

# **The Business and Economy of MENA**

## **Unit 1 Common Features of MENA Economies**

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### **Contents**

Unit Overview	2
1.1 The Institutions and Economic Environment of the MENA Region	3
1.2 Localising the MENA Region	4
1.3 Geographic Characteristics of the Region	6
1.4 Some Stylised Facts about History	17
1.5 Some Stylised Facts about Religion and Economy	19
1.6 Conclusion	20
References	21

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## Unit Overview

This first unit explores some central features of the Middle East and North Africa (MENA) region. You will be introduced to the regional specifics of political, natural and cultural geography, in their historical and geographic context. In our discussion of the physical and human geography of the region, we identify three sub-regions with a distinct cultural and linguistic heritage: the Maghreb states of North Africa, the Mashreq states of the Eastern Arab World that share a heritage of former Ottoman domination, and the countries of the Arabian Peninsula.

We consider the rapid growth of population numbers, the relatively limited human resource endowments and major historical constants: colonialism, autocracy, the ethnic composition of the population and the prevalence of conflict. Finally, the role of Islam, as the majority religion of the region, will be introduced – a discussion to be developed further in later units.

## Learning outcomes

When you have completed your study of this unit and its readings, you will be able to:

- explain the concept of the MENA region as opposed to different concepts such as the Arab World, the Islamic world, the Middle East, and the Near East
- critically evaluate the opportunities and challenges that arise from the natural resource endowment of the region
- discuss the dynamics of demography in the region and the relevance of the Youth Bulge
- explain the relevance of migration in and for the MENA region
- give a general account of central factors in the historical experience of the MENA region
- evaluate conflicting accounts of the role of religion in the economy.



## Reading for Unit 1

Rodric Davison (1960) 'Where is the Middle East?'. *Foreign Affairs*, 38 (4), 665–75.

Karen Culcasi (2010) 'Constructing and naturalizing the Middle East'. *The Geographical Review*, 100 (4), 583–97.

Melani Cammett, Ishac Diwan, Alan Richards and John Waterbury (2015) Chapter 6 'Water and food security'. *A Political Economy of the Middle East*. 4th Edition. Boulder CO: Westview Press. pp. 199–231.

Henrik Urdal (2012) *A Clash of Generations? Youth Bulges and Political Violence*. UN Population Division Expert Paper, 2012/1. New York NY: United Nations.

Carl Bildt (2016) 'Preserving the Ottoman Mosaic'. *The Jordan Times*, 5 January.

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## 1.1 The Institutions and Economic Environment of the MENA Region

In recent years, the Middle East has dominated global news coverage, often with dramatic events: revolutionary upheavals have changed the political order of the region completely since early 2011, war and civil war have destroyed the physical infrastructure of entire countries, and millions of people have become refugees. At the same time, Middle Eastern terrorism and suicide bombings have seemingly proliferated in metropolitan France, Belgium, the UK and elsewhere, while Muslim minorities in the West are increasingly suspected of disloyalty to their adopted countries, where some of their members do feel alienated.

Beyond political upheavals and crises, however, the MENA region shares a variety of economic institutions, regulatory challenges, modes of production and regulatory traditions. As an object of study, we have reason to expect that endowments found and strategies followed in the past will not be irrelevant tomorrow. Physical endowments, such as aridity, a young population, and significant energy resources, will continue to be in place for the foreseeable future.

The MENA region offers opportunities to managers and policymakers, both in the private and in the public sector. For the private sector businessman, the Middle East contains alluring prospects and profitable opportunities, along with significant risks. From the perspective of the public-sector players who have engaged with the region as representatives of foreign and local governments, NGOs, and multilateral institutions, this area has often been a laboratory of policy experiments, frequently with unexpected or even undesirable results.

While the most burning policy issue at present may appear to be to stop violent confrontation in the region, a sustainable economic and political order will only emerge once the underlying factors that have destabilised MENA societies have been taken into account, and hidden resources mobilised.

A better understanding of the regional business and policy environment is hence necessary – to grasp the challenges, to negotiate new ways of engagement, and to address the economic problems that exist, rather than simply defining them as security problems.

To begin this, the next section reflects on the terms used to refer to the relevant part of the world, and a review of arguments for limiting the countries included to those of the Arab Middle East, before proceeding to an exploration of the region's physical and human geography.

## 1.2 Localising the MENA Region

In talking about the region to the south and east of the Mediterranean, different terms are used, not always consistently: the Middle East, the Near East, the Islamic/Muslim World, West Asia, *etc.* Table 1.1 provides an overview of some characteristic usage.

**Table 1.1 Descriptive Terms for the MENA Region**

Geographical Term	Extension	Institution
Arab World	Arabic-speaking countries, possibly including Somalia, Djibouti, and Mauritania	The Arab League
MENA Region (Middle East and North Africa)	Arabic-speaking North Africa and the Arabic-speaking countries in Asia	Used in this module
MENAP (Middle East, North Africa, Afghanistan and Pakistan)	MENA, including Sudan and Djibouti, Iran, Afghanistan and Pakistan	IMF since 2013
Near East	Sometimes understood as covering Arabic-speaking countries in Asia and Egypt, but not the rest of North Africa; sometimes used for the former Ottoman lands, excluding large tracts of the Peninsula and parts of North Africa, but including Turkey.	Historians and politicians (see Davison, 1960)
Near East	MENA, including Iran and Israel	State Department
West Asia / Western Asia	the Arabic-speaking countries in Asia, plus Turkey, Armenia, Georgia (sometimes Iran)	United Nations Statistics Division (without Iran)
Islamic/Muslim World	Majority Muslim countries, of which many are outside the MENA region (Indonesia, Pakistan), and significant Muslim communities in other countries such as India	

A recognised specialist in geography, *National Geographic*, defines the term as follows:

No standard definition precisely outlines the *Middle East*; it is generally accepted as comprising the countries of the Arabian Peninsula, Cyprus, Egypt, Iraq, Iran, Israel, Jordan, Lebanon, Palestinian territories, Syria, and Turkey. At its maximum, it would extend from Morocco to Bangladesh. *Near East* is a dated term that may be used in historical references.

