher than the grant component of available international financing.

National and regional Arab financial institutions have increased their development assistance in response to the global financial crisis and the uprisings of the Arab Spring (Figure 9), especially since 2013. Thus, these institutions' annual commitment rates more than doubled between 2011 and 2016 compared with 2008-2010, moving from $7.4 billion in 2010 to a record high of $20 billion in 2016.

The Islamic Development Bank provided the largest share of development assistance (56.5%) during the period 2011-2016, followed by the Arab Fund for Economic and Social Development (10.2%), the Saudi Fund for Development (9.7%), and the OPEC Fund for Development (7.9%).

**Figure 10: Commitments of national and regional Arab financial institutions ($millions)**

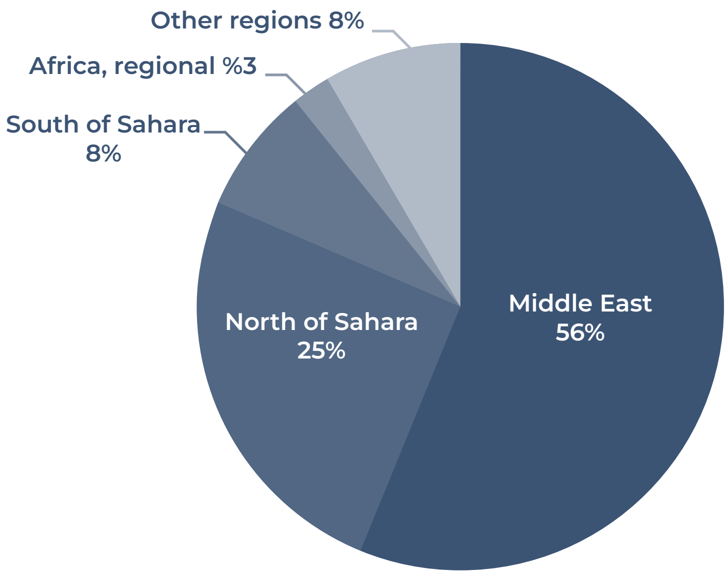



Source: World Bank, 2018

## 2. 3 Beneficiaries:

Arab donors, both countries and institutions, focus their interventions on the Arab region, with 81% of the development aid provided by seven major Arab donors being allocated to the region (Figure 11).

**Figure 11: 2011 - 15 annual average, gross disbursements**




Source: OECD, 2017.

Table 5 shows that Egypt was the top beneficiary of bilateral Arab development assistance during the period 2011-2015, receiving 33.5% of the total development assistance, followed by Morocco (5.8%), Jordan (5.3%), and Yemen (5.0%). The rest of the Arab countries (Sudan, Mauritania, Lebanon, Tunisia, and Palestine) received 8.2% of the total development assistance.

**Table 5: Top 10 partners of Arab recipients - 2011-15 annual average, bilateral gross disbursements, USD million, constant 2015 prices**

| Partners | Amount | Share |
|---|---|---|
| Egypt | 2,624 | 33.5% |
| Morocco | 373 | 5.8% |
| Jordan | 337 | 5.3% |
| Yemen | 322 | 5% |
| Sudan | 181 | 2.8% |
| Pakistan | 123 | 1.9% |
| Mauritania | 103 | 1.6% |
| Lebanon | 87 | 1.4% |
| Tunisia | 83 | 1.3% |
| West Bank and Gaza Strip | 72 | 1.1% |
| Total | 4305 | 59.7% |

Source: OECD, 2017.

The same emphasis is observed in interventions by Arab financial institutions, where the top five countries accounted for 40% of the total development assistance provided over the last 20 years. As for the top ten countries, their assistance amounted to 55-60%.

The top 10 list included seven Arab countries and Bangladesh, Pakistan, and Turkey. In 2016, however, only three Arab countries (Egypt, Oman, and Morocco) made it to the list, with the rest being non-Arab (including Serbia and Turkmenistan).

## 2.4 Preferential Support for the Countries of the Arab Spring

GCC countries and regional institutions have provided substantial financial assistance to five countries that experienced popular uprisings during the Arab Spring - Egypt, Morocco, Tunisia, and Yemen. The unwavering contribution of these parties to the so-called “Deauville Partnership” has confirmed their commitment to support these countries.

Subsequently, the total financial assistance from the Gulf countries reached $30 billion between July 2013 and December 2016. In 2011, Gulf countries (Kuwait, Qatar, Saudi Arabia, and the UAE) pledged exceptional financial support to Morocco and Jordan of $5 billion each, to be spent in five years. The same pledge was made in 2016 by the Gulf countries with special financial assistance estimated at $4 billion. Finally, these same Gulf countries granted Yemen $4.7 billion in 2012-2014 (i.e., before the war), of which Saudi Arabia provided almost half ($2.2 billion).

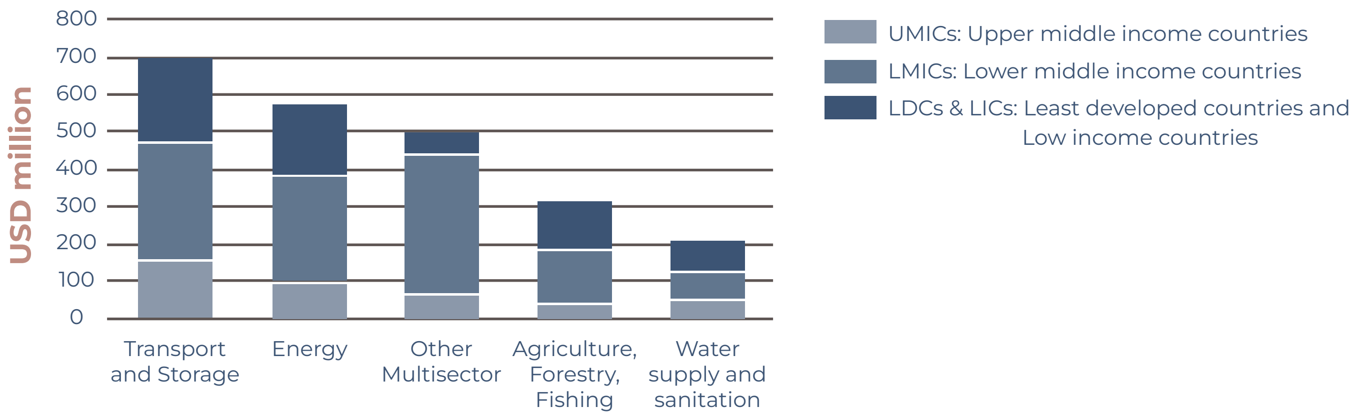
National and regional financial institutions provided almost 30% of their development assistance between 2011 and 2016 to countries in which the Arab Spring took place. Egypt alone benefited from half of this assistance. Moreover, this financial development assistance marked an annual growth rate of 68% compared to the situation prior to the global financial crisis. The Islamic Development Bank ranked first among the contributing financial institutions, accounting for 39% of the total development assistance, followed by The Arab Fund for Economic and Social Development (22%). For their part, national financial institutions concentrated their financial assistance on Egypt (Saudi Fund and Kuwait Fund) and Jordan (the case of the Abu Dhabi Fund).

It must be noted that less than one-fifth of Arab development assistance (19%, as shown in Figure 3) was allocated to non-Arab countries, particularly sub-Saharan Africa (11% of total Arab development assistance).

## 2.5 Sectoral Distribution of Arab Development Assistance

Five sectors account for 78% of the development assistance provided by the eight largest donors from Arab countries and financial institutions (Figure 12).

**Figure 12: Five main sectors for total Arab ODA - 2011 annual average gross disbursements, USD million, constant 2015 prices**




Source: OECD, 2017.

The transport and storage sector is the top priority (24%), followed by the energy sector (19%); agriculture, forestry, and marine fishing (11%); and mining and construction sectors. The remaining 17% goes largely to urban development (Figure 11). It should be noted that the interest of national and regional Arab financial institutions is not limited to funding sectoral activities. It also supports economic reform programs. For example, the Arab Monetary Fund directs its interventions exclusively to support the balance of payments and structural adjustment programs, similar to the global interventions of the IMF.

## 2.6 Evaluation of Arab Development Aid

There is no doubt that Arab development cooperation has positive aspects, especially its effective contribution to financing several projects in essential sectors in Arab countries. It also contributed to reducing the suffocating pressure countries are suffering from and building those countries' human and institutional capacities. Bilateral government assistance is mainly devoted to covering the deficit in the general budgets of recipient countries and meeting their external commitments. National and regional Arab financial institutions also affirm their support to recipient countries to achieve the SDGs adopted by the UN in September 2015 to replace the MDGs. Furthermore, they affirm their commitment to respect the development priorities of the beneficiary countries, including projects in various economic and social sectors.

However, Arab development cooperation has precise geopolitical dimensions that limit its developmental capacity and serve primarily the strategic and economic interests of the donor countries, namely the Gulf countries in the Arab case.

Recently, it could be noted that Saudi Arabia's strategy, being the most prominent Arab donor to development assistance, has been to contain the Arab Spring and its aftermath. It considers them a real threat to the internal stability of conservative monarchies in the Arabian Gulf in the short and medium-term and their long-term survival. The Arab Spring also enabled the Muslim Brotherhood to gain power in several Arab countries, posing a clear threat to Wahhabism, one of the founding pillars of Saudi Arabia (Ennis C.A. and Momani B, 2013).

In addition, eastern Saudi Arabia, Bahrain, and Oman have known widespread protests that have alarmed the rulers of the Arab Gulf countries and prompted them to intervene, whether in the Gulf (the case of Bahrain) or in other Arab countries that have known widespread popular uprisings. The concerns explain the concentration of development assistance on specific countries - Egypt, Jordan, and Morocco - the latter two being hereditary monarchies. On the other hand, the least developed countries (Sudan, Palestine, Somalia) or those having political orientations contrary to those of the GCC countries do not receive the same care and attention.

Religious considerations (spreading the Wahhabi doctrine) and economic motives are critical factors in guiding Arab development aid, primarily through the Islamic Development Bank - to sub-Saharan Africa, particularly Senegal (Robert A.C., 2017).

On another front, the attention paid by Arab countries, on the one hand, and national and regional financial institutions, on the other, to what has been referred to as "the structural economic reforms" and their involvement in the "Deauville Partnership" indicates the insistence of Arab donors on continuing to fund neoliberal policies (policies based on economic liberalization, privatization and macroeconomic stability). These policies demonstrated their failure as they were one of the principal reasons behind the eruption of the Arab revolutions in 2010-2011. Moreover, despite the commitment of the "Deauville Partnership" to promoting the values of democracy, freedom, and shared prosperity, it conditions the delivery of development assistance upon the recipient countries' commitment to "market economy ... and the integration in the regional and global economy through the development of trade and the attraction of foreign investments in the region" (Ben Mustapha, A., 2016)

On the other hand, the inability of Arab countries and donor financial institutions to meet their obligations to recipient countries due to fluctuations in the prices of petroleum products in the world market substantially impedes the effectiveness of development assistance and hinders development. Subsequently, beneficiary countries are forced to take measures that burden vulnerable and middle-income groups, such as reducing public spending or increasing tax pressure.

Finally, donor countries and Arab institutions supported particular countries, especially those in which the counterrevolutionary forces could regain their reins of power (Egypt, in particular, where authoritarianism was firmly restored after the Muslim Brotherhood was overthrown). However, no consideration was given to human rights and good governance advocated by the Global Partnership for Development Effectiveness.

# Part 3: Arab Regional Integration Experiences: The Case of the Arab Gulf Council and the Arab Maghreb Union

## 3.1 GCC: Achievements and Failures

### 3.1.1 Origin:

The GCC was established in 1981 by the United Arab Emirates, Saudi Arabia, Qatar, Bahrain, Kuwait, and the Sultanate of Oman. Security considerations (especially after Khomeini's revolution in Iran and the presence of military fleets and foreign bases in the region) and regional challenges were the main reasons for accelerating the establishment of this union. In addition, oil wealth had become the focus of attention of regional and international powers and threatened to make Gulf Arab states vulnerable to political ambitions.

The conditions for unity became ripe, including "one-religion nationalism," common cultural heritage, shared values, customs, traditions, and political systems. These conditions were reinforced in the geographical area that spreads across the coastal desert that embraces the inhabitants of this region, facilitating communication and transport between them and creating a bond and a homogeneity in identity and values. Furthermore, economic challenges made it necessary to overcome small entities to face international competition and meet the aspirations of the region's peoples for comprehensive development. The GCC countries agreed to establish a comprehensive regional integration of the economic, social, and political sectors for all these reasons. The economic aspect was given priority by adopting the unified economic agreement (approved by the Supreme Council in November 1981). The agreement outlines the joint economic action plan, the stages of integration, and economic cooperation among the GCC States in the manner of the European Union. The unified economic agreement includes, in particular:

- The achievement of economic citizenship of GCC citizens,
- The achievement of the gradual economic integration among the GCC States, starting with the establishment of the free trade zone, followed by the customs union, the completion of the common Gulf market, the establishment of a monetary and economic union, and the creation of the necessary joint institutions,
- The convergence and unification of systems, policies, and strategies in the economic, financial, and customs fields,
- Linking the infrastructure of GCC countries, especially in transportation, electricity, and gas, and encouraging the establishment of joint ventures.

