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The Middle East and Development in a Changing World

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THE CHALLENGE OF HUMAN DEVELOPMENT IN ARAB COUNTRIES

NADER FERGANY

Issues of backwardness and development run deep into the fabric of the political economy of third world countries. In addition, a unipolar global order that has become impossible to ignore imposes harsh conditions on developing countries. As a result, combating backwardness in Arab countries acquires the dimensions of a historical challenge with major requirements. These requirements run counter to vested interests of present Arab and world power structures. As the east Asian experience shows, however, attaining the conditions of development, difficult as it may be, is not impossible.

Arab countries clearly vary in socio-economic structure. While the emphasis here is on common features that might not be unique to Arab countries, major disparities should not be glossed over. In particular, a division obtains between the nationals of the GCC countries and all other Arabs. This article generally concerns itself with the latter group for two reasons: population weight (more than 90 per cent of the Arabs) and acuteness of the development crisis. In particular, some non-GCC members of the League of Arab States, including Iraq, Algeria, Sudan and Somalia, have entered a state of national breakdown that warrants grave concern. Finally, recent developments in the Palestinian cause represent a unique case of "national reconstruction" that demands special consideration.

This paper adopts the conceptual framework of "human development". The development literature was inching towards the term "human development" in the 1980s. However, the concept was given wide visibility when the United Nations Development Program adopting the term and began to publish the annual Human Development Report.

Human development revolves around three axes: formation of human capabilities, utilization of human capabilities in the production of human welfare, and the level of welfare enjoyed. However, it is the institutional (social organization) basis of society that furnishes the enabling environment for successful human development. It is the arena for

empowerment through effective participation as well as the guarantee of sustainability.

The paper starts with a very brief characterization of the state of development in Arab countries. It then considers one of the main reasons for continued Arab backwardness: limited investment in human capital formation through education as it correlates with economic development. The intricacy of problems of education is pointed out, mostly using Egyptian data, and the need for major reform that goes beyond the sector of education is established.

One major manifestation of the under-utilization of human capital in the region, unemployment, is discussed next. What it takes to tackle the problem of unemployment, nothing short of a paradigm shift, is taken as an example of the intricacy of the development crisis in most Arab countries. This is followed by a discussion of the policy of "capitalist restructuring" which bears dire consequences for human development in the region.

The paper closes with a treatment of what the author considers the critical factor in Arab development: the institutional structure of Arab countries. Three specific issues of the institutional context are examined from the perspective of their links to the prospects of human development: privatization, civil service reform and Arab cooperation.

State of Arab Development

A genuine development process continues to elude Arab countries. At the same time, it can be safely said that the East Asian countries have managed to overcome backwardness in the span of the last three decades. This is the same epoch during which a number of Arab countries were considered to have had a real opportunity to advance. Regrettably and tragically, the opportunity that appears to have been missed, at least for now. It is also the period in which the illusive "oil wealth" assumed spectacular proportions, and then waned away.

How do Arab countries compare to East Asia (excluding China)? Let us consider two gross indicators of development (the comparison is given in terms of a percentage of the level of industrialized countries in the 'North').

Per capita GDP is an important, though deficient, indicator of general economic welfare. The following table shows that, on this indicator, Arab

countries were better off than East Asia in 1960. Three decades later, however, average Arab economic welfare did not measure to half the level of East Asian countries. The relative position of Arabs would be even worse if the Gulf Cooperation Council (GCC) countries are excluded (due to significantly higher per capita GDP in these countries of a petroleum-rich sub-region).

Table 1

Selected Development Indicators, Arab Countries and East Asia, 1960—1992

	Real per capita GDP*		Average years of education per person*	
	1960	1990	1980	1992
Arab countries	21	29	21	33
East Asian countries	17	62	70	79

* Values shown are the percentages of the levels reached in the more developed countries in the given year.

Source: UNDP, 1994.

The second indicator is more important. It indicates a crucial dimension of human wealth: average educational attainment in the society. The dramatic difference between Arabs and East Asians in this respect is immediately evident. It attests to one of the fundamental lessons of history: the decisive importance of investment in human capital as one pre-requisite for genuine development. Clearly, Arab countries could not significantly narrow the gap separating them from East Asian countries in human capital accumulation during the 1980s.