Source: National Geographic (2016)

This module will use the definition of the MENA region given in Table 1.1; you can identify the relevant countries on the following map.

**Figure 1.1 The Countries of the MENA Region and some of their neighbours**

### Exercise 1.1


Please review the definitions above. There are obviously different ways of grouping countries together.

- On the basis of your existing knowledge about the region, what arguments can you find for the terms proposed?
- Are there alternatives you prefer? Why (not)?



### Reading 1.1

Now study the article on the region by Roderic Davison (1960).

 As you read the article, note how Davison explains the origin of the terms 'Near East' and 'Middle East', and how they came to relate to each other.

Davison (1960)  
'Where is the Middle East?'. *Foreign Affairs*,  
38 (4), 665–75.

After reading Davison's article you should see that the best justification for adopting one definition over another will have to lie in its applicability to a particular set of problems. The assumption on which the choice of the 'MENA Region' over any of the alternative terms is based is that the Arab states of North Africa, the Levant, Iraq and the Gulf share a set of features and an internal dynamic in their political economy and their business practices that makes it more reasonable to treat them as a unit than could be done by, say, excluding the Maghreb region and including Turkey and/or Iran.


Davison's 1960 paper illustrates how one British imperial worldview of the 1890s, which located most of the area under consideration here in the Near East, was replaced by another one, in which Cairo, in the Second World

War, found itself at the centre of the Middle East, with British politicians arguing for decades about the wisdom of this terminological shift.



### Reading 1.2

From a more analytical point of view, Karen Culcasi (2010) covers much of the same ground. Her paper visualises different conceptions of the Middle East.

 Before reading it in detail, study the section on pages 589 to 591 on 'Summarizing the geographical ambiguity', and have a look at the maps included there.

- Why does Culcasi conclude that 'defining the Middle East as a world region generally necessitates references to cultural criteria' (page 591)?

Now read the following section of the paper on 'Defining characteristics of the Middle East'. Here, Culcasi discusses the problems of conceptualising the Middle East as a region inhabited by Arabs.

- What problems with that approach does she point out?
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As Culcasi notes, ethnic delimitations ('Arabs'), religious ones ('Muslims') and political ones (non-democratic states) fail to yield a unifying feature in this complex region. Even in the predominantly Arab countries of the MENA region, non-Arab populations have an important role to play, as do religious minorities. And in Lebanon and Tunisia, the region has at least two countries claiming to be fully-fledged democracies.

For the purposes of this module, what is essential is that the limits of the area under consideration be understood clearly – with the countries of the southern coast of the Mediterranean from Morocco to the Turkish border being included (with the sole exception of Israel), as are Jordan, Iraq, and the countries of the Arabian Peninsula. The next section will attempt to characterise the geography of this area in greater detail.

You should note that the delineation will not make sense at every juncture: to some, including Turkey, at least for the modern history of the Mashreq region, may appear to be vital.

Similarly, exchanges with India and Pakistan are important for the Gulf countries, and the Sub-Continent is arguably more relevant to them than, say, Libya or Tunisia. Nevertheless, the assumption followed here is that the parallels and shared traditions within the MENA group of countries are significantly greater than those that come within view if some parts of the region are excluded and other countries included.

Culcasi (2010)  
'Constructing and naturalizing the Middle East'. *The Geographical Review*, 100 (4), 583–97.

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## 1.3 Geographic Characteristics of the Region

Your readings have shown that the MENA region in the sense outlined above is divided into three sub-regions, the Maghreb, the Mashreq, and the Arabian Peninsula.

Of these, the Arabian Peninsula is distinguished by being home to the historical and religious centre of the Arab World, the cities of Mecca and Medina in the Hejaz region of Saudi Arabia. It is home to the wealthiest Arab states, the oil producers of the Gulf, but also to one of the poorest Arab countries – the Republic of Yemen. Outside Yemen and Oman, which have some fertile areas, arid and semi-arid landscapes dominate almost everywhere in the Peninsula. With the exception of Yemen, all states of the peninsula are resource rich and labour poor (RRLP), in the sense that they are labour importers.

The *Mashreq* (Arabic ‘East, sunrise’) comprises Egypt, Iraq and the countries of the greater Syria, sometimes called *Bilād al-Shām*: Syria, Lebanon, and Jordan, as well as Palestine/Israel. While all of these states formed part of the Ottoman empire until the First World War, Lebanon and Syria then underwent a period as French protectorates, while the remainder of this region was administered by Britain during the colonial period. Among the Mashreq states, only Iraq is resource rich and labour rich, while all other Mashreq countries are resource poor and labour abundant.