## 3.1.2 Structures:

Unlike other regional groups where supranational institutions play a central role, governments within the GCC control the decision-making process. The institutional and organizational structure consists of the following basic entities:

- The Supreme Council, which includes the heads of states, meets twice a year. It sets the principal policy of the GCC, determines its main trajectories, and appoints the Secretary-General. Decisions within the Supreme Council are taken by the consensus of the Member States present on substantive matters and by the majority in procedural matters.
- The Ministerial Council, composed of the Ministers of Foreign Affairs of the Member States, meets once every three months to propose policies and make recommendations, studies, and projects. In addition, several committees were set up at the ministerial level (finance, economic cooperation, education, health, social, and labor issues) to prepare studies and propose recommendations to the Supreme Council.
- The General Secretariat of the Council, which represents the administrative and executive body of the Council, prepares the meetings of the Supreme Council and the Council of Ministers and prepares studies and reports for this purpose. It also prepares studies on cooperation and reports and ensures the implementation of decisions and recommendations of the Supreme Council and the Ministerial Council by the Member States. Under the Council of Cooperation statute, the Secretariat enjoys complete independence and a special budget to which the Member States contribute equally. The General Secretariat of the Council is akin to the European Commission within the structures of the European Union (which also includes the Council of Ministers, the European Parliament, and the European Court of Justice).

It should be noted that the Council has specialized bodies charged with the design and implementation of technical standards, commercial arbitration, and patent registration.

## 3.1.3 Some achievements

### Free Trade Zone (1983-2003)

The GCC established a free trade zone by gradually easing trade restrictions until all member states' barriers, tariffs, and non-tariff restrictions were eliminated. These procedures apply to goods produced in the Gulf. The following factors facilitated the transition to free trade (Gulf Center for Strategic Studies, 2011). First, citizens of member states were allowed to engage in retail and wholesale trade by 1990. Second, GCC institutions and production units could open trade representation offices in any Member State. Finally, the founding of the Commercial Arbitration Center was approved, and a standardization body was established (2002).

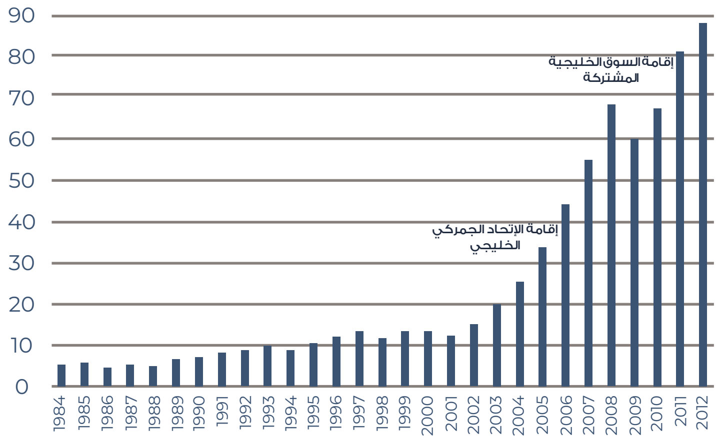
### Accelerating economic integration efforts at the beginning of the third millennium

With the advent of the third millennium, the GCC approved a new version of the unified economic agreement (2001), which included provisions or developed existing provisions such as those pertaining to the Customs Union, the GCC Common Market, the Economic and Monetary Union and the cooperation in the field of infrastructure and human resources development.

### GCC Customs Union (2003)

The establishment of the Customs Union is considered an essential step towards achieving economic integration, which has not yet been initiated in the context of joint Arab economic action, despite the achievement of the Greater Arab Free Trade Zone in 2005. An agreement was made to unify the customs tariff of the GCC Customs Union and fix it at 5%, apply specifications and standards and adopt one point of entry. After establishing the Customs Union, Member States were also empowered to protect national industries through anti-dumping and precautionary measures. As a result, a significant increase was recorded in intraregional trade, which reached $19.9 billion in the first year of establishing the Customs Union. It was the highest value of the total volume of inter-GCC trade achieved since the establishment of the Council in 1981 (Gulf Center 2011 and Figure 13).

**Figure 13: إجمالي التجارة البيئّية لدول مجلس التعاون**




Source: الأمانة العامة لمجلس التعاون لدول الخليج العربية (٢.١٣) تقرير حول السوق الخليجية المشتركة: حقائق وأرقام

### The Initiation of the Gulf Common Market (2009)

The launch of the GCC Common Market aims to transform the entire GCC region into an open market without any obstacles and geographical or taxation barriers to the movement of goods, services, capital, and labor across the borders of the GCC countries. Moreover, it aims to diminish differences between economic, monetary, financial, and banking policies and liberate trade in commodities and services in general and the movement of production elements. Perhaps the most significant positive impact expected from the establishment of the common market is the facilitation of the transition of the Gulf region from a global supplier of crude oil to a global center for energy and capital-intensive industries, the most important being the oil refining industry, petrochemicals, steel, and aluminum.

However, there are two main obstacles to achieving the common market. The first is the need to create the infrastructure for economic integration, especially in road, marine, and rail transport, in addition to electricity interconnection. The second is the coordination of monetary policies and the control of inflation.

### Monetary Union and the Unified Currency (2010)

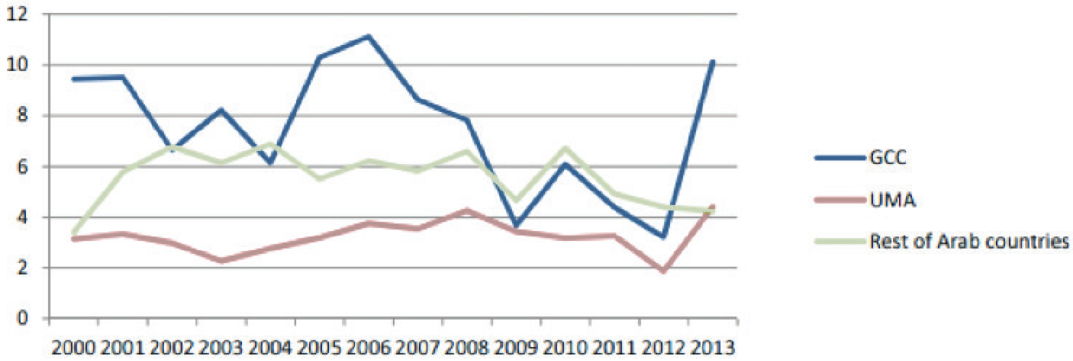
The establishment of a monetary union is considered a necessary step to move from the common market stage to the stage of economic union. The creation of a monetary union and the issuance of a unified GCC currency would positively affect economic sectors such as intraregional trade and tourism and investments in financial services and financial markets. In addition, the risks associated with the exchange rates of Gulf currencies will also disappear due to unifying the currency. However, the UAE's decision not to participate, Oman's withdrawal from the implementation of the single currency, and Kuwait's decision to convert its dollar peg to a basket of currencies delayed the adoption of the single currency, which was scheduled to start in 2010.

## 3.1.4 Gulf integration failures

Weak intra-GCC trade: Intra-GCC trade remains limited despite the improvement recorded during the first decade of the 21st century (Figure 13 above). The proportion of inter-GCC imports compared to the total imports of the Maghreb countries slightly exceeded 10% only in 2006 (Figure 14). The proportion of inter-GCC exports compared to the total exports of these countries did not exceed 10% during the same period (Figure 15)

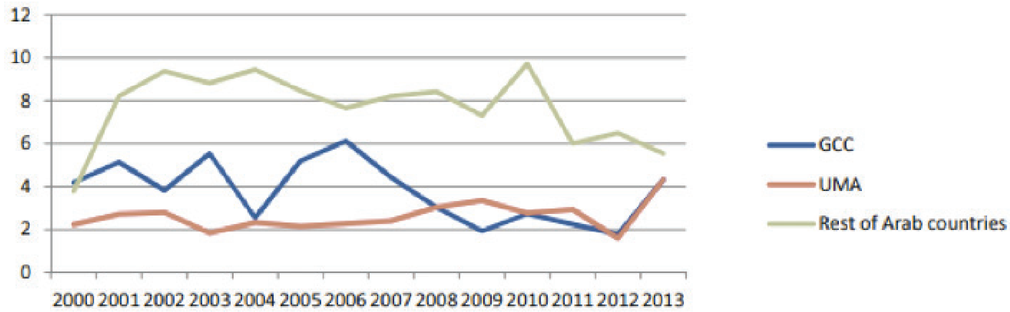
These percentages do not amount to the levels reached by other regions of the world, such as the Association of Southeast Asian Nations (23%), the North American Free Trade Area (41%), and the European Union (57%).

**Figure 14: Intra-subregional imports (percentage of total imports)**




Source: ESCWA, 2015.

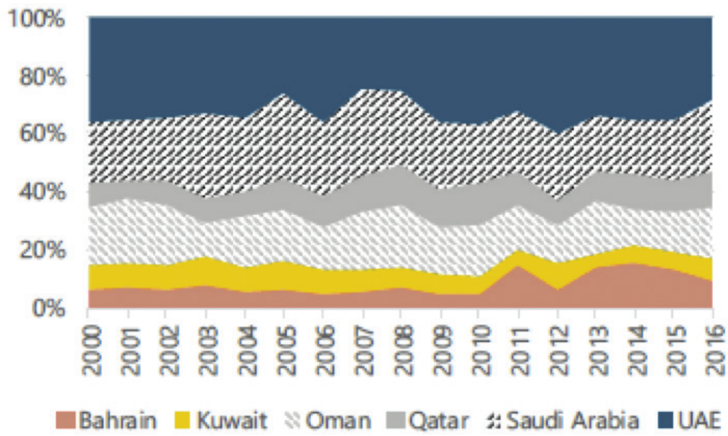
**Figure 15: Intra-subregional exports (percentage of total exports)**




Source: ESCWA, 2015.

The weakness of commercial integration among GCC countries is highlighted by the modest level of intra-regional trade in goods (not counting petroleum products), which did not exceed 10 percent in 2016, despite the significant decrease in customs rights with the launch of the Gulf common market in 2008 (IMF, undated). Moreover, Figure 15 shows the relative dominance of the UAE and Saudi Arabia over the GCC's intra-Arab trade. However, the UAE only re-exports goods imported abroad, taking advantage of its regional role as a hub specializing in this commercial activity.

**Figure 16**




Source: UN Comtrade; and IMF staff calculations

The weakness of intra-GCC trade is due to the similarity of productive structures instead of their complementarity. The weakness of productive capacities (industry, services, agriculture, information technology, knowledge production) reduces opportunities for trade between GCC members. It highlights the adverse effects of excessive concentration on oil as a critical driver of engagement and the weakness of production capacities (industry, services, agriculture). In addition, the persistence of obstacles to the smooth transition of goods within the framework of the Customs Union limits the importance of intra-GCC trade. These obstacles range from hindering the movement of goods between the countries of the Customs Union through the re-inspection of trucks to the imposition of different duties on goods between Gulf countries. Other obstacles include discrimination in favor of citizens in applying health conditions to some commodities and food products and postponing the launching of the common anti-dumping system (Al-Obeidly, 2013. GCC Common Market: Challenges and Future Prospects, BISC).

GCC foreign investment remains modest, amounting to 12% compared to 69.2% for the EU, 54.2% for East Asia, and 38% for Central and South Asia (Table 5). On the other hand, the transfer of capital between the GCC countries did not lead to investment in productive sectors. Instead, it was directed mainly to securities, resulting in intense speculation, which, in turn, led to financial bubbles that ended up recording considerable losses in capital markets (Gulf Center for Strategic Studies, Ibid.). Real estate has also been a favorite choice for Gulf investors. Moreover, the real estate boom in the Gulf has led to a host of other economic propellants, such as stock markets and the hospitality and tourism sectors.

**Table 6: : Regional Investment Flows**

| Counterpart Region (Investment from) | Reporting Region (Investment in) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | European Union | North Africa | Sub-Saharan Africa | North America | South America | Economies of Arab Gulf | Other Near and Middle East economies | Central and South Asia | East Asia |
| European Union | 8,140,828 | | 231,206 | 1,963,304 | 525,569 | -95 | 14,738 | 447,314 | 398,250 |
| North Africa | 9,636 | | 1,087 | -306 | 10 | 2,763 | 0 | 628 | 230 |
| Sub-Saharan Africa | 85,971 | | 42,010 | 7,911 | 2,019 | | 124 | 103,240 | 31,239 |
| North America | 2,005,725 | | 48,481 | 810,383 | 213,571 | 165 | 25,352 | 180,757 | 214,180 |
| South America | 92,616 | | 460 | 35,465 | 41,685 | | 298 | 216 | 1,104 |
| Economies of Arab Gulf | 93,768 | | 9,777 | 7,387 | 352 | 17,710 | 1,676 | 16,070 | 2,937 |
| Other Near and Middle East economies | 43,524 | | 12,903 | 9,905 | 235 | 41 | 162 | 3,017 | 729 |
| Central and South Asia | 103,531 | | 63,618 | 40,814 | 2,840 | 1,044 | 1,972 | 235,761 | 160,336 |
| East Asia | 328,883 | | 38,390 | 395,356 | 51,161 | 5 | 310 | 287,657 | 1,678,798 |

Source: Regional Investments flows

On another level, some of the achievements mentioned in the official statements of the General Secretariat of the GCC and other central institutions have not been fully implemented. This gap is mainly due to the lack of commitment from the governments concerned with the Supreme Council decisions. For example, if a job is offered in a member state of the Gulf Council, it is limited to nationals of that country, which violates the laws of the GCC common market. Moreover, the role of supra-national institutions charged with tracking the implementation of integration steps remains limited, particularly for the Secretariat, whose role is primarily advisory and administrative rather than executive or supervisory. On the other hand, the European Commission plays the role of a “policeman.” It is charged with fining whoever violates the law based on a transparent and objective investigation and in coordination with the European Court (Al-Obaidli and Ghada, A., 2016. GCC Economic Integration - Recommendations based on the international community's experience in activating international conventions., No. 98, April).