Consideration of the state of the five countries mentioned in the Introduction adds a truly frightening tone to this generally disappointing picture.

- Iraq, until recently considered by some to be a leader in movement toward a brighter Arab future, is reduced to de facto partition. Swimming on a sea of oil, as is said, Iraqis suffer untold humiliation in a futile attempt to secure the bare necessities.

- Algeria, the model of liberation movements and then of development in the sixties, is now torn asunder by a vicious civil war caused, in part, by a dismal failure of development. Regardless of how the war is resolved, the country's prospects of progress seem to have been devastated for a long time to come.

- Sudan, the promised breadbasket of the region, also suffers a long-term civil war, sets a world record in hyperinflation and rampant poverty. Latest estimates show that more than 99 per cent of Sudanese live under the poverty line.

- Somalia, a recent addition to the League of Arab States, slipped into a tragic and calamitous ethnic conflict. While external intervention in Somali affairs helped bring about this chaos, the Arab community largely ignored it altogether.

- The locomotive of the Arab progressive movement, the Palestinian "revolution", has been transformed into an authority ruling over an impoverished economy that is critically dependent on Israel and external aid. Palestinians have become a reserve labor force in the Israeli economy. The opportunity to earn a living by crossing the "green line", possible only with the approval of Israeli authorities, has been used to pressure Palestinians as well as their "authority". The real dimensions of these developments can only be realized with reference to two facts: the five countries considered account for about two-fifths of all Arabs, and the chain of events that produced these harsh conditions took place only in the last few years.

Education and Economic Development

The crucial importance of high quality education as the primary means of productive human capital formation is beyond doubt. The relative backwardness of Arab countries in this field was alluded to above. In this section, an examination of Arab educational development is set in an international context. The material is based on an analysis of the relationship between the level of economic development, on one hand, and

parameters of cumulative educational attainment and current expenditure on education, on the other hand, through a cross-sectional analysis of pertinent data in the early 1990s. (Fergany, 1994).

The level of economic development can be measured by per capita gross national product. The indicator approximates, albeit crudely, the level of economic productivity as well as welfare. Educational wealth can analogously be approximated by a gross indicator: per capita mean years of schooling. This indicator reflects the cumulative impact of past investment in education. It is important to note that it does not directly measure quality of education. Unfortunately, no internationally comparable measurement of quality of education, in terms of acquisition of knowledge, attitudes and skills, is available. However, very high values of educational attainment are normally correlated with superior quality.¹

Current investment in education is measured by current expenditures on education per person in the education age bracket (6-21), in 1990 US dollars. The age bracket used roughly corresponds to the three standard educational stages. This indicator reflects expenditure on additional increments in educational wealth. It also reflects quality of the educational process, though not in a simple or direct manner. As will be shown, this is a valuable indicator that is little used. In contrast to the normally used indicator, educational expenditure as a per cent of gross domestic product, it corrects for population size and age structure as well as the magnitude of gross product, all-important factors in international comparisons.

Table 2 summarizes the selected indicators for groups of countries and some selected Arab and non-Arab countries.

¹ It is to be noted that a high value of this indicator does not necessarily reflect and achievement of the educational system in labor receiving economies, an important consideration in the case of the Arab countries.

Table 2

**Selected Economic and Educational Indicators,
around 1990**

	Population (millions) 1992		GNP per capita (US\$) 1991		Mean years of schooling (1992)		Expenditure on education as per cent of GDP, 1991- 1992		Expenditure on education per person 6- 21, (US\$) 1990	
	value	n	value	n	value	n	value	n	value	n
A. Selected regions										
GCC	22.2	6	9115	5	4.0	6	5.5	5	1300	4
Other Arab	211.4	13	1035	8	2.7	13	6.6	7	198	7
All Arab	233.6	19	2008	13	2.8	19	6.4	12	339	11
Other developing	4528.1	135	1374	124	4.2	136	3.2	85	215	78
Developed	686.8	18	22083	18	11.8	18	6.0	16	6510	16
All countries	5448.4	172	4152	155	5.1	173	3.8	113	1226	105
B. Selected countries										
Egypt	54.9		610		3.0		6.7		117	
S. Arabia	16.0		7900		3.9		6.2		1324	
Israel	5.1		12110		1.2		6.1		2471	
R. of Korea	44.1		6350		9.3		3.6		816	
Switzerland	8.6		33710		11.6		5.5		10837	

Source: UNDP, 1994

The large difference between GCC and the rest of Arab countries in per capita GNP is apparent, the ratio is 9:1.² The differential in population size between the two groups is, however, in the opposite direction, 1:10.