Finally, the *Maghreb* (Arabic ‘West, sunset’) consists of Libya, Tunisia, Algeria and Morocco. They form a separate dialectal group within the Arab world, and the colonial heritage of the French language plays a prominent part in education and economic life in Tunisia, Algeria and Morocco, while Libya experienced a shorter period of Italian colonialism that did not result in as strong a linguistic heritage. Algeria and Libya are distinguished by having large territories, of which only the coastal area is fertile and more densely settled. While Tunisia and Morocco are labour abundant and resource poor, both Algeria and Libya are resource rich, with Algeria labour abundant and Libya labour poor.



### Reading 1.3

You should now study pages 225–27 in the chapter by Melani Cammett and her colleagues (2015) to improve your understanding of these categories.



Your notes on the reading should enable you to answer the following questions.

- What hinges on the classification of regional states as resource-rich and labour-poor (RRLP), resource-rich and labour abundant (RRLA), and resource-poor and labour-abundant (RPLA)?
- Why are there no RPLP countries?



### Optional Reading 1.1

For further information on these categories, introduced by the World Bank in 2004, you may want to download Diop *et al* (Eds.) (2012) ‘Appendix A’. *Natural Resource Abundance, Growth and Diversification in the Middle East and North Africa*, Washington DC, World Bank. pp. 199–201. Available from: <http://documents.worldbank.org/>

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While it is not possible to provide exhaustive information on the geography of the MENA region, the following pages should provide you with a basic

Cammett *et al* (2015)  
Extract from Chapter 6  
‘Water and food security’  
in *A Political Economy of  
the Middle East*. pp.  
225–27.

grasp of their geography and a deeper understanding of the economic situation in which the countries of the region find themselves.

For the physical geography, the two main features are the limited availability of water and agricultural land, and the rich endowment with natural resources, particularly hydrocarbons, in the region.

For the human geography of the region, the focus will be on demographic developments, most prominently the so-called 'youth bulge', and the challenge of bridging the gap between traditional lifestyles and the requirements of a knowledge society. In particular, reference will be made to the limited successes of innovation and knowledge creation to date.

A third feature of the regional human geography, the important role played by religion in all spheres of life, including the economic one, is dealt with in a later section of this unit and more extensively in Unit 8 of this module.

### 1.3.1 Physical geography: aridity and resource endowments

#### Dearth of water


A fundamental fact about the MENA region is its relative aridity. Although it is home to two major river systems – the Mesopotamian one centred on the Tigris and the Euphrates, and the Nile and its tributaries, for large parts of the region – this lack of water poses a problem for both agricultural and industrial production, as well as occasionally for lifestyle choices.

While this used to be an absolute constraint, advances in desalination techniques mean that water can today be produced, but at a price. In addition, in some MENA countries, fossil water resources have also been tapped in recent decades. Nevertheless, the technical viability of desalination does not imply that this is an economically viable choice in all parts of the region and for all purposes, and fossil water resources are by definition finite and will ultimately be exhausted.

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#### Exercise 1.2

An exercise you will find useful is to download the current version of the *FAO Statistical Yearbook: Near East and North Africa Food and Agriculture*, which is available at <http://www.fao.org/economic/ess/ess-publications/ess-yearbook/en/>

 Look for information on the endowment of the MENA countries with water and arable land, and write notes on the following questions.

- How have these figures changed recently?
- How secure is the food supply for the population in different countries?
- What strategic options do the countries have to ensure food security?
- Try to reconstruct the situation with respect to food security in one MENA country that is of particular interest to you.

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Even where the absolute amount of renewable freshwater resources has remained constant, rapid population growth has meant that the per-capita



numbers have declined dramatically, as is shown for Egypt, Yemen and Saudi Arabia in the following table.

**Table 1.2 Renewable Internal Freshwater Resources per capita (cubic meter)**

	1972	1982	1992	2002	2012
Yemen	329.6	241.4	158.6	111.5	84.4
Egypt	49.6	39.5	30.5	25.4	21
Saudi Arabia	376	213.4	137.9	105.9	81.4

Source: WDI

Although some MENA countries do have significant agricultural production – in particular in Morocco, Egypt, Syria, Yemen and Iraq – the food security of the region is ensured by large-scale food imports from other parts of the world.

How do MENA countries manage to feed their populations and tend to other water needs in spite of the small amount of water resources available in most parts of the region? An answer to this question was provided by Professor Tony Allan of King's College London and SOAS, who introduced the concept of 'virtual water' to account for the way countries consume more water than is available locally thanks to trade in water-intensive products. An extract from Professor Allan's account is provided in Box 1.1 below.

### Box 1.1 Virtual Water

Virtual water is the water contained in the food that the region imports. More water flows into the area as virtual water each year than flows down the Nile for Egypt's agriculture. The use of this virtual water obtained in the global trading system has enabled the political leaderships of the region to augment their respective inadequate water resources.

The global trade in food staples has proved to be a very accessible and effective system. Politicians and resource managers find this source far more attractive than stressful, even potentially disastrous, wrangling over local water with hostile neighbors. The strategic imperative of providing food for citizens has been met through access to politically stress-free virtual water.

Thus, what many have failed to notice is that Middle East politicians have obtained the water they need outside their indigenous hydrological systems and thus been able to avoid troublesome domestic and regional frictions. Miraculously, and above all silently, governments have been able to avoid the apparently inevitable consequences of their local water deficits.