Finally, the neoliberal approach to economic integration along the lines of the European Union, which is based primarily on market mechanisms, turns investors and traders into the biggest beneficiaries of the Gulf economic unity. However, the high levels of unemployment in the region (more than 20% in some Gulf countries) point to the absence of "spillover effects" from this integration. In addition, the dire situation of migrant workers, who make up a large proportion of the population in the region (81% of the UAE population, 63% in Kuwait, 72% in Qatar, 51% in Bahrain, 31% in Oman, and 28% in Saudi Arabia) remains a significant challenge concerning upholding the most basic human rights within the Gulf region.

## 3.2 Arab Maghreb Union

### 3.2.1 Origin and objectives

The idea of establishing the Maghreb Union dates back to pre-independence and was developed by representatives of the Moroccan Istiqlal Party, the Tunisian Constitutional Party, and the Algerian National Liberation Front at the first Conference of the Maghreb parties held in the Moroccan town of Tangier in 1958. Previous attempts to create a union of Arab Maghreb countries in the 1960s had included establishing the Consultative Committee for the Maghreb in 1964 to strengthen relations between the Arab Maghreb countries. The official launch of this regional bloc took place in Marrakech in 1989, where an agreement to establish the Arab Maghreb Union was signed by Morocco, Algeria, Tunisia, Libya, and Mauritania.

The Treaty establishing the Union of the Maghreb includes several objectives. Most notably, it calls for "strengthening brotherhood between the members and their peoples," "the progress and prosperity of their societies," "the adoption of joint policy in various fields," and "the gradual realization of the freedom of movement of persons and the movement of services, goods, and capital between them." The common policy has focused on cooperation at the international level and in defense of the independence of Member States. It also focused on achieving industrial, agricultural, commercial, social, and cultural development.

### 3.2.2 Structures

- Presidency of the Union: The Presidency Council of the Union consists of the heads of Member States and is the highest body in the Union. It has the exclusive right to make the decisions, which is done unanimously. The Presidency Council meets once a year.
- Council of Foreign Ministers: This Council includes foreign ministers in the countries of the Union and performs several tasks, such as the preparation of the sessions of the Presidency Council and the preparation of studies commissioned by the Presidency Council.
- Follow-up committee: It is composed of members appointed by governments to follow up on the affairs of the Union. It is also considered the follow-up body for implementing the decisions of the Union and a mechanism for activating unitary work. To this end, the Follow-up Committee meets periodically with the Secretariat to assess progress, identify obstacles and propose solutions.
- General Secretariat: The General Secretariat is tasked with implementing the decisions of the Presidency Council and the preparation of research and studies. It also contributes to the preparation of the executive plans of the Union's action plan in coordination with the Follow-up Committee.

- Shura Council: It consists of members selected from the parliamentary bodies of Member States. The Shura Council holds a regular session every year and comments on the projects and decisions referred to it by the Presidency Council. It may also submit recommendations to the Presidency Council.

### 3.2.3 Conventions

The Maghreb countries have signed about 30 agreements that concern several areas, including but not limited to: the declaration of the establishment of the Maghreb Free Trade Area between the countries of the Maghreb Union (1994), the Agreement on Rules of Origin (1994), the Trade and Tariff Agreement (1991), The Social Security Convention (1991), the Maghreb Charter for Environmental Protection and Sustainable Development (1992), the Convention on Mutual Judicial Organization, the Convention on Cultural Cooperation, and the Convention on Maritime Cooperation. However, only six agreements were ratified; they include the establishment of the Maghreb Bank for Investment and Trade (2002), the agreement for the exchange of agricultural products (1993), the Convention for the promotion and protection of investments, and the Convention on the land transport of passengers and goods and transit.

### 3.2.4 Obstacles

Even though it was established nearly thirty years ago, the Maghreb Union is still in a state of stagnation and weakness. This weakness is evident in intra-Arab trade among the member states of the Arab Maghreb Union, which is only 3%, the lowest level of commercial integration in the world. It is also much lower than that of other regional groups in Africa (9.2% for the Economic Community of West African States, 11.2% for the South African Development Group) or globally (15% for the West African Economic and Monetary Union, 21% for the Association of Southeast Asian Nations and 65% for the European Union). There are several reasons for the failure of the Arab Maghreb countries to achieve economic integration, which is an urgent aspiration for their peoples and a historic and vital need for their advancement. The most significant impediments to the success of the Maghreb Union can be divided into three categories: political, economic, and institutional.

- **Political Obstacles to Building the Maghreb Union**

Political obstacles are one of the main reasons for the deadlock that the Maghreb Union has known for almost 30 years. It is mainly due to the continuing tension between Morocco and Algeria regarding Algeria's opposition to Morocco's reclaiming of the desert from the Spanish colonizers and the closure of the land border between the two countries in 1994. Therefore, finding a satisfactory and acceptable solution for all parties is an essential entry point to give a new impetus to the Maghreb formation. Nevertheless, the civil war raging in Libya for years has not helped cooperation between Arab Maghreb countries and has adversely affected the stability of neighboring Tunisia.

One of the repercussions of this political stalemate of the Maghreb project was that its countries unilaterally tended to establish economic relations with their regional environment, ignoring their neighbors in the Maghreb. Morocco has submitted an official request to join the Economic Community of West Africa and signed an agreement with Nigeria to extend West Africa's gas supply line to Spain. Tunisia, which Algeria might follow, is also joining the Common Market for Eastern and Southern Africa (COMESA). For its part, Mauritania has joined the Group of Five of the Sahel African countries.

- **Economic Barriers**

The most critical economic barriers facing the creation of the Arab Maghreb Union are the similarity of economic structures and the absence of integration between the economies of its member countries. The liberal economic choices of Morocco and Tunisia and their focus on relations with the EU have given priority to specialization in labor-intensive exports. Thus, they compete to maximize their share of the European market (especially in the textile and clothing industry) and attract foreign investment. This trend has been reinforced by the European Union's insistence on dealing with the Arab Maghreb countries on a bilateral basis because it strengthens its bargaining power. This bilateral approach is mainly reflected in the European Neighborhood Policy based on the EU's interaction with the Maghreb countries separately. In other words, the priority given by the Maghreb countries to their vertical economic relations with the European Union marginalizes South-South horizontal economic cooperation. The absence of integration between economic structures is reflected in the clear difference between the structure of exports (or supply) and demand in the Maghreb region. This dissonance exacerbates the weakness of diversification at the level of the economic fabric, especially for Algeria, Libya, and Mauritania.

Finally, the Maghreb's economic space suffers from the inappropriateness of the infrastructure, especially for ports and maritime links between the countries of the region.

**- Constraints of an Institutional Nature**

The concentration of all decision powers in the hands of the Presidency Council is a real obstacle to the normal functioning of the Union. It is accompanied by the weakness of the General Secretariat and the Shura Council institutions. More seriously, the Presidency Council has not met since 1994. In addition, the Maghreb Union suffers from the top-down approach on which it was based, with the absence of any popular participation or spaces that enable the involvement of civil society institutions and active forces in Maghreb societies.

### 3.2.5 The Cost of "non-Maghreb"

Several analysts have referred to the loss of profits or benefits denied to the Maghreb Union countries due to the stalemate. However, if the cost of the non-activation of the Maghreb Union is essentially economic, we should not forget its political and security dimensions.

**- Economic Cost of "Non-Maghreb"**

The economic cost of "Non-Maghreb" is assessed given the volume of unachieved trade between the Maghreb countries due to the obstacles mentioned above, particularly with respect to logistics and tariff and non-tariff barriers. A 2017 study by Azzam et al. shows that the volume of bilateral trade in the Maghreb did not exceed 6724.06 billion dollars in 2015, i.e., it did not exceed 27.4% of the probable (or possible) size, which is estimated at 2451.67 billion dollars. The same study predicts a significant improvement in the levels of intra-OIC trade, which could reach 11.8% of the total foreign trade of the Maghreb countries and 6.4% of the gross domestic product, which is three times the rate recorded in 2015 (3.6% of the total foreign trade and 2.05% of the region's gross domestic product).

Nevertheless, this remarkable increase in intraregional trade, conditional upon removing the various barriers to Maghreb integration, remains limited if we compare it with the levels of commercial integration in other regions of the world, such as in Asia, Europe, Latin America, and even Africa. Once again, the situation underscores the shortcomings and limitations of economic integration based on free trade in the absence of diversified economic structures in which industry is central because of the direct and indirect implications on the economic fabric.

**- Political and Security Costs**

The lack of achievement of the Maghreb Union as a historical and strategic necessity may contribute to aggravating the situation in the Maghreb countries, which suffer from deprivation, social impotence, prevalent unemployment among young people, and the widening of class and geographical differences. These conditions are further exacerbated by the deep crisis affecting the countries of the European Union, which has adverse effects on the countries of the Maghreb Union. In addition, the stalemate in the Maghreb Union led to an increased arms race between Morocco and Algeria at the expense of beneficial investments in economic and social development. For example, military expenditures reached a record high of 6.24% in 2015. On the other hand, mistrust and the lack of coordination between Morocco and Algeria, especially in the fight against terrorism, increases security risks on the borders of the two countries bordering the Sahel, where extremist terrorist groups are active.

## Part 4: The Possibility of a Hegemonic Tendency

Global crises and widening differences in recent decades have revealed the negative aspects of South-South cooperation. While development assistance policies adopted by emerging countries towards the countries of the South are based on principles of solidarity, they nevertheless seek to achieve the emerging countries' strategic objectives. The presence of rapidly growing forces in a regional environment of poor countries can provide space for cooperation and mutual benefit. However, the interests of the two parties do not necessarily meet in all cases. Therefore, the policies and practices of emerging countries should be monitored, away from official rhetoric. This concerns, in particular, the conditional (or tied) assistance (ROA, 2016, Country Case Studies on S/S Cooperation, CPDE, p14), as well as the risk of falling into the trap of indebtedness, transparency, and mutual accountability through elected representatives and serious civil society organizations at the national and local levels.

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# CHAPTER 5:

## Towards a Critique of PPPs in the Arab World
## The Case of Morocco

# CHAPTER 3:

# Neoliberal Policies and Informal Labor in the Arab Region

## Introduction

The private sector's participation in managing public utilities in Morocco dates to the protectorate period. Traditional forms of partnership between the public and private sectors were called delegated management.[1] This type of measure was revived in the 1990s when Morocco adopted a policy of providing many of its public services through public-private partnership (PPP) contracts in their modern form (the commitment of the private partner to undertake a complete task that includes design and overall financing, or partial construction, rehabilitation, maintenance, or exploitation of a facility or infrastructure) or conventionally through delegated management.

Due to its prevalence in PPPs in Morocco, the analysis will focus on delegated management and its impact on economic and social rights and civil society.

The first part of this study provides a general overview and quantitative data on Morocco's experience in PPPs. The second part analyzes the institutional, legislative, and legal frameworks of PPPs in Morocco. Finally, the third focuses on the critical evaluation of delegated management in several local public services in Moroccan cities, monitoring its impact from the perspective of economic and social rights and civil society.

## Part 1: Overview of Public-Private Partnerships in Morocco

### 1.1 Delegated Management

Morocco's experience with PPPs dates to the beginning of the twentieth century. Back then, the French Protectorate entrusted the implementation and management of several infrastructure projects to French companies through concession contracts. For example, the concession for the production and distribution of drinking water was entrusted to the Moroccan Company for Distribution, initially covering four cities and later expanded between 1950 and 1947 to include more cities.

Following Morocco's independence in 1956, public authorities aimed to restore the management of all sectors that were subject to concession contracts and manage them directly. However, starting in the mid-1980s, the Moroccan state adopted a clear neoliberal economic orientation that revolves around three main pillars: liberalization of the economy, privatization, and austerity in public finance. Delegated management saw a fresh start under the pretext of a lack of financial resources, the need to control macroeconomic balances, and the private sector's ability to achieve greater efficiency and better management compared to the public sector. It began with urban transport, which was gradually privatized in the mid-1980s. However, privatizing local public utilities gained momentum in the 1990s. Delegated management was applied in several vital sectors, such as water, electricity, sewage, waste collection, slaughterhouses, and urban transport.