This marked discrepancy makes the comparison of GNP per capita of all Arab countries to other groups of countries misleading. With respect to the rest of the world, it is important to note that for about 90 per cent of the Arabs, those living outside the GCC, average per capita GNP is lower than the rest of LDCs. But, even for the notoriously "rich" minority of the GCC Arabs, per capita GNP does not even reach half the level of OECD countries.

Educational wealth is even more deficient in Arab countries. Mean years of schooling is lower in Arab countries than in the rest of the third world. The fact that GCC countries enjoy a slightly better level of educational attainment does not improve the overall Arab average due to their small population size. But even for GCC countries, mean years of schooling is

² Data on GNP were not available for Kuwait, Libya, Iraq, Lebanon, Sudan and Somalia. Inclusion of these figures would have increased the disparity between GCC and other Arab countries.

lower than the rest of LDCs, in spite of the per capita GNP being more than seven times higher.

The standard indicator of expenditure on education, as a per cent of GNP, however shows a totally different pattern. Arab countries spend on education a percentage of their gross product higher than all non-Arab country groupings, including OECD. Non-GCC Arab countries spend on education the highest percentage of GNP among all country groups shown in the table.

In view of low educational attainment, the pattern of expenditure on education described above may puzzle some analysts. However, the explanation is quite straightforward. Current expenditure is not a measure of cumulative investment and the standard indicator of current expenditure is deficient, as mentioned earlier. When expenditure on education is analyzed using the per person indicator defined here, the pattern changes and becomes more accurately a measure of educational wealth. Non-GCC Arab countries spend on education less than the average of the rest of the third world, and about 3 per cent of the OECD countries. Even GCC countries, though spending more than six times that of other Arab countries, spend less than one fifth that of the OECD countries. Indeed, the relative advantage of GCC countries in per capita product is not reflected in generosity on education. Whether we compare with other Arab countries or with OECD, GCC countries spend relatively less on education than the differential in per capita product would imply.

The second tier of Table (2) compares the two largest Arab countries, within and outside the GCC, to other especially relevant countries at varying levels of development. The superiority of Israel over the two Arab countries with respect to indicators of both educational wealth and expenditure on education is vast, particularly in the case of Egypt. It is to be noted also that the relative emphasis on investment in education in Israel is higher than indicated by differentials in per capita product, particularly with respect to Saudi Arabia. South Korea is more than three times educationally richer than Egypt, or the average of Arab countries, though expenditure on education is less than Saudi Arabia (but eight times as much as Egypt). Switzerland exhibits the highest level of educational wealth as well as investment in education. Swiss expenditure on education is about 100 times that of Egypt, though the per capita GNP differential is in the order of 50: 1.

An international cross-section regression analysis of the relationship between GNP per capita, as an indicator of economic productivity or welfare, on educational wealth, measured by average number of grades completed per person, and current expenditures on education per person in the education age bracket (6-21), reveals an extremely high level of determination.

The highest levels of economic development are associated with a mean of more than ten years of schooling, and expenditure on education more than (1990) US \$ 5000 per school-age person. These values can be taken to define a threshold of educational, and economic, maturity. On the other hand, the lowest levels of expenditure on education coupled with educational poverty (average less than six years average attainment and less than (1990) US \$ 100 per school-age person) are correlated with a very weak economic performance. At expenditure on education less than (1990) US \$ 500, rises in mean years of schooling hardly result in higher per capita gross output. Higher levels of expenditure on education, however, show increasingly handsome economic returns, but only beyond the educational wealth threshold of six years. It is this lower threshold of educational, and economic, take-off: six years of schooling and (1990) US \$ 500 expenditure on education per individual (6-21), that Arab countries should strive to attain and surpass as quickly as possible. Compared to present levels of these two variables, the required investment in education is, however, huge, and probably beyond the means of most Arab countries. Alternative educational systems that produce much higher quality, without the level of expenditure associated with the best international practice, need to be developed. This is, to be sure, a major challenge.