The global trade in food staples has been particularly accessible for the past 50 years, even to poor economies, because competition by the generators of the global grain surplus – the United States and the European Community – brought down the global price of grain until the beginning of 1995. The past quarter-century, when Middle Eastern water conflicts have been most insistently predicted, was a period when grain importers enjoyed heavily subsidized virtual water [...]

The wheat price fluctuations of the mid-1990s emphasize the strategic importance of virtual water. Access to virtual water is achieved by developing economies strong enough to provide the purchasing power to trade on international markets. Intelligence on the status of the global capacity to meet future virtual water needs at affordable prices is an enormously important economic issue for Middle Eastern governments.

In some countries, government programmes have attempted to boost agricultural production, with Saudi Arabia in particular having dedicated significant resources for this purpose in the 1980s and 1990s, before largely discontinuing most of these programmes. The attraction of food independence motivated top Saudi decision-makers to promote the cultivation of wheat and other crops at high cost in dry or semi-dry environments, until the massive drain on the public purse led the government to cut the relevant subsidies and phase out wheat and dairy production, leading to a speedy decline of the area used for agricultural production in Saudi Arabia (Woertz, 2013: pp. 35–62).

In the Nile valley, population pressures have led to an encroachment on rare agricultural land for building purposes. As a result, successive Egyptian governments have attempted to make economic use of the desert to expand the inhabited area of Egypt and make desert land available for agricultural production. The best-known agricultural initiative is probably the Toshka project, which aimed to convert the Toshka depression, located north-west of Aswan in the Western Desert, to create a New Valley which was expected to ease population pressures and contribute significantly to Egypt's food security. Water for this massive irrigation project was to be brought in from Lake Nasser, south of the Aswan High Dam. Inaugurated in 1997, the Toshka project was to be realised on an area of 2,600 km<sup>2</sup>, which was to be converted to agricultural uses by the mid-2000s. The following statement highlights the scope of its aims.

In addition to land reclamation, there were to be endless investment opportunities in new cities, new industries, and new tourist projects, and these new activities would attract anywhere from four to six million Egyptians (or is it 16 million?) in an experiment that would change the face of the country. The hyperbole seemed never to stop. Toshka alone would have the world's largest pump station to lift more than five billion cubic meters of water annually from Lake Nasser – one tenth of Egypt's total supply from the Nile – and a sophisticated network of main and branch canals totalling over 260 kilometers in length. To lure investors, the government offered twenty-year tax exemptions, exemptions from duties on capital equipment and machinery, and land priced at a token LE50 per feddan<sup>1</sup>. Toshka received a wonderful boost in late 1997, when billionaire Saudi prince Al-Walid bin Talal bin Abd Al-'Aziz acquired some 120,000 feddans for reclamation, plus another 140,000 feddans of surrounding desert as a buffer zone. Fresh grapes and melons from Toshka were said to be hitting European markets by 2001. There was even a brand of cigarettes called Toshka that was launched by Egypt's tobacco monopoly, and glossy children's books about the project were printed by state publishers. With all of this going on, it was no wonder that Toshka soon was being compared to Nasser's High Dam project of thirty years previous and was quickly dubbed 'Mubarak's Pyramid'.

Source: Sims (2014) pp. 48ff.

<sup>1</sup> A feddan is a unit of area used in Egypt, Sudan, Syria and the Sultanate of Oman, and is equal to just over one acre.

Despite these lofty objectives, the actual achievements at the site were more modest. By 2006, only 4000 feddans were being cultivated, and only 750 jobs had been created, with hardly anyone living in the area (Sims, 2014: p. 51). In spite of this grandiose scheme never delivering more than a fraction of its promised result, similar projects to ‘conquer the desert’ continue to be promoted (Sims, 2014: p. 57). Although there is ample evidence that the relevant resources could be deployed more efficiently elsewhere, the attractiveness of desert irrigation schemes continues unabated.

For governments, water security has been a constant problem that has played out in different ways in different places:

- Iraq and Syria have been affected by the construction of a system of dams in Turkey – in particular, the Atatürk Dam, which stands to limit the availability of water downstream.
- With similar concerns, the Sudanese and Egyptian governments have viewed construction efforts in Ethiopia that are set to limit the amount of Nile water that will reach these countries.
- One of the more intractable dimensions of the conflict between Israel and its neighbours concerns the use of the water resources of the Jordan river, vital to the water economies of both countries.
- Both in Egypt (*Toshka Project* and others) and in Libya (*Great Man-Made River*), large-scale engineering projects have been undertaken to increase the supply of water for agricultural purposes, in both cases with limited success.

### Exercise 1.3


Having familiarised yourself with the Toshka project earlier, as an exercise pick one of the other three projects mentioned above (The *Great Man-Made River*, or either of the hydropower projects mentioned). Using publicly accessible online resources, prepare a short report on it. You can post your report on the VLE discussion forum for comments from you peers. In your report, you should address the following questions:

- What perceived problem is being addressed by this project?
- How has implementation developed? Is it possible to reconstruct this adequately from publicly available sources?
- What criticism has it been exposed to?
- How do you assess its potential contributions to the solution of national and regional water shortages?

### Reading 1.4

Now turn to Chapter 6 in Cammett *et al* (2015), which deals with food and water scarcity in greater depth. Look carefully at Table 6.1 ‘Renewable Water Resources in the MENA Countries, 2013’, on page 201. Also study pages 216–29, which contain relevant studies of other mega-projects, such as the Aswan High Dam.