Today, a significant part of public utilities in Morocco is under delegated management, especially by multinationals. In 2013, these companies provided water, electricity, bus transport, and waste collection services to more than 13.5 million of Morocco's residents. Their turnover was around fifteen billion dirhams. They made cumulative (total) investments of approximately forty-two billion dirhams and employed around 35,000 persons.[2]

According to the same study, the number of concession or delegated management contracts in 2012 was eighty-one, four in the water, electricity, and sanitation sector; sixteen in the urban transport sector; and sixty-one in the sanitation sector (Table 1). The number of employees in the companies studied reached 526,874, including 47.5% in the cleaning sector, 27% in the water and electricity distribution sector, and 25.4% in the transportation sector.

Table 2 shows the scope of delegated management of public utilities by distributing the number of transactions in the water, electricity, and sewage sectors according to economic actors. Delegated management companies covered 37% of the transactions, amounting to 30.1 billion dirhams. The figure exceeds by far the number of transactions of local government councils' independent agencies. The share of the National Office of Water, Electricity, and Drinking Water was 41%. However, the office covers the countryside and delegated companies are active in the cities.

**Table 1: Delegated management contracts for local public utilities**

| Utility | Number of Contracts | Number of Workers |
|---|---|---|
| Water and Electricity Distribution | 4 | 7270 |
| Urban Transport | 16 | 6847 |
| Waste Collection and Sanitation | 61 | 12757 |
| **TOTAL** | **81** | **26874** |

**Table 2: Number of transactions per economic actor**

| Economic actor | % of transactions |
|---|---|
| National Office for Electricity | 41 |
| Delegated Management Companies | 37 |
| Independent agencies | 22 |

Source: Higher Court of Audit.

Furthermore, delegated management of public utilities is also applied in other sectors, such as agricultural irrigation.

## 1.1 Delegated Management

While concession contracts are the dominant form of PPPs in Morocco, new forms began to emerge in the first decade of the twenty-first century under the influence of international financial institutions (IFIs) and donor countries. The World Bank Group's International Financial Partnership and the UK Ministry of Finance's technical unit have been vital in promoting modern forms of PPPs among Moroccan officials. The German government and the European Investment Bank (EIB) support this approach.[3]

Moroccan authorities promote this modern form of PPPs as a solution for enhancing infrastructure, providing quality public services to citizens, and strengthening the Moroccan economy's competitiveness due to the private sector's efficiency and innovation.

**Table 3: Some examples of PPPs in Morocco**

| Utility | Year | Investment (Million Dirhams) | Private Partner* |
|---|---|---|---|
| Jorf Lasfar Plant 1 to 4 | 1997 | 8670 | TAQA (Abu Dhabi) |
| El Koudia El Beida Wind Energy Plant | 2000 | 640 | THEOLIN (France) |
| Water and electricity distribution Tangier-Tetouan | 2002 | 9000 | VEOLIA (France) |
| El Guerdane Irrigation Project | 2005 | 3655 | ONA Group (Morocco) |
| Thermal station Tahadart | 2005 | 3655 | SIEMENS and ENDESA |
| Urban Transport Rabat-Salé | 2009 | 1980 | VEOLIA (France) |
| Tramway Rabat-Salé | 2011 | 18700 | VEOLIA TRANSDEV |
| Jorf Lasfar Plant 5 & 6 | 2011 | 18700 | TAQA (Abu Dhabi) |
| Ouarzazate solar energy project | 2012 | 20200 | TSK EE ARIES 15 |
| Tarfaya wind power station | 2012 | 20200 | ACWA3 (Saudi Arabia) |
| Tramway Casablanca | 2012 | 20200 | Spain |
| Safi Thermal Station | 2013 | 31400 | NAREVA (Morocco), Gaz de France/Suez (France), Mitsui Co. (Japan) |
| Taza Wind Station | 2013 | 31400 | |
| Al-Nasr Housing Project | 2013 | 31400 | EDF Energies (France), AL KORA CDG MITSUI (Morocco) |

Source: Ministry of Economy, "PPPs: A preferred framework for accelerating public investments," 2013. * Author's additions.

Table 3 presents examples of PPP projects during the first decade of this century. New forms of this partnership focused on the energy sector and transport via tramway. The third column shows that multinational companies had the lion's share of these projects, especially European companies and, to a lesser extent, companies from the Arab Gulf countries.

The acquisition of PPP deals by multinationals raises two main observations. On the one hand, it highlights the strategy of advanced capitalist countries and the IFIs that control them. It aims to find new outlets and markets for the major industrial and financial capital that dominates their economies and exerts pressure to extend the chain of capital accumulation to include the countries of the South. On the other hand, it raises a fundamental question about the appropriateness of the logic of profit and capital accumulation with the requirements of comprehensive development and the activation of fundamental economic and social rights of these countries' inhabitants, especially vulnerable social groups.

Moreover, in the absence of a law governing these new types of PPPs before December 2014, special laws were adopted for public institutions allowing them to contract with the private sector to finance, implement, and manage specific public utilities. For example, the Dahir as an updated law for the National Electricity Office (Dahir issued August 5, 1963) allows the conclusion of agreements with private individuals to produce electrical energy of more than fifty megawatts of electrical energy. In addition, law No. 15-02 on ports, updated to the National Ports Agency and the Ports Exploitation Company, also allows the conclusion of concession contracts with private companies to finance, construct, and manage facilities in Moroccan ports and conduct various related activities.

**Table 4: PPP sectors in Morocco**

| | State and Public Institutions | Local Authorities |
|---|---|---|
| Mining | ** | |
| Energy Production | ** | |
| Soil Preparation | ** | |
| Housing | ** | |
| Farming | ** | |
| Ports | ** | |
| Electricity and Water Distribution | | ** |
| Sewage | | ** |
| Solid Waste Management | | ** |
| Urban Transport | | ** |
| Slaughterhouses | | ** |

However, new forms of PPPs are conducted by the central state and public and semi-public institutions, while delegated management is the norm in partnerships concluded by local governments with the private sector (Table No. 4).

**Box 1: Tangiers-Med Independent Agency**

*According to a presentation paper by the independent agency Tangiers-Med*

The PPP aims to rely on prominent economic actors specialized in professions related to ports to facilitate the financial structure for the construction of the infrastructure of the Tangiers-Med Port, in addition to benefiting from their experience in exploiting the terminals and conducting various activities in the port. Thus, the concession for the financing, construction, and operation of TC1 was awarded to APMT, a subsidiary of the multinational group MAERSK in 2005.

The concession for financing and constructing the exploitation of Terminal TC2 was granted to EUROGATE Group, the second biggest economic operator in the field of ports in the Mediterranean region.

The gas station concession was awarded to HTL and IPG, the Africa Group (Morocco), and the automobile station went to the French group RENAULT.

The construction of the Tangiers-Med port cost a total investment of fifteen billion dirhams, eight billion funded by the Moroccan state, and seven billion by private companies (especially companies that obtained concessions in the port).

# Part 2: Institutional and Legal Framework for PPPs

The institutional and legal framework for PPPs in Morocco is in the process of taking shape. A law on delegated management was enacted in 2006, and a new law was recently ratified that frames partnership in its new form. We shall introduce the institutions and laws that frame PPPs before addressing their shortcomings, especially regarding civil society participation and human rights.

## 2.1 Main features of the institutional and legal framework for PPPs

### a) Delegated Management

The institutional framework of delegated management is characterized by the multiplicity of stakeholders and the evident influence of the guardianship authority, the Ministry of the Interior. The most prominent stakeholders in delegated management are the elected local government councils and private companies delegated to manage public utilities. The third major stakeholder is the Ministry overseeing local governments and approving the decisions of elected councils. It may also take necessary measures to ensure the normal functioning of local public utilities. In this context, the competent departments of the Ministry of the Interior pre-certify delegated management contracts for local public utilities, follow the implementation of these contracts, and intervene directly and in terms of technical assistance when reviewing them. In addition to these main stakeholders, the Concessions Department of the Ministry of Finance provides technical assistance and support to government sectors and institutions involved in delegated management. It also studies and gives opinions regarding delegated management projects accepted by public institutions and local governments.

Thus, the Ministry of the Interior plays a pivotal role in the institutional framework of delegated management of local public utilities. However, as users and beneficiaries of public services, civil society organizations and citizens are absent. The elected councils also have a limited role due to the heavy tutelage of the Ministry of Interior over them.

On the other hand, the legislative framework is represented in Law No. 54.05 on the delegated management of public utilities. However, its scope of application is limited to contracts concluded by local authorities or their bodies and public institutions.

Chapter I of this Law contains general provisions related to the definition and balance of delegated management, calling for competition for selection between candidates and elaborating the resolution of disputes, the components and duration of the contract, and the accounting and legal system of funds, for example. Notably, Law 54.05 defines delegated management as “a contract under which a legal person subject to public law called the delegate” delegates the management of a public utility to a legal person subject to public or private law called the “delegated,” entitled to collect a fee from users or profit of the management, or both. It also requires the delegate to adhere to the principle of equality between users, the principle of continuity of the facility, and the principle of its compatibility with technological, economic, and social developments, while working to provide its services at the lowest cost and in the best conditions of safety, quality, and environmental preservation.

The contract term must consider the nature of the work required of the delegated and the investment that must be completed. It cannot exceed the standard period of depreciation of the construction when the facilities are financed by the delegated.

It is also important to note that disputes between the two parties must be resolved through arbitration, either under the legislation in force or under an international or multilateral bilateral agreement.

Chapter II deals with the rights and duties of the delegate, which is to monitor and manage the delegated measure and periodically review the contract and the commitment of the delegated.

The third chapter presents the rights and duties of the delegated, including the possibility of subcontracting, inspecting violations, the delegated management of the delegated facility at their responsibility and risks, the establishment of a company subject to Moroccan law by the delegated party, and the retention of users of the delegated utility.

Chapter IV contains provisions related to information and disputes, namely the establishment of a system for internal control by the delegated party, the necessity of publishing financial information, and penalties and compensation in the event of a breach by either party in the event of non-fulfillment of their obligations or the violation of contractual terms. Finally, the fifth chapter contains miscellaneous provisions.

**b) The new form of PPPs**
The legislative and institutional framework of public-private partnerships in their modern form is governed by Law No. 86.12 related to PPP contracts.

This law contains a preamble that paints a rosy picture of PPPs, as they will enable the benefit from the innovative capabilities of the private sector and its financing, contractually ensure the provision of services, their delivery on time, the quality envisaged and the partial or total payment of their entitlements by the public authorities and according to the predetermined criteria. In addition, resorting to PPPs is expected to help promote the emergence of national reference groups in this field and encourage the activity of small and medium-sized companies through subcontracting.

Law 86.12 requires that projects implemented through PPPs respond to a “pre-defined need by the public person” and be subject to a prior evaluation that takes into account the complex nature of the project, its total cost during the contract term, the sharing of risks associated with it, the level of performance of the service provided, and meeting the needs of the project, beneficiaries, and sustainable development, in addition to the project’s financial structures and financing methods.

The partnership contract is concluded according to competitive dialogue, open bidding, pre-selection, or the negotiating procedure. Competitive dialogue seeks to help the public person “identify the technical means to meet the needs of the project subject of the partnership … or prepare its financial or legal structure.” For this purpose, competitive dialogue allows “discussions with candidates to identify the solution or solutions that would meet their needs.”

The candidate presenting the most economically advantageous offer is selected according to a set of criteria that concern the ability to achieve reliable performance objectives, the total value of the offer, sustainable development requirements, the project’s social and environmental impact, and the innovative technical nature of the offer. When necessary, it also includes preferential procedures for the benefit of national enterprise and the percentage of use of inputs of a national origin.

The duration of PPP contracts ranges between five and thirty years, with the possibility of extending to fifty years.

The public person pays a fee to the private partner for the services provided, and the latter may receive their fee in part from the users. Risks are shared according to the terms of the partnership contract. The contract also defines “the terms that entitle both the public person and the private partner to maintain the balance of the contract during unforeseen sudden events or force majeure.”

Other articles in the law specify the conditions for monitoring the PPP contract's implementation, the penalties for not respecting the terms of the contract, subcontracting, missing, or changing the contract, and the cases and conditions for its termination. Moreover, Article 27 on "Methods of settling disputes" provides recourse to "conciliation, mediation, agreement, arbitration, or judicial procedures according to the contracting parties' desire."

Finally, Ministerial Decree No. 2.15.45 was published in the Official Gazette (Issue 7 June 2015), setting out the conditions and details for applying Law No. 86.12 on PPP Contracts.

The institutional framework for PPPs consists of a cell under the Directorate of Public Institutions and Privatization at the Ministry of Economy and Finance. This cell performs four essential functions:
- Vigilance through participation in the formulation of government PPP policies.
- Providing expertise and technical assistance to ministries and public institutions.
- Dissemination of standards and successful experiences and the gradual standardization of the contents of partnership contracts.
- Coordination and tracking.

This department (cell) consists of eight employees.[4]

## 2.2 Notes on the Institutional and Legal Framework

Before providing a critical evaluation of delegated management in the third part of this report, this part will present some general observations on the institutional and legislative framework presented earlier.