Cammett *et al* (2015)  
Extract from Chapter 6  
‘Water and food security’  
in *A Political Economy of  
the Middle East*. pp.  
201; 216–19.

 Write good notes on these pages, and be sure to address the following questions.

- Which countries had the least water available per capita?
- Which had the least available for domestic usage?

Other countries in the region may focus less on irrigation and greening the desert, but have adopted developmental strategies that imply increased water use, such as rapid urbanisation and tourism development in arid environments. The technical possibility of producing drinking water through desalination is sometimes claimed to make water-based constraints obsolete. Although it is indeed technically possible to increase water resources significantly, the price for this is significantly higher energy consumption.

### Natural resource endowment

Natural resource endowments and, in particular, the importance of energy-related natural resources, are also crucial to an understanding of the region, which includes some of the most important hydrocarbon producers worldwide and is home to a significant share of the proven fossil energy resources known today. While this has allowed the countries of the Arabian Peninsula to base their economies to a large extent on hydrocarbon revenues after the discovery of oil in the course of the 20th century, two countries of the Eastern Arab world, Egypt and Syria, have had more limited, but still significant, access to hydrocarbons, while Iraq is a major producer. In the Maghreb sub-region, oil in Libya and gas in Algeria have equally provided these countries with significant revenues.


By contrast, Morocco and Jordan are mainly noteworthy for their phosphate and potash deposits, without significant hydrocarbon resources. Although Tunisia has modest oil reserves, it does not produce enough to be considered oil rich.

These endowments have had a significant influence on economic development in the region, affecting even countries that are not themselves major hydrocarbon producers through transmission mechanisms such as labour migration and investments and subsidies from resource-rich states, as will be discussed in later units of this module.

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#### Exercise 1.4

You are probably familiar with the significant fossil energy resources in the MENA region. For an exact account of this, access the current version of the *BP Statistical Review of World Energy 2017*. Available from: <https://www.bp.com/en/global/corporate/energy-economics/statistical-review-of-world-energy.html>

 When you have studied the report, try answering the following questions:

- What percentage of the proved oil reserves is in the MENA region?
- Is that more or less than their percentage of current production?
- What is the situation for gas?

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The statistics show that at the end of 2015, the MENA region was home to more than 40% of the proved oil reserves worldwide, with 15.7% of the total in a single country, Saudi Arabia. Most of the Arab oil reserves were concentrated in the Arabian Peninsula, with Libya, home to 2.8% of the global total, the most important producer outside it.

Regarding natural gas, the global share of the region is similar, but the leading countries differ. While Iran and Russia have the largest reserves worldwide, the most important Arab country is Qatar, followed by Saudi Arabia, the UAE and Iraq. In North Africa, Algeria has the most important reserves at 2.8% of the global total. However, current production is relatively small in relation to these reserves, with the entire region staying below the global share of 22% that was reached by the US alone in 2015.

This module will not cover the technicalities of the oil industry as such, but it will make ample reference to the economic effects of this natural resource wealth on both resource-rich and resource-poor countries. In this context, the rentier state paradigm will be introduced in Unit 2, and taken up repeatedly in the remainder of the module.

### 1.3.2 Human geography

In this section you will focus on four stylised facts of human geography that have had a significant effect on the region:

- rapid population growth, leading to a so-called *youth bulge*, in which a high percentage of the regional population are under 30 years of age
- an ethnical composition of the MENA population in which Muslim Arabs are perceived to be the dominant group in the population, but are not alone: Berbers, Kurds, Armenians, Christian minorities, and migrant workers from the Subcontinent question this assumption to different degrees in different places
- a complex linguistic endowment, in which the Arabic language enjoys an immense prestige and is, in some form, the native language of a large percentage of the population, but at the same time competes with other languages for dominance in the spheres of business and education
- a problematic role of education and innovation systems within the region.

#### Population growth

Now look at Table 1.3 and examine how rapid population growth has been a fact of life in all Arab countries over the past fifty years, although the mechanisms for this have differed. While the dramatic increase in Egypt and Morocco is exclusively due to indigenous population dynamics and both countries experienced significant emigration over the period, in the case of the Gulf countries, traditionally high reproduction rates among the local population were complemented by significant labour migration into these countries, with the national population today a minority of around 10% in the UAE.

**Table 1.3 Population Growth in Selected Arab Countries (Inhabitants in millions)**

	1960	1980	2000	2015
<b>Egypt</b>	28.00	44.93	66.14	82.06
<b>Morocco</b>	12.33	19.8	28.71	33.01
<b>Saudi Arabia</b>	4.072	9.843	20.14	28.83
<b>UAE</b>	0.09	1.015	3.026	9.346

Source: World Bank (nd)

One result of the high birth rates is that the populations of the MENA countries are today very young. This constitutes both an opportunity and a considerable challenge for their governments. On the one hand, such a development might fuel rapid economic growth, as these youths enter the workforce.


However, this youth bulge also poses a challenge: very high numbers of young men and women are set to enter a labour market which, in many Arab countries, already suffers from high levels of unemployment and underemployment. This forces governments to contribute to the creation of additional jobs, which in the past was often achieved by way of an expansion of the state bureaucracy beyond its natural limits. This implies considerable costs for the public purse without necessarily leading to contented workers.

On the other hand, a failure to integrate the new market entrants could lead to unemployment, deskilling and discontent amongst a young population, possibly resulting in grave political problems.



### Reading 1.5

You should now read the article by Urdal (2012), which reviews some of the literature on youth bulges, particularly with respect to the Arab world.

 Make sure your notes on the reading enable you to answer the following question.

- According to Urdal, what are the transmission mechanisms through which a youth bulge may affect the economic prospects of a country?

Urdal (2012) *A Clash of Generations? Youth Bulges and Political Violence*. UN Population Division Expert Paper, 2012/1.

As Urdal emphasises, large age cohorts tend to face greater competition for resources, particularly under conditions of sluggish economic growth. When economic growth is high, a youth bulge can have a positive economic effect, but when it is not, the opportunity cost of engaging in rebellious activities declines, and engaging in disruptive activities becomes less costly. Education tends to have a mitigating effect on youth bulges, but jobs will have to be provided upon graduation. As Cammett and her colleagues point out:

Today, there are roughly 143 million Middle Easterners between the ages of fifteen and thirty out of a total population of over 506 million. Most of them have some education. Until the 1950s, a high school diploma would have qualified the recipient for a comfortable if unglamorous white-collar job, a decent standard of living, and a modicum of prestige. That is no longer the case. The young Middle Easterners recruited into the civil service and professions during the 1960s are only now retiring. They have

enjoyed rapid promotion and some have risen to the top of their administrative hierarchies. Yet behind them are new, even larger cohorts of men and women with equal aspirations and sometimes better professional credentials. They are being offered make-work jobs (if they are offered a job at all), salaries that lag behind inflation, and a low social status. Their numbers are growing and will continue to grow for at least a generation. It is hard to see how and where they can be productively absorbed into the workforce. Because they are literate and politically aware, denying them material security is risky. In fact, this very class may have constituted the backbone of the uprisings in Egypt and elsewhere

Source: Cammett *et al* (2015) p. 158.

## The ethnic composition of the MENA population

Muslim Arabs are perceived to be the dominant group, but Berbers in the Maghreb, Kurds, in Syria and Iraq, and Armenians constitute the linguistically most distinct minorities. Along religious lines, the Muslim population is internally divided into a series of groups, most prominently Shia and Sunni Muslims, and in practically every country of the Mashreq, there are significant local Christian minorities. In the Gulf, non-Arab and often non-Muslim migrant workers from the Indian Subcontinent constitute a significant percentage of the population, although their participation in public life tends to be limited.

While at the beginning of the 20th century, European nationals lived in significant numbers in a number of MENA countries, these communities largely did not survive the stormy years of Arab nationalism. European communities relocated to Greece, Italy and France after the Suez Crisis in Egypt and after independence in the Maghreb states. Arab Jewish populations outside the state of Israel have tended to emigrate as well after 1948, not always voluntarily. Since these groups had made up a significant part of the economically active population, particularly in trade and finance, the business elites found in some Arab countries today are quite recent in their emergence.

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### Exercise 1.5

The ethnic complexity of the MENA region is illustrated by a collection of maps found on the website of Columbia University at <http://gulf2000.columbia.edu/maps.shtml>. You should spend some time browsing these maps and exploring them. Of particular interest may be the map on the religious composition of the Middle East at [http://gulf2000.columbia.edu/images/maps/Mid\\_East\\_Religion\\_sm.png](http://gulf2000.columbia.edu/images/maps/Mid_East_Religion_sm.png).

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## Linguistic endowment

Given this ethnic and religious complexity, the Arabic language might be thought of as the unifying tie that binds all of the region together. This, however, would underestimate the complexity of the linguistic environment in the Arab world. On the one hand, the Arabic language enjoys an immense prestige as the language of the Qur'ān and of the common literary heritage of the MENA region. But while most people living in the Arab world identi-

fy as Arabs and native speakers of Arabic, facility with classical Arabic in its written or spoken form is far from common, and most every-day interactions happen in a dialect, an example of what is known as linguistic *diglossia*.

In vital spheres of modern life, such as the sciences and business, Arabic struggles to find a place in the Arab world, where English and, in the Maghreb, French dominate in these spheres of activity. It would thus appear to be a language of limited functionality for its speakers. As one champion of Arabic concludes:

Because of the foreign influence, the linguistic situation became very intricate and problematic as well. The most paramount example is the excessive use of foreign languages and the noticeable reliance on the Western culture. The process of Arabization is, therefore, a revolutionary linguistic movement which has been introduced to react against such a chaotic situation in which Arabic is almost totally neglected, and an urgent need to restore the Arabic identity. In order for them to achieve this stage, Arabic should be considered the sole official and national language. This, in a sense, entails Arabic to assume all the social functions. Furthermore, this linguistic movement purports to do away with alien languages, which are reminiscent of periods of oppression and exploitation during the colonial rule.

Hence Arabization is extremely very well evaluated and estimated for its importance and role in the formation of an independent national character. In this way, Arabization is viewed as a national aspiration for a world of equal educational and socio-economic opportunities. In spite of all of this, Arabization as an institutionalized process seems to have received little support, if any, from the parts of the political authorities. The whole atmosphere almost in the entire Arab world does not seem to be in favor of Arabization. The foreign languages are still predominant in all aspects of life. The Arab world aims, therefore, at considering Arabization to be mandatory for preserving the purity of Arabic and Arabness. To do so, Arab countries are required more than ever to follow the example of Asian countries policy, like Japan and Korea, in changing the whole situation in favor of Arabic instead of foreign languages. In other words the transition, from the stage of consumption of knowledge to its production, remains a must.