The primary observation in this regard is the difficulty of maintaining the pivotal role of citizens (legally known as utilizers) as users concerned with the cost and quality of public services, considering the obsession with profit that dominates the private sector's behavior when managing any economic or commercial activity. Thus, controlling, regulating, and monitoring the delegated person becomes paramount to preserving the public service and its functions, ensuring equality between users and the facility's continuity. However, Law 54.05 did not address this aspect and considered that the powers conferred on the delegating authority alone to be capable of solving the problems and difficulties that may hinder the implementation of the delegated management contract. However, the experience we will present in the third part clearly shows that control and regulation are among the most critical reasons for the failure of the delegated management approach in Morocco.

Another concern is failing to set fees as stipulated in Article 4 on the balance of the delegated management contract, which allows for abuses by private companies. The same observation applies to the costs of "technical assistance" that are left to the discretion of the delegated without legislative supervision.

The institutional and legal framework of the new form of PPPs raises several observations. First, PPPs can extend to all sectors, including defense and national security. However, a survey of the opinions of senior officials reveals that the roads, health, and education sectors are the primary candidates for PPPs. For example, the Moroccan Minister of Health told a daily newspaper that his Ministry should be limited to providing health services and that the private sector should undertake construction, maintenance, and guard duties. Expanding PPPs to these vital sectors will increase the severity of social and spatial differentiation, adding to the dangers of extending PPP contracts to a sector of great sensitivity, such as national defense.

On the other hand, focusing on economic benefit may lead to a focus on profitable projects, marginalizing sectors of a social nature and failing to consider the environmental dimension.

The above concerns are reinforced by Article 17 of the implementing decree of Law 86.12, which relies on "economic and qualitative criteria that are adopted to evaluate offers, especially the ability to achieve the objectives of reliable performance, the total value of the offer, and the requirements referred to in Article 8 of Law No. 86.12." In other words, the financial concern and obtaining the highest quality at the best price becomes the primary determinant of selecting projects nominated for PPP contracts.

On the other hand, the period of the private sector's control (thirty to fifty years) in public utilities raises questions about the state's continued ability to guarantee the provision of public services on an equal and continual basis for citizens.

Moreover, transparency and free and honest competition standards in selecting candidates remain theoretical, given the nature of the economic system in Morocco, which is dominated by crony capitalism and the overlapping of power and wealth. Therefore, it is not certain that these partnership contracts will be won without interference from influential people. It will also be challenging to track and monitor contact implementation by private partners due to several factors, most notably the information asymmetry in their favor.

The complex technical nature of the partnership contracts and the lack of administrative bodies charged with tracking and controlling sufficient material and human resources poses a challenge to conducting their role to the fullest. Among the shortcomings of PPP contracts is the technocratic nature that prevails in their formulation and management, the marginalization of any popular participation in the various stages of the projects emanating, and the absence of any prior evaluation of their human rights and environmental impact.

Finally, many studies showed the failure of the PPP model to achieve its hopes of reducing the burden on public finances, providing public service with the best quality and lowest price, and completing projects without delay and excessive cost.

## Part 3: A Critical Evaluation of Delegated Management in Morocco

This part aims to identify the extent to which delegated management in Morocco contributes to ensuring the social and economic rights of Moroccan citizens and involving the population in developing contracts and monitoring their implementation. First, it will try to show that the delegated measure has failed to achieve these goals and that the biggest beneficiaries of this experience are multinationals entrusted with the management of public utilities by local authorities. Successively, it will look at the efficacy of this type of management in providing the best quality at the lowest price (Value for Money) and then evaluate its impact on citizens' living conditions and neglect of their economic and social rights. Finally, it will address issues of popular participation.

### 3.1 Providing the best quality at the lowest price has not been achieved

Public authorities seek to provide quality public services at the lowest price to citizens through delegated management. In contrast, the delegated company aims to maximize profits from investing in local public utilities. To what extent have these two approaches been reconciled in local public utilities in Morocco?

Dealing with the delegated management of local public utilities faces several difficulties, especially accessing information, data, and accounts related to the delegated management companies in Morocco and globally. Therefore, the following critique is within the limits of the available data, focusing on the following indicators: prices, efficiency, and quality of service.

### a) The upward trend in the prices of delegated management companies

In most cases, privatization in its various forms (delegated management, concession contracts, lease contracts) has increased the prices of public services (water, electricity, transport, communications). This is due to several reasons, including applying the cost-recovery principle, adding a profit margin for the delegated company, and the need to finance network expansion, maintenance, and renewal investments.[6]

The delegated companies usually resort to inflating the necessary investments when signing the contract to obtain the right to raise the price of a cubic meter of water, for example, with the agreement of the delegated authority.

In Morocco, the last report of the Higher Court of Audit on delegated management mentioned above indicated that one of the most prevalent complaints concerns the cost increases at the expense of the purchasing power of consumers. For example, the highest price for water distribution was recorded in the city of Casablanca, where the French group SUEZ is active, in addition to the cities of Oujda and Safi, which are run by the independent agency directly affiliated with the local government council. On the other hand, the lowest price was recorded in the independent agency of the city of Larache. The same observation applies to the sanitation sector, where the highest prices were recorded in Casablanca - Mohammedia and the urban agency of Marrakesh.

As for electricity distribution, the city of Tangiers, whose local public utility is run by the French company VEOLIA, has known the highest prices ever in all Moroccan cities.

On the other hand, the report of the Higher Court of Audit noted that delegated management companies in the transport sector raised the price of their buses several times, wholly and unilaterally disregarding the pricing review equation stipulated in the delegated management contract. As a result, the Higher Court of Audit reported an increase of more than 60% since 2004. Moreover, these companies have not requested any authorization from the delegating authorities. These increases dealt a severe blow to the purchasing power of public transport users, as the cost of transportation, according to the Ministry of the Interior, constitutes 15% to 18% of the minimum wage.[7]

Finally, the price of waste collection by the private sector is noticeably higher than the price applied in the case of direct management by elected local councils. For example, in Agadir, the municipal council provides an efficient waste collection service at a price not exceeding 210 dirhams per ton, half the price in other cities.[8]

For the Wilaya of Rabat-Salé, the cost of waste collection through the urban agency was estimated at 255 dirhams per ton, compared to 333 dirhams per ton in twenty-seven communities under the delegated management system between 2007 and 2009. It reached 548 dirhams per ton in Nouaceur, Bouskoura, Dar Bouazza, and Oulad Saleh.[9] The average rate at the national level amounted to 417 dirhams per ton, noting that delegated management companies accounted for 80% of the total transactions of waste collection public facilities in Moroccan cities, compared to only 20% for direct management by local authorities.

### b) Efficiency of delegated management companies

Due to the scarcity of data, the analysis is limited to the water, electricity, and sewage distribution sector (and sanitation). On the one hand, delegated management companies improved the water loss reduction indicator compared to the independent agencies. On the other hand, the company Rydal, which manages this service in Rabat, was the only one that managed to catch up with the independent agency of the city of Agadir, which recorded the lowest water loss rate ever.

The second indicator is related to labor productivity, which improved significantly after the delegated management companies took over the management of the water, electricity, and sanitation sector. For example, the average number of employees per thousand customers has decreased by more than 50%, according to a study by the World Bank.[10] However, this improvement resulted from the significant layoff of around 20% of employees. Other factors, such as the increase in the number of customers due to the high connection rate to the water, electricity, and sewage networks and the modernization of management methods, have also helped increase productivity. In addition, independent agencies were able to improve labor productivity more than delegated management firms without resorting to layoffs (Table 5).

**Table 5: Evolution of labor productivity by producing institution**

| Institution | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| Delegated Management | 703 | 722 | 756 | 733 |
| Independent Agencies | 706 | 725 | 770 | 825 |

Source: Higher Court of Audit, op. cit., p.66.

### c) Lack of improvement in service quality

The Higher Court of Audit's report acknowledges the relative and limited nature of customer service improvement by delegating public services to the private sector. However, the relative improvement does not meet citizens' expectations (p. 15). For example, the urban transport sector delegated management companies have not fulfilled their obligation to establish a "network quality" monitoring system stipulated in the contract linking them to the local councils. Similarly, the deterioration of public services provided by the private sector has been observed in the sanitation sector. The reasons include obsolete means of transport without repair or renovation, imbalances in the planning of garbage collection and unloading operations, and the absence of a continuous program to clean streets and alleys.

### d) Improved population coverage

The Higher Court of Audit's data shows a significant development in the percentage of residential water, electricity, and sanitation network connections, reaching 99%, 99.5%, and 91.7% for delegated management companies, compared to 95.6%, 95.7%, and 90.7% for independent agencies. However, this improvement is due to the critical financial resources the delegated management contract provides in favor of the company to which it is delegated. For example, a works fund was created in the city of Casablanca and financed by imposing a 50% increase in water, electricity, and sewage prices. Despite this additional financial burden on the population, the delegated management companies have not been able to achieve the objectives set for covering the population with this vital public service.[11] Nevertheless, by virtue of their focus on maximizing profits, delegated management companies tend to target high-income areas and neighborhoods, which leads to the failure to integrate large groups of low-income groups into the water, electricity, and sewage distribution networks.

### e) Non-compliance with obligations and abuse of delegated management contract

In practice, delegated companies have rarely committed to implementing the obligations contained in their contracts, including failure to make the necessary investments and adherence to the principles of transparency towards the delegating authority.

For example, the reports of the Regional Court of Audit in Casablanca noted that the completion rate of rehabilitation and strengthening works did not exceed 26% compared to the programmed expectations. In addition, the Redal company in Rabat has completed only 57% of the investments it has committed to financing.[12] The main reason is the insufficient financial resources of delegated management companies.

In the public transport sector, the contractual investment program was only partially implemented in 85% of the cases studied by the Higher Court of Audit.

In the sanitation sector, the same report noted that, in the absence of an adequate framework for supervision and saturation by the delegated authority, the companies did not implement their investment commitments.[13]

On the other hand, delegated management companies did not provide the delegating authority with the data and numbers necessary to follow up on the extent of their commitment to their contracts. Moreover, these companies often invoke the sensitivity of data and their fear of leaking it to competing companies, exploiting their monopoly on information to deprive elected councils of obtaining data and exploiting the information asymmetry factor in their favor. In addition to these imbalances, many cases of abuse by delegated management companies have been recorded. They include the deliberate inflation of "technical assistance" amounts that are transferred to the parent company abroad, early distribution of profits without respect for the terms of the delegated management contract, and the creation of branches without the delegating authority's approval.[14]

## 3.2 Harming the principles of social justice and environmental preservation

Delegated management companies have taken advantage of the absence of any legal obligation to retain workers previously employed by independent agencies[15] and terminated a significant part of employees in the water, electricity, and sanitation sectors. Moreover, sanitation sector delegated companies resorted to excessive temporary employment.[16] Thus, they exacerbated the precarious situation of workers and contributed to the failure to achieve the goals set in the delegated management contracts due to job insecurity, the impossibility of accumulating experience, and the lack of training opportunities in temporary employment.

On the other hand, delegated management companies did not abide by their obligations to link poor families to water, electricity, and sanitation networks. In Tangiers, for example, the group's Amandis company has completed only 3,030 connections out of the 10,000 pledged by the French VEOLIA.

In the first five years since delegated management entered into force,[17] the same failure was recorded in Casablanca, where 45,806 networking operations were carried out in ten years out of the 90,000 promised by Lydec, a subsidiary of the French group SUEZ.

On another level, the activity of delegated management companies has harmed the environment, especially in the transport and sanitation sectors.[18] For example, the obsolescence of public transport buses, the lack of periodic technical supervision, and the accumulation of these buses in a limited number of parking spaces all contributed to the deterioration of the environment in several Moroccan cities. In the sanitation sector, feasibility studies and impact assessment on the ecosystem are absent. Moreover, due to landfilling, unpleasant odors and seeping liquids are spread inside and outside public landfills.

## 3.3 Social mobilization against the delegated management of local public utilities

Given the modest outcome of delegated management, illustrated earlier, and the marginalization of elected local councils and civil society bodies, it was not surprising that the population rose spontaneously or through social movements to express their anger toward the private sector's neglect of public service. However, given the lack of data and studies on this subject, we will limit ourselves to presenting some examples related to the water, electricity, and sanitation sectors.

Many Moroccan cities witnessed people taking to the streets to protest the failure of delegated management companies to fulfill their obligations and the successive increases in the price of water, electricity, and sanitation services. These protests reached their climax in 2006 when companies belonging to the French groups SUEZ and VEOLIA implemented significant increases in the price of water and sanitation in Casablanca, Rabat, Tangiers, and Tetouan.[19] The situation was further exacerbated as these increases coincided with a significant increase in fuel, transport, and food prices during the first half of 2006.