Source: Benkharafa (2013) p. 207.

As this quote from an Arab academic writing in English illustrates, passionate appeals to use more Arabic go hand in hand with a *de facto* desertion of the language. What may appear desirable at the aggregate level – having a fully functional national language – does not appear to be incentive-compatible at the individual level, where mastery of European languages continues to be a prerequisite for educational and career success.

### **Dysfunctional innovation systems**

The Arab world is found to produce far fewer patents and industrial innovations than its share in the world population would lead an observer to expect. While it accounts for roughly 5% of the world population, its contribution to the pool of patents registered at the US Patents and Trademarks office reached just 0.01% in 2014 (Nour, 2015). As Henry and Springborg (2010) conclude:



Despite much talk of “knowledge economies”, especially in the rich Gulf states, MENA human resources proved unable to meet this challenge. The social contract through which MENA regimes traditionally distributed public benefits, including health services and education, in exchange for political quiescence failed in most MENA countries to generate scores on basic human development indicators consistent with their income levels [...] Globally competitive private sectors, especially those in industry, required graduates with more skills than local institutions produced, so where possible, private firms hired expatriates and contributed not to local employment, but to unemployment.

Source: Henry and Springborg (2010) p. 317.

As well as failing to perform in the employment market, these graduates are unlikely to excel in internationally competitive research.

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## 1.4 Some Stylised Facts about History

This section will provide a brief sketch of Arab history in order to give you a common historical frame of reference for this module. The following reading is a good introduction to that history.



### Reading 1.6

History matters for an understanding of the present. Written from the perspective of a highly respected senior politician, Carl Bildt's (2016) article 'Preserving the Ottoman Mosaic' demonstrates the importance of the Ottoman past for understanding the region today. Please study it now.



Your notes should enable you to answer the following question.

- How has the Ottoman social system fared in the system of nation states that emerged as the Ottoman Empire disintegrated?

Bildt (2016) 'Preserving the Ottoman Mosaic'.  
*The Jordan Times*,  
5 January.

Bildt traces many of the current problems of the MENA region to a failure to accommodate the institutional heritage of the Ottoman Empire, which was divided into a number of nation states after the First World War. In the process, the social fabric of this society, which provided for the largely peaceful coexistence of many different ethnic, linguistic and religious groups, was lost, opening the door to many of the problems of regional politics in the 20th century and beyond.

Arab history is usually traced back to the early 7th century, following the establishment of the Islamic religion, during which Arab equestrian armies conquered large territories to the North, East and West of the Peninsula – almost all parts of what we today call the Arab World. The Arab dynasties that presided over this development, the Umayyads in Damascus (661–750) and the Abbasids in Baghdad (750–1258) ruled over an area stretching from the Atlantic to central Asia that, with the administrative and communication technology of the time, could hardly be centrally administered. Hence, numerous localised power centres developed, with Egypt, for example,

gaining *de facto* independence from the centre as early as the second century of Islam. However, the Arabic language became a unifying factor for all inhabitants of this empire, and the existence of a common cultural and administrative space led to a flourishing of long-distance trade between the different parts of the empire.

The unified state of the Abbasid caliphate in Baghdad came to a dramatic end when the city succumbed to the Mongol conquerors in 1258, since which time the Arab world has not known a political unity, although the figure of the caliph as an impotent symbol of the political unity of Sunni Islam continued to exist until the abolition of the caliphate through Mustafa Kemal Pasha in 1924.

For the eastern Arab world, the experience of Ottoman Turkish colonisation became decisive in the modern era. After the fall of the Mamluk regime in Cairo in 1516, the Ottoman state came to dominate the region for a period of 400 years, with territories spread across south-eastern Europe and its governors residing as far west as Algiers, and as far east as Baghdad. In the South, Yemen was intermittently under Ottoman control, while the holy cities of the Hejaz, Mecca and Medina formed an integral part of the empire.

Internally, the empire was organised along religious lines, with each religious community or *millet* enjoying internal administrative autonomy as long as the relevant taxes were paid and services were rendered to the Ottoman state in Turkey. This is occasionally referred to as the *Mosaic Society*. In the commercial sphere, many members of non-Muslim minorities were active in international trade and were quick to take leading roles in the modern business sector when it emerged, during the 19th century.

Politically, the Ottoman state reached its apex in the late 16th century and then declined, losing territory to most of its neighbours until its final demise after the First World War. From the 1798 French invasion of Egypt onwards, the spectre of European colonialism was never absent in the region. In the course of the 19th century, France colonised Algeria (1830) and Tunisia, adding control of Morocco, which became a protectorate in 1912, and Syria and Lebanon after the First World War, equally as protectorates.

In the Arab East, British colonialism achieved similar prominence, establishing a system of indirect rule in the Gulf region in the early 19th century, achieving *de facto* control of the then still Ottoman Egypt in the 1880s, and adding Palestine, Syria, Iraq and Jordan as protectorates after the First World War.

Similarly, Spain achieved colonial control of parts of Morocco, where it retains two enclaves to this day, and Italy colonised Libya in 1912, holding it until the end of the Second World War.