The spontaneous and unorganized protests were quickly framed by civil society associations, especially the Moroccan Association for Human Rights, an NGO close to the Moroccan radical left, and some elected officials of the Casablanca City Council. Popular resistance took many forms, such as the refusal of some citizens to pay water bills, organizing vigils in front of the headquarters of the state (i.e., governorate) of Casablanca, spontaneous outings to the streets, sit-ins in front of the agencies of delegated management companies, signing petitions, and organizing seminars and round tables on neoliberal globalization, privatization, and the right to water.[20] The same denunciation and anger were recorded in Rabat, Tangiers, and Tetouan.[21]

These protests were repeated during the Arab Spring, when the Moroccan February 20 Movement raised several slogans calling for the termination of delegated management contracts, including, but not limited to, "VEOLIA, LEAVE!"[22]

A few months ago, the Regional Civil Society Council in Casablanca, made up of seven hundred associations, issued a communiqué demanding that a discussion be opened about the reasons for not reviewing the contract linking the city with Lydec, the failure to pursue the company in the courts, its failure to fulfill its obligations, and the need to consider rescinding the contract linking it to the Febrayer urban community.

## Conclusion

Although using PPPs in Morocco to manage public utilities dates to the Protectorate, it witnessed a remarkable development in the last two decades of the last century. With the support and guidance of international financial institutions, Morocco has engaged in a continuous series of neoliberal reforms aimed at liberalizing the economy, privatizing the public sector, and adopting an austerity policy in public finances. Despite the dominance of the traditional form of partnerships in managing local public utilities, the new forms entrusting private partners with comprehensive tasks that include designing, financing, building, rehabilitating, maintaining, or exploiting a facility or infrastructure began to take shape during the first decade of the twenty-first century, especially in the energy and ports sector. The dominance of multinationals over PPP deals reflects the obsession with searching for new outlets and markets for the significant industrial and financial capital that dominates the economies of advanced capitalist countries and the international financial institutions that control them.

Studying the institutional and legal framework of PPPs leads to the following conclusions. Firstly, it is difficult for citizen users to maintain a pivotal role as partners and beneficiaries concerned with managing public utilities due to the private sector's obsession with profit and the public authorities' inability to control and monitor its work. Secondly, it is necessary to pay attention to the dangers of expanding the scope of partnership contracts to vital sectors such as education and health, which will exacerbate class and spatial distinctions in addition to the problems that may result from access to a sensitive sector such as national security. Thirdly, focusing on economic benefit will prioritize profitable projects and marginalize social sectors, which will harm citizens' economic and social rights. It will also negatively impact the environment. Fourth, the predominance of the technocratic character of PPPs leads to marginalizing popular participation in the various stages of preparation and implementation of projects and the absence of any prior assessment of their impact on human rights and the environment.

Our critical evaluation of delegated management demonstrated the limitations of PPPs as a mode of local public utility management. Except for a slight improvement in the level of service, delegated management did not achieve the goals set by local communities. The pricing of public services in the water, electricity, sanitation, public transport, and garbage collection sectors saw a clear upward trend. In addition, the company's labor productivity was achieved by layoffs and was lower than that achieved by independent agencies. On the other hand, the improvement in population coverage by public services is due to the new financial resources provided by the delegated management contract for the benefit of delegated companies. However, these companies failed in many of their obligations, especially in a vital field such as investment. At the same time, many cases of abuse were recorded, such as deliberately inflating the amount of "technical assistance" and monopolizing information to disrupt the task of tracking and monitoring by elected councils.

On another level, delegated management has damaged workers' rights through layoffs, excessive recourse to temporary employment, and depriving vulnerable social groups of the right to water, electricity, sanitation, transportation, and hygiene. In addition, the activities of delegated management companies in the transport and garbage collection sectors have seriously damaged the environment.

Faced with this apparent failure, it was not surprising that city dwellers revolted against the delegated corporations. The protests ranged from refraining from paying water and electricity bills to organizing vigils and sit-ins and demanding the departure of these companies or the termination of contracts linking them with local groups.

Given this disappointing outcome, the public authorities in Morocco have decided to stop adopting delegated management as a mechanism for managing local public utilities. Instead, they opted for creating local development companies and controlling most of their shares. Although it has several advantages, this approach is characterized by the dominance of the guardianship authority, which has the sole right to appoint the general managers of these companies, thus reducing the role of elected councils and excluding any civil society and popular oversight.

# Chapter 5 References:

[1] Delegated management is a contract whereby a legal person subject to public law and managing a public utility may “delegate” a legal person subject to public or private law called “the delegated” for a specified period to collect fees from utility users or profit from the said management or both. Delegated management may also relate to the implementation or management of a public facility, or both, that contributes to the functioning of the utility.
[2] See study by Higher Court of Audit on Delegated Management in 2014.
[3] محمد المستقيم الشراكة بين القطاعين العام والخاص: إطار مناسب لتطوير الحوار بين القطاعين وزارة المالية أبريل ٢٠١٢، تقرير المجلس الأعلى للحسابات.
[4] PPPs Cell, Ministry of Finance, Undated.
[5] L’économiste 3934.
[6] In the water sector, for example, please see: Hall D and Lobina E. Water Privatization. Psiru, April 2008.
[7] Ibid. p.112.
[8] Ibid. p.105.
[9] The pricing of delegated management services also includes diminishing returns, the cost of capital, profits, and taxes.
[10] Martin P. Public-Private Partnerships for Urban Utilities. World Bank. Washington. 2012, p 79.
[11] Ibid., p.63.
[12] Higher Court of Audit, op. cit., p.77.
[13] Ibid., p.148.
[14] Ibid.
[15] See for example, Saadi MS, “Water Privatization Dynamics in Morocco: A Critical Assessment of the Casablancan Case,” Mediterranean Politics, 17/3/2012.
[16] See for example, Francis Lefebvre, CMS Bureau, Newsletter Maroc, Sept 2006, no.1.
[17] Cas d’Amendis Tanger, ISCAE Casablanca, Octobre, 2005, Déléguée d’eau potable, Ouardighi. Essai d’évaluation du service de la gestion.
[18] Higher Court of Audit, op. cit., p.106, 148, 154.
[19] See, Saadi, 2012, op. cit.
[20] Idem.
[21] Aujourd’hui le Maroc, 16/11/2006.
[22] Dumas L. Veolia Dégage, Informations et commentaires no 159, 2012.

# CHAPTER 6:

## Impact of IMF Austerity Policies on Social Protection

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## Impact of IMF Austerity Policies on Social Protection

The International Monetary Fund (IMF) plays an influential role in formulating member countries' economic and social policies, often with direct consequences on the livelihood of their populations, particularly limited-income and poor segments. Although this role was on the decline in the 2000s, the IMF has been regaining influence and dominance on the global level, exploiting the urgent situation caused by the deep structural crisis in global capital and continuing to cast its shadow on the entire world.

This time, the IMF's strong return could be seen in its direct intervention in the Eurozone. It imposed strict austerity measures to the great detriment of the region's people. However, these measures did not significantly improve economic indicators, such as growth rates, budget deficits, or public debt levels. Moreover, with the intensification of the global financial crisis, the geographical scope of this intervention started to expand, especially in the global South. As a result, the IMF is beginning to acquire a powerful impact on economic and social policymaking in several Arab countries, where the features of austerity are blatant, with its attendant negative consequences on the social question in general and social protection and subsidies on essential goods in particular.

The first section of this paper will be dedicated to the IMF's critical role, focusing on its interventions in the Arab region. The second section will review austerity policies imposed by the IMF on Arab countries, their negative consequences on economic growth, and the social question in general. Finally, the third section will address the impact of austerity, highlighting the problem of subsidies on essential goods and weaknesses in the related solutions proposed by the IMF.

## Part 1: IMF Responsibilities and their Impact on the Economic and Social situation in the Arab Region

### 1.1 Evolution of IMF Responsibilities

To understand its ability to influence member states' public policies, it is worth recalling how the tasks entrusted to the IMF had evolved and how it became a major player in this arena, imposing the will of major contributors on countries, especially those planning to receive its loans. An assessment of IMF interventions in the Arab region shall follow.

**1.1.1** The IMF was created in 1944 to maintain favorable financial conditions for successful investment in the global economy and exchange rate stability. Article I of the Bretton Woods Agreement set the purpose of the IMF as follows:

- To promote international monetary cooperation through a permanent institution that provides the machinery for consultation and collaboration on global financial problems.
- To facilitate the expansion and balanced growth of international trade and to contribute thereby to the promotion and maintenance of high levels of employment and real income and the development of the productive resources of all members as primary objectives of economic policy.

- To promote exchange stability, maintain orderly exchange arrangements among members, and avoid competitive exchange depreciation.
- To assist in establishing a multilateral system of payments in respect of current transactions between members and in eliminating foreign exchange restrictions, which hamper the growth of world trade.
- To give confidence to members by making its available resources temporarily available to them under adequate safeguards, thus providing them with the opportunity to adjust their balance of payments without resorting to measures destructive to national or international prosperity.
- Following the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

Financial resources and mechanisms are provided to the IMF to conduct its role. Based on Article IV of its establishment agreement, the IMF exercises direct surveillance over broad public policies, including state budgets, financial, credit, exchange systems, and government monetary policies related to control over the banks or other financial institutions. Furthermore, the IMF looks into structural policies underpinning overall economic performance, such as gross national income, consumption, investment, and financial credit.

The IMF issues recommendations to this effect. It imposes specific conditions on member states wishing to obtain loans, aiming to stabilize their balance of payments and national currency rates. These conditions often include forcing countries to adopt policies to convince the IMF of the possibility of repaying the loan within five years. Other channels are also available to the IMF to influence public policies, such as the “advice” it gives to policymakers on the international and national levels.

**1.1.2** The beginning of the 1970s saw a deep downturn in the global economy. As a result, the foundations of the Bretton Woods system (the gold standard and fixed exchange rates) were scrapped and replaced with floating exchange rates and the free movement of capital from the control previously imposed by nation-states. The period also saw a tremendous increase in oil prices and the worsening debt crisis in many Third World countries. The IMF was reborn as a dominant supranational institution, run on different grounds but more powerful and influential.

The IMF was transformed from a tool to meet the needs of European and North American countries in tackling problems caused by currency exchange rates and the balance of payments into a “gatekeeper.” In concert with the World Bank, it oversaw deep structural reforms of the economic and social structures of Third World countries, especially those falling into the debt cycle, to conform to the needs of the global economy. Hence, the IMF started to impose harsher conditions and controls over those countries, issuing new “Conditionality Guidelines” in 1979, giving it stricter authority. IMF loans became subject to the application of its long-term structural policies and programs.

Moreover, radical transformations in the economic rationale framing the IMF’s recommendations and interventions took place on the national and international levels. After partially adopting Keynesian economic theories, which entailed controlling market mechanisms through supranational institutions like the IMF, it turned into an ardent defender of neoliberalism, which consecrates the freedom of markets, the priority to private initiative, and state retreat from the economy. The shift occurred following the rise of the conservative right to power in the UK and the US.

Along with the World Bank, the IMF started promoting this economic model in the early 1980s throughout the Global South under the Washington Consensus, which stood on three pillars: economic liberalization, privatization, and austerity in public spending.

However, the World Bank's recipes failed to achieve its promises. The countries of the South could not achieve any tangible results, whether in growth rates, investments, or the creation of decent jobs. Moreover, IMF recommendations to East Asian countries to open financial markets to foreign investment directly contributed to the 1979 Asian financial crisis.

The exorbitant social cost imposed on the peoples of the Third World through Structural Adjustment Programs (SAPs) was even worse. They prioritized achieving financial balance (reducing budget deficits, limiting inflation, and controlling the balance of payments), which led to reducing public spending and decreasing budgets allocated to social sectors, to the significant detriment of public services.

Moreover, lifting subsidies on basic goods, partially or entirely, removing price controls, and raising the cost of public services, hand in hand with frozen wages and a devalued currency, prompted a significant decline in the purchasing power of middle-income and poor segments.

In such a situation, the eruption of social protests and popular uprisings against international institutions and governments in the Global South should not come as a surprise due to the thousands of victims they will leave behind.

## 1.2 IMF Intervention in the Arab Region

In the Arab region, IFI interventions, particularly the IMF, are characterized by the unique entanglement of the economic with the strategic and political. Empirical studies show that granting loans and subsidies is subject to economic determinants, such as deteriorating macroeconomic indicators, worsening disparities in the balance of payments, and depleting hard currency reserves during the 1980s. These factors led to a considerable impact on many Arab countries, especially Egypt, Jordan, Morocco, Tunisia, and Algeria, by the political (closeness and friendship with the West, position with regards to the Arab Israeli conflict) and strategic (to provide the West with oil, problems of immigration and terrorism) interests of donor countries that control the decision-making process within IFIs, which are dominated by the G7 and the US in particular.

As indicated by Harrigan et al. (2006), in Arab countries, the chances of profiting from IMF programs are contingent on economic and political factors. In particular, the latter can be summarized as: "Signing a peace treaty with Israel improves a country's chance of a loan as does improving democracy." Moreover, economic need alone does not really explain the timing of IMF loans. However, political liberalization, which often sees the incumbent regimes challenged by Islamic opposition, seems to have an influence, as shown by the significance of democracy and election variables. Likewise, a change in foreign policy stance represented by signing a peace treaty with Israel is a good predictor of IMF loans.

Except for this feature, indebted Arab States share the same traits with Third World countries in their dealings with the IMF and the World Bank and submit to the same conditionalities of the Washington Consensus. As a result, foreign trade and the economy were gradually liberalized. National currencies were devalued. Privatization and price liberalization were set in motion. Moreover, priority was given to reducing the budget deficit through public spending cuts, increases in indirect taxes, and freezing wages and employment in the public sector.

The impact of IMF recipes on the economy had been detrimental, failing to push forward investments or create jobs, opposite to what was preached by IMF experts. One of many examples is included in ESCWA's annual survey of economic and social developments in the region. It said that rising unemployment was the cumulative result of two decades of contraction. From the early 1980s until 2004, all ESCWA economies, without exception, performed lower than their potential. Although the per capita share of the real GDP had been rising at acceptable annual rates in the 1970s (4.33%), it dropped to 3.43% in the 1980s and registered lower than 0.34% in the 1990s.

Chronically high unemployment rates are associated with a protracted contraction in economic activity, with unemployment rates higher than in any other region (estimated at 16%).

On the other hand, the social cost of alleged economic reform programs was on the rise. Worsening unemployment was fed by additional numbers of the active population entering the labor market and not finding jobs. The reasons were the almost complete stagnation of the economy, contractions in the sector, growing mass layoffs due to the closure of production units or declining activity, widening vulnerability and poverty, and the significant expansion in the informal sector since the 1980s.

While poverty rates in the Arab region are low by international standards, overall poverty, defined as the share of the population under the national poverty line, is higher than the lower poverty levels resulting from the use of the international poverty line of two dollars a day. Poverty in Arab countries is more prominent than assumed. Social sectors, especially education and health, suffered from the pressures on public spending and the removal or reduction of subsidies on essential goods. They remain some of the direct reasons for the decline in the purchasing powers of large population segments and the spread of poverty and vulnerability. The deteriorating situation led to growing anger in Arab streets and the eruption of hunger uprisings in several Arab countries, including Egypt, Tunisia, Morocco, and Jordan.

Social safety nets aiming to avoid the negative repercussions of SAPs failed to reduce the harm incurred by the poor for several reasons, including the lack of financial allocated means, multiple programs, and weak management capacity.

Finally, manifestations of social exclusion were aggravated in the 1980s and 1990s, and there is evidence that wealth inequality was exacerbated at a higher rate than the decline in income.

## Part 2: Impact of Current IMF Austerity Measures on the Social Question in the Arab Region

The IMF treated the repercussions of the crisis in global capital with a significant amount of vacillation. During 2009-2010, the IMF encouraged Member States to adopt Keynesian fiscal and monetary policies to revive the economic cycle. However, it later changed its approach drastically, insisting on the need to prioritize confronting the issue of public debt and budget deficit, which had been exacerbated by government intervention to rescue their economies from recession. This section will focus on demonstrating the clear negative impact of austerity measures imposed by the IMF in the Arab region, especially following the Arab Spring, on the social question and social protection in particular. The last section of the paper will be devoted to discussing the impact of removing subsidies on basic goods.

### 2.1 Austerity Policies as a Solution to Macroeconomic Imbalances According to the IMF

After Europe, the IMF opened a new front in the Arab World, exploiting the deteriorating economic situation in countries witnessing revolutions due to political instability and the aggravating consequences of the crisis in globalized capital, especially in the Eurozone.

### 2.1.1 IMF Views on Confronting Macroeconomic Imbalances

The IMF considers growing fiscal and balance of payments deficits to be direct reasons for widening debt. Thus, public authorities should focus on fighting such imbalances through harsh austerity policies, such as reduced public spending and pressures on wages and prices. These measures are supposed to help the economies of countries suffering from macroeconomic imbalances to recover and compete. Such austerity measures should enable the private sector to regain confidence in the economic climate. Reducing state expenditures indicates its abandonment of competition with the private sector over loans, as the state had previously done by resorting to monetary and financial markets to finance its expansionary fiscal policy. On the other hand, lower public debt indicates reduced tax pressure in the medium term. It would encourage consumers and producers alike to increase their consumption and investment, positively impacting the economic cycle and creating jobs.

IMF optimism about markets' positive reaction to austerity policies does not stand up to sober analysis. On the one hand, it is not certain that all social groups would regain their consumption and investment power. The more consumer-oriented middle and lower classes, who often rely on public services, will face the brunt of cuts in public spending and pressures on wages. On the other hand, it is difficult to imagine the average consumer acting rationally towards shrinking public expenditures. Citizens threatened with losing their jobs and source of livelihood will have reduced confidence in their country's economy and will hesitate before consuming more, fearing an uncertain future. Furthermore, the simultaneous adoption of austerity policies on highly interdependent economies, such as the Eurozone, could neutralize the impact of such policies on growth due to the decline in demand by the other partners.

### 2.1.2 Impact of Austerity Policies on the Economy and Society in the Eurozone

Several common denominators make the comparison between the situation in the Eurozone and the Arab region worthy of study and analysis. Public indebtedness and fiscal deficit rose significantly in recent years, resulting in significant economic problems. Macroeconomic imbalances also led to the IMF's strong comeback in those areas, especially the Eurozone, which it had left thirty years ago. The two regions have become an open arena, with ample room to apply austerity policies advocated by the IMF. Therefore, it is critical to focus on the impact of those policies on social protection. Furthermore, fiscal and monetary austerity policies in the Eurozone are expected to harm many Arab economies subservient to EU countries.

Contrary to IMF expectations, austerity policies implemented by Eurozone countries did not significantly improve economic operators' confidence. The situation was especially true in countries facing challenges from the financial markets due to the magnitude of their sovereign debt, such as Greece, Italy, Portugal, Spain, and Cyprus. Austerity policies, nonetheless, led to slowing down economic activity, rising unemployment, and declining purchasing power of citizens. At the same time, these policies have led to a real social crisis, whose channels and mechanisms will be described first before moving to their dominant features.

A key measure adopted to put austerity policies into practice in Europe had been the reduction or elimination of subsidies on goods such as fuel, electricity, food, and farming tools. It was in addition to freezing or cutting back the wage bill in public administrations, raising general sales taxes and VAT, reforming pensions, additional rationalizing and/or rationing of social safety nets, improving the health system, and adapting the job market to become more flexible in hiring and firing employees.

Added to that was the privatization of public facilities in countries such as Greece, Portugal, Spain, and Italy (selling national water and electrical distribution companies, public transportation companies, and several healthcare facilities).

In the UK alone, 1.1 million administrative jobs were scrapped, and wages in the same sector were shrunk in Italy and Ireland and mostly frozen in the UK. Furthermore, at least three of the above austerity measures are linked directly to social protection. In addition to eliminating or reducing subsidies on basic goods, considered a mechanism of social assistance, Eurozone countries seem to have appreciably reduced budgets allocated to social security (the budgets of Greece, Lithuania, and Portugal saw a 5% decrease, behind Romania, which registered more than 5% in 2011). It meant a reduction in the nominal value of family and housing allowances and disability benefits. It is also highly expected that women will be even more affected by these measures, considering their role in child and elderly care inside households.

The impact of austerity was also apparent in health budgets through measures to cut back costs in public health facilities, pricing medicines closer to generic medication, and making citizens pay a higher share of medical and treatment costs.

Retirement plans were also changed drastically by raising the contribution of wage earners, increasing the duration of the subscription to benefit from pensions, postponing the retirement age, and reducing the value of pensions.

The adoption of "labor market flexibility" led to a reassessment of the minimum wage and the relative abandonment of progressive salaries and prices. It also led to decentralizing collective bargaining, weakening the bargaining power of wage earners (this occurred in Greece, Portugal, Italy, and Spain). However, easing restrictions on firing workers was not accompanied by measures to protect those who lost their jobs from falling into poverty and vulnerability.

The devastating effects of the social crisis caused by the austerity policies imposed on Eurozone countries are apparent. Unemployment reached unprecedented rates, especially among young people and the long-term unemployed (in one instance, the unemployment rate rose almost three times in Spain and Greece, from 8.3% in 2007 to 24% in 2012).

Increased prices and lower real values for wages exacerbated the presence of "poor workers" (the UK, Portugal, Italy, Spain, Ireland, and Greece). In general, it could be said that poverty in the EU is growing. In 2001, it rose by 5% in Austria, 4.7% in Belgium, 8.6% in Greece, 6.5% in Italy, 11.7% in Spain, and 5.2% in Sweden.

Social and class differences grew deeper, threatening the harmony and cohesion of the community, diminishing citizen trust, and leading to increased crime and decreased school graduation rates.

## 2.1.3 Impact of Austerity Policies on Arab Countries

### IMF's Approach to Arab Spring Countries

The IMF's neoliberal approach to Arab economies remained the same post-Arab Spring. IFIs continue to believe in the validity of previously adopted economic reforms. They claim they have not been applied adequately due to reduced confidence in the state, weak public participation, lack of accountability, and rampant corruption and nepotism. However, the prevailing impression was that such reforms only deepened inequalities and benefited an elite associated with the regime.

As one of the principal architects of the Deauville Partnership, IMF's analysis of Arab economies post-Arab Spring is based on the impact of external and internal factors and the magnitude of the challenges ahead. On the external level, there are conflicting indicators related to slow global economic growth and recession in the Eurozone, in addition to rising food and fuel prices and the spillover of the Syrian crisis to neighboring countries. On the other hand, internal situations are characterized by uncertainty and faltering political reforms, with the tendency of governments to increase support for essential goods, despite the great need for financing.

According to the IMF, these factors combined led to slow growth and rising unemployment, in addition to wider imbalances in fiscal balances and external accounts, with the depletion of protective margins available through economic policy (For more details, see Masood Ahmed, "Regional Economic Outlook: Middle East and North Africa," International Monetary Fund, November 2012). To break out of the situation, the IMF wants to prioritize foreign financial sustainability and reduce public debt.

Thus, fiscal and monetary policies should be set in motion to provide the condition for comprehensive growth for all sectors of society. On the one hand, fiscal consolidation should be put in place, and the quality of public investment should be improved. In addition, social safety nets for the poor should be strengthened. On the other hand, monetary policies should be vigilant about the subsequent inflationary effects, enhance exchange rate flexibility, and expand policy tools in the medium term.

In parallel, structural reforms must continue through reviewing labor market regulations and reforming education systems, the organization of work and governance (treating businesses based on transparency, equality, and reducing barriers to entry and exit of business) and improving access to funding.

However, the IMF continues to adopt the described approach. In short, it calls for controlling fiscal deficits through austerity measures capable of bringing back the private sector's confidence, which is relied upon as the engine of economic growth (Box 1 presents key commitments by Arab countries towards the IMF).

The remainder of this section will discuss the effects of IMF austerity recommendations on the social situation in some Arab countries, including the question of social protection.

### Potential Impact of Austerity Policies on the Social Question

Looking at austerity measures in the social sphere recommended by the IMF to the Arab region reveals that they closely resemble the situation in the EU. Once again, this demonstrates the IMF's dogmatism and inability to devise solutions or mechanisms that could be applied to the various local conditions in different countries.

The package of measures implemented by several Arab countries is the same as the one discussed earlier in this paper, as illustrated in Table 1. Hence, the most common austerity measures in the Arab world have been reducing subsidies on basic goods (applied in nine out of ten surveyed countries), decreasing or freezing the public sector wage bill (seven out of ten countries), and increasing taxes on consumption (seven out of ten countries). It also included reforming pensions and creating social safety nets (five countries out of ten).

The remainder of this section will discuss the potential impact of wage freezes, labor flexibility, and additional taxes on consumption. The effects of reducing support for basic materials and creating social safety nets will be discussed in detail in the final section.

### Box 1: Adjustment Measures in the Middle East and North Africa 2010-2013

| Country | Limiting Subsidies | Wage bill cuts/caps | Increasing consumption taxes | Pension reform | Rationalizing and targeting safety nets | Health reform | Labor reforms |
|---|---|---|---|---|---|---|---|
| Algeria | X | X | | | X | | |
| Djibouti | X | X | X | | | | |
| Egypt | X | | X | X | X | X | |
| Iran | X | | X | | | | |
| Iraq | X | | | | | | |
| Jordan | X | X | X | X | X | X | |
| Lebanon | | X | X | X | X | X | |
| Morocco | X | X | | X | X | | X |
| Tunisia | X | X | X | X | | | |
| Yemen | X | X | X | | | | |
| **Total** | **9** | **7** | **7** | **5** | **5** | **3** | **1** |

Source: Author's analysis of 314 IMF country reports published from January 2010 to February 2013

Freezing or reducing the wage bill in the public sector will negatively affect human development levels in several Arab countries suffering from a significant lack of available human resources, such as teachers, doctors, nurses, and social workers. For example, Morocco needs to hire more than 7,000 doctors and 9,000 nurses to meet minimum needs in the health sector and improve services provided to the population, especially in villages. In addition, the wage freeze and lack of adjustment to inflation rates will hurt the purchasing power of workers in the public sector, especially in the vital social sectors. It could increase instances of absence from work, growing employment in the informal sector, and a heavier brain and skill drain. Combined, this would significantly reduce public services, especially in poor city neighborhoods and villages.