The legacy of the colonial era is blamed for much of the dysfunction in the Arab World today. In particular, the 1916 Sykes–Picot agreement, which defined British and French spheres of influence in the Mashreq and thus indirectly the borders of modern states, is viewed negatively by many

Arabs. To a greater extent, this is true of the 1917 Balfour Declaration, in which the British Foreign Secretary supported ‘the establishment in Palestine of a national home for the Jewish people’, albeit without defining clearly how this was to be achieved, and what status it was to have.

Decolonisation was an extended process, lasting at least from the 1919 Egyptian revolution and the subsequent granting of independence in 1922 until the withdrawal from the last outposts of empire in the Gulf in December 1971. While independence was uncontroversial in some cases, the 1956/57 Suez Crisis and the Algerian Civil War illustrate the bitterness with which the struggle was led elsewhere. Thus, adversarial politics was common in large tracts of the region, with Egypt entering into an alliance with the Soviet Union that lasted until the early 1970s.

Economically, this led to the nationalisation of all or most private-sector enterprises in most Arab states. During the process of decolonisation, economically dominant minorities in many Arab countries found themselves forced to leave. As a result, Arab countries outside the Gulf region are probably more homogeneous today than at any other point over the past centuries. The phase of economic nationalism, which affected the newly independent republics more heavily than the monarchies, lost momentum from the early 1970s onward, after the military defeat against Israel in 1967.

Even after the return of most MENA states to more open economic policies, the region continues to see significant international involvement – in the context of the conflict with Israel, which continues to polarise public opinion in many Arab states, the civil wars in Lebanon (1975–89), Libya, and Syria, the three wars involving Iraq since 1990, a perceived conflict with Shia Iran and Shia groups in general, in which the Gulf states have come to play a major part, and during the so-called Arab Spring and its ongoing aftermath.

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## 1.5 Some Stylised Facts about Religion and Economy

Religion is an integral part of daily reality in the MENA region, and has had repercussions for its economic life as well. Although many religions are found in the region, which is often seen as the cradle of monotheism, Islamic religious life dominates almost everywhere. Two questions arise:

- First, is economic life in Islamic societies intrinsically different from other societies?
- Second, is it possible and desirable to change economic mechanisms so that economic activity acquires more religiously desirable features, and superior performance?

In tackling the first question, a number of authors have embarked on efforts to define or describe features of an Islamic economy, which they assume is already present in the region, was present at the outset of Islamic economic life in the prophetic community in Medina, dominated economic life in the Islamic Middle Ages, or will be of increased relevance as Islamic features of

economic life are reintroduced in the near future. This is a literature that is normative rather than descriptive.

Other authors investigate empirically how Islamic institutions in earlier Islamic societies actually worked, when Western institutional transplants were not present yet.

Finally, the field of Islamic finance has become an area where the MENA region has experienced efforts to implement Islamic norms. Islamic banking, now a significant segment of the global banking industry, is the most prominent segment of this market.

At this point, it is only possible to indicate that these questions exist and are of relevance. You will study these aspects of regional economies in greater detail in Unit 8.

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## 1.6 Conclusion

This unit has provided an overview about a number of elements relevant to macro-perspectives on the MENA region.

Initially, the concept of the MENA region was contrasted to different concepts such as the Arab World, the Islamic world, the Near East, and the Middle East. Regarding the geography of the region, water scarcity and an abundance of energy resources took centre stage, and some of the policy problems that arise from water scarcity have been highlighted.

The unit's discussion should have enabled you to:

- discuss the dynamics of demography in the region and the relevance of the Youth Bulge
- explain the relevance of migration in and for the MENA region
- give a general account of central factors in the historical experience of the MENA region
- classify the countries of the region into different categories (RPLA, RRLA, RRLP) according to their endowment with natural resources and labour.

As the historical review has shown, the MENA region has been 'the most penetrated region in the world' in terms of foreign influence and involvement. The region's continuing potential for conflict may at first sight make it a less than ideal destination for businessmen, but at the same time, high risks can generate high rewards. For public policymakers, the choice to engage is moot. As problems of the MENA region have increasingly come to affect the public sphere in the West and beyond, the option not to engage is no longer given. For the public sector manager, the choice is rather whether such an engagement is to be positive and reflected, or a negative knee-jerk reaction following on dedicated efforts to ignore the area's problems.



## Optional Readings 1.2, 1.3, 1.4 and 1.5

### Optional reading on demographics and the youth bulge

The following readings provide country-level studies of the problems involved in managing the youth bulge in Iraq and Egypt, illustrating the economic and political implications of youth bulges. While Cammett and her colleagues provide a general overview, the other two readings delve more deeply into the country-level situation of two important Arab countries.

Cammett *et al* (2015: Chapter 15) provides a thorough coverage of the demographics of the MENA region and neighbouring states, allowing a considerably deeper engagement with the issues than is possible in the text of this unit.

International Crisis Group (2016) 'Fight or flight: The desperate plight of Iraq's generation 2000'. *Middle East Report*, 169, August. Available from: <https://www.crisisgroup.org/>

Adel Abdel Ghafar (2016) 'Educated but unemployed: The challenge facing Egypt's youth'. *Policy Briefing*, July. Washington DC: Brookings Institution. Available from: <https://www.brookings.edu/research/educated-but-unemployed-the-challenge-facing-egypts-youth/>

### Optional reading on history

Section 1.3 could only provide a sweeping overview of MENA history. A good place to start if you would like to delve in more deeply is the following optional reading:

Albert Hourani (1991) *A History of the Arab Peoples*. Cambridge MA: Harvard University Press.

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