Moreover, it remains uncertain if labor flexibility measures, such as facilitating individual and collective layoffs, reducing compensations, and encouraging fixed-term contracts, would increase the competitiveness of production units linked to other, more influential factors, such as productivity levels, administrative efficiency, and innovation. However, it would lead to greater vulnerability for workers and low wages during a contraction of the economic cycle.

Raising indirect taxes, on the other hand, will reduce consumption. Rising prices will weaken the purchasing power of large segments of society, especially the poor, who allocate the most significant part of their income to the consumption of basic materials.

**Box 2: Austerity Measures in Selected Arab Countries (IMF Approach) Morocco: "Program Note," April 5, 2013, IMF website.**

Issue: Worsening budget deficit due to rising cost of subsidizing basic goods and high wage bill.

**Priorities:**
Adopt austerity measures to rebuild fiscal buffers, ensuring medium-term fiscal sustainability through developing alternative targeted social protection schemes to replace high-cost universal subsidies and reforming pensions.
Rebuild external buffers and strengthen competitiveness through structural reforms and greater exchange rate flexibility.
Foster more inclusive growth by improving economic governance and strengthening the business environment.
Maintain adequate monetary conditions and preserve the stability of the financial sector.

Egypt, "IMF Reaches Staff-Level Agreement with Egypt on a US$4.8 Billion Stand-By Arrangement", IMF Press Statement, November 20, 2012.

1- Supporting a government program where fiscal reforms are a key pillar to:
   - Reduce wasteful expenditures, including by reforming energy subsidies and better targeting them to vulnerable groups.
   - Raise revenues through tax reforms, including by increasing the progressivity of income taxation and by broadening the general sales tax (GST). This would reduce the large public sector deficit, and the generated resources would boost social spending and the private sector's growth.
2- Improve public sector management.
3- Gear monetary and exchange rate policies toward ensuring declining inflation over the medium term.
4- Strengthen competitiveness.
5- Ensure a fair and competitive environment for the business community.

The Egyptian government did not comply with the IMF's austerity conditions, choosing instead a voluntary policy to stimulate the economic cycle.

(See, for example, The Daily Star, "Egypt's new finance minister plans stimulus, not austerity," July 27, 2013.

Jordan, "Program Note," IMF, August 3, 2012

**Priorities:**
Socially acceptable austerity (fiscal consolidation) program and 36-month Stand-By Arrangement (SBA) of $2 billion.

**Main challenges:**
1- Reduce vulnerabilities in public finances through fiscal consolidation in the short and medium terms, supported by reforms in spending and taxes and the protection of low-income population segments.
2- Achieve cost recovery in the national electricity company.
3- Sustain structural reforms to improve the business environment, enhance transparency, and improve skills in the job market, to attain high inclusive growth.

# Part 3: The IMF and Basic Subsidies

IMF's approach reduces social protection to its social assistance component and subsidies to the needy, ignoring the critical aspects of social insurance to mitigate risks associated with the life cycle, such as illness, unemployment, old age, and injury. This narrow view is mainly due to the IMF's lack of interest in social protection, except for its impact on the budget deficit. An essential part of social assistance is provided as direct support for basic goods from the state budget. The IMF sees this support as a heavy burden on the state budget and considers it a significant factor in increasing the state's fiscal deficit. This last section of the paper will critique the IMF approach to social protection by demonstrating the limitations of reforming subsidies on basic goods it promotes, underlining its negative impact on the economy and society.

## 3.1 Subsidies: Definition and Socio-Economic Functions

Subsidies are defined as "measures to keep the prices for consumers at less than market level or to keep the prices for producers above market levels or to reduce the costs for consumers and producers through direct and indirect assistance." The size of the subsidy is measured through the "price gap" index, comparing the recorded price of a product or service to a standard or baseline price. For energy, for example, international organizations estimate the size of available subsidies based on the difference between the price of fuel in global markets and locally.

Subsidies on basic goods perform several functions – social and economic. First, subsidies on energy use mainly aim to expand access to a vital and strategic product by reducing the cost of fuel used by households for cooking and heating or electricity, for example. They are also used to assist in expanding the necessary infrastructure, such as electricity networks in rural areas, through direct support to producers or consumers and reducing the initial costs of household connections to networks. The second factor in subsidizing energy costs is to protect limited-income households from high fuel prices. But instead of targeting them directly, some countries prefer to keep the prices of all petroleum products at less than international levels, regardless of whether the user is rich or poor. Third, energy subsidies also encourage local industries and stimulate companies to provide reasonably priced goods and services to consumers. They help protect them from foreign competition, enhance their export competitiveness, and protect the local workforce. Fourth, governments work on encouraging consumption in the face of energy price fluctuations, subsidizing local prices when they get high in international markets, and increasing taxes when global prices are low. Government intervention also tries to avoid inflationary pressures generated by global increases in the prices of essential commodities.

The focus on energy subsidies in Arab countries is due to the weight of this sector, which reached $237 billion in 2011, or 8.6% of the Arab world's GDP, compared to 0.7% for food subsidies. However, given their social and economic role, food subsidies are no less critical. More than half a century of food subsidies in countries like Egypt is an example of political and social commitment by public authorities to provide essential goods to citizens at affordable prices, despite starting to reduce the cost of subsidizing food products due to budgetary and IFI pressures since the mid1980s. In general, food subsidies play an economic and social role in reducing poverty, attaining social justice, and redistribution. Incentives for such policies range from crisis or disaster to getting political support and developing loyalty within the framework of a social contract between the ruler and the community.

## 3.2 World Bank Vision on Energy Subsidy Reform in the Arab World

In its analysis of the energy subsidy system in the Arab world, the IMF focuses on the following negative aspects. ("Energy Subsidies in the Middle East and North Africa: Lessons for Reform," IMF, 2013.)

First, IMF considers subsidies to be costly. It estimates pre-tax energy subsidies – the difference between the value of consumption at global and domestic prices – in the region to be equivalent to almost 22% percent of government revenue, accounting for more than half of global energy subsidies.

Second, energy subsidies do not effectively support the purchasing power of deprived segments. Instead, they burden public finances and the balance of payments and create distortions in price structures, harming the economy and the allocation of resources. Energy subsidies benefit households directly through lower prices for energy used for cooking, heating, lighting, and personal transport. They also have indirect benefits, reducing the production costs for other goods and services that use energy as an input. However, energy subsidies are highly inequitable, as they tend to benefit upper-income segments instead of middle and low-income segments. For instance, the IMF study mentions the example of Sudan, where the poorest 20% of the population receives only about 3% of fuel subsidies and the wealthiest 20% receives more than 50%.

Third, energy subsidies divert public resources from spending on other sectors, such as infrastructure, education, and health. In Egypt, for example, total energy subsidies were three times the spending on education and seven times health expenditures.

Fourth, energy subsidies cause over-consumption, aggravating pollution and traffic congestion, and do not encourage investments in efficient energy, public transportation, or renewable energy.

On the other hand, barriers to reform include opposition from specific groups benefiting from the status quo, lack of information regarding the magnitude and shortcomings of subsidies, and lack of government credibility and administrative capacity. However, the IMF believes subsidy reforms will have several positive consequences, boosting growth, reducing the budget deficit and interest rates, stimulating private-sector investment, and reinforcing economic growth.

The main reform components suggested are appropriately phased and sequenced price increases and well-targeted measures to mitigate the impact of energy price increases on the poor through cash transfers or vouchers. Alternatively, other initiatives, such as public works programs, can be expanded while capacity is developed. Finally, a comprehensive communications strategy to help generate broad political and public support for reform must also be reached.

## 3.3 Critiquing the IMF Approach

Before addressing the main criticisms against the IMF approach to the question of social protection, it should be noted that the term "energy subsidy reform" is misleading. Actually, the issue is related to the gradual removal of these subsidies, with the introduction of social safety nets aimed at the most vulnerable groups due to this policy.

**Negative impact on growth and prices:**
Raising the costs of basic goods will harm domestic demand, growth, and employment, at least in the short term. For example, a recent study by the Moroccan High Planning Commission indicated that energy price increases implemented by the Moroccan government in September 2014 would have the following impact on socio-economic indicators. The growth rate will drop by 0.15% in 2013 and 0.48% in 2014 due to declining domestic demand, while local domestic consumer prices will increase by 0.37% and 1.1%, respectively. On the other hand, the budget deficit will drop by 0.18% in 2013 and 0.58% in 2014.

**Limits of Social Safety Nets:**
Despite several mitigating measures, such as targeted energy subsidies, the use of existing social safety nets, and public works programs, targeted cash transfers remain the most ambitious mitigating measure and the action most favored by the IMF. This measure, which eliminates all support for energy use, is based on using savings in the budget to finance cash transfer programs geared toward the poor.

Such transfers may be conditional on beneficiary families sending their children to school and access to public health services. But despite the various advantages of cash transfers, they are not without flaws, which limit their effectiveness in the fight against poverty, with overhead costs that could reach up to 30% of resources allocated to the program. It also poses problems in assessing income levels and the identification of beneficiaries, resulting in incomplete coverage and social stigma.

These barriers are significant in some Arab countries, given the administration's weakness and rampant corruption, bribery, and nepotism. On the other hand, several studies have delineated the limitations of cash transfers targeted at addressing poverty. Despite the relative improvement registered in schooling, health, and nutrition, the impact of cutting down poverty remains weak in the short term. Long-term results in education, human capital formation, and poverty reduction are also not guaranteed.

In many cases, targeted cash transfers in Arab countries are further limited by their lack of institutions and mechanisms of protection. As a result, the proportion of the population profiting from social protection remains low, as it only covers workers with permanent contracts, which are only possible in the public sector. Other factors include the prevalence of work in the informal sector, high unemployment rates, and weak women's participation in the labor market.

### *The Impoverishment of the Middle Classes*

Addressing the poorest segments through targeted and direct cash transfer mechanisms will inevitably lead several groups currently suffering from vulnerability, as well as large sections of the middle classes, to impoverishment and deteriorating living conditions. Thus, "subsidy reform" will lose the political support necessary for its success and will raise the political cost of its implementation, as in the recent situation in Sudan, where around 200 people were killed in a campaign to suppress protests against the increase in energy prices.

So-called subsidy reform policies suffer from narrow economism, which focuses on macroeconomic and financial balances to the detriment of social stability. According to IMF experts, priority must be given to regaining investor confidence and debt repayment, even at the expense of citizens' economic and social rights. Narrow economism, which underpins the work of IFIs, remains immune to the values of justice, solidarity, collaboration, and non-discrimination. This doctrine only sees individuals as economic actors looking to maximize their pleasures and profits in the context of competitive markets based on the trio of liberalization, privatization, and fiscal austerity.

## Conclusion

IMF's role in the global economy changed significantly since its inception in 1944 as a guardian of global financial stability necessary for developing international trade, supporting economic growth, and expanding job opportunities. Today, it polices the integration of the world's economies in the global market, restructuring them according to the requirements of a globalized capitalist economy, taking advantage of the debt trap in which many countries of the South have fallen. Severe conditions were imposed, especially on countries resorting to the IMF for loans, through adopting the Washington Consensus based on the liberalization of the economy, privatization, and austerity in public finances. As a result, many countries were entangled in the web of IFIs. Moreover, the strategic geopolitical location of Arab countries increases the influence of political considerations and interests of the great powers in directing interventions in the region.

Although many Arab countries had been loyal to IMF prescriptions, they witnessed a decline in economic growth, rising unemployment, and exacerbating class inequalities and social exclusion. While IMF's role in the global economy saw some retreat during the 2000s, it regained its power and influence by exploiting the structural crisis in globalized capitalism. The IMF imposed strict austerity policies on many European countries, especially in Southern Europe. Contrary to the IMF's forecasts, however, their economies did not recover. Instead, the policies led to an intolerable social situation of varying intensity for people living in the Eurozone.

Despite the winds of the Arab Spring, IFIs failed to change their approach to the deep economic problems in the Arab world. On the contrary, they stuck to the same neoliberal recipes, albeit with some revision and good governance. Furthermore, macroeconomic indicators in several Arab countries deteriorated due to the global crisis and social and internal pressures. They were forced to seek recourse at the IMF, which imposed harsh conditions similar, to a large extent, to those promoted in Europe. Thus, maximum priority was given to controlling the fiscal deficit through adopting austerity measures as a prerequisite to regain the private sector's trust and thereby raise the pace of investment and growth to create jobs needed by the region's people.

It is still early to predict the economic consequences of this approach. However, lower subsidies on basic goods, reduced or frozen wages, and increased taxation on consumption are expected to harm human development and the middle class's purchasing power, leading to fragile working conditions.

The IMF limits its approach to the question of social protection to the support provided by the state to its citizens through subsidies on basic goods, which it believes to be the main contributor to deficits in the public budget and balance of payment. Consequently, the IMF is pressuring Arab countries to reduce subsidies with the prospect of their ultimate cancellation. To mitigate the effects of higher prices on basic goods, the IMF proposes social safety nets in the form of targeted cash transfers to the poor. However, the political and social impact of such reforms is not guaranteed, considering the difficulties in applying them in the Arab environment and the high administrative costs. It will also lead to the impoverishment of the middle classes.

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