Human Capital Accumulation

A closer examination of educational attainment and trends is essential for a deeper understanding of human capital accumulation. Unfortunately, this is hampered by lack of detailed information for many countries. Fortunately, in Egypt an information base sufficient for a preliminary assessment exists. The Egyptian case is also significant by virtue of the country's size, typical economic structure and long educational history.

Official figures place illiteracy at about 50 per cent of the population ten years of age or older. But disadvantaged social groups, women and the

poor, suffer relatively higher illiteracy rates, particularly in rural areas. Access to basic education is less than universal.

Access to primary education has been stable, reportedly at the 90 per cent level, but the gender differential in access seems to have widened in the past 12 years. There is evidence that girls from poor urban households have suffered falling enrollment in primary education in that period, with decline in enrollment associated with increasing poverty. Changes in the macroeconomic environment under the economic restructuring that started in the mid 1970s (inflation, deepening poverty, introduction of school fees under "cost recovery"), coupled with low and probably declining returns to basic education, and to a thriving market for child labor, appear to have combined to bring about relative stagnation in educational attainment. The poor in general and girls in particular seem to have paid a heavier price than average.

It was estimated by the author that in Egypt, about 850 thousand girls in the age group 6-10 were out of primary education in 1995. Assuming a desired average classroom size of 30, about 30 thousand classrooms are needed to only mop up the 1995 backlog of girls deprived from primary education. If we take into consideration that the estimates given above exclude boys out of schools, the need to reinstate the previously-canceled sixth grade in the primary education cycle, and that a majority of pupils in primary education attend double and triple shift schools in crowded classrooms; the required provision of new schooling capacity increases considerably beyond the 30 thousand classroom estimate. Thus, the national campaign enjoying high official patronage and designed to overcome this problem before the end of this century through building girl-friendly, one-classroom schools could only enroll about 40 thousand girls during the first two years. At this rate, it will take more than 40 years to enroll the 1995 backlog of girls out of schools.

Quality of education is the more serious problem, though. Less than universal access to basic education is bad. However, widespread access with poor quality is outright dangerous for it has dire consequences for productivity and renders educational reform even more difficult. Unfortunately, information on quality, in terms of real output, is even scantier than in the case of access. This is an area in which rigorous comparative research is badly needed.

In Egypt, there is strong evidence that competency in reading/writing and in mathematics is low (about 40 per cent and 30 per cent respectively). They have probably been declining (especially since the educational systems was "reformed" in 1988 by eliminating a grade from the primary education cycle, in Ministry of Education supervised schools). Even worse, completion of secondary education (11 grades) raises competency, on the primary stage level, to only 80 per cent in reading & writing and a scandalous 50 per cent in mathematics.

If competency in reading and writing only is taken as the definition of literacy, a very low standard indeed for the end of twentieth century, then completing secondary education should be the minimum educational attainment for a person to be counted as literate in Egypt nowadays. The current census definition requires completing just four grades of primary education. If minimum secondary level completion were adopted as the standard definition, the proportion illiterate would probably rise to more than 80 per cent.

To be sure, the problems of education in Arab countries are immense and solutions are not easy. Moreover, solutions cannot be found solely within the sector of education.

In Egypt, for example, in spite of a major drive, universalizing access to basic education, and eradicating the gender differential therein, has so far eluded the Egyptian government. It is clear that building traditional schools is, on cost grounds, out of the question in the case of the many small pockets of children out of basic education, especially in scattered population agglomerations deep in the Egyptian countryside.

The low quality of basic education is an even more intractable a problem. Because of inadequate teachers' remuneration and a lax civil service, private tutoring has become rampant as means of subsidizing salaries. Schools have essentially developed into marketplaces, built by the government for teachers to meet their prospective clients. To sell private lessons, teachers would be irrational to teach well in classrooms. But research shows that private tutoring does not result in significant improvement in cognitive achievement. Hence the quality of education suffers across the board.

Clearly, such a web of problems cannot be unraveled without, among other things, significantly better remuneration for educators and a more

efficient civil service system. These are issues that go beyond the sectoral concerns of education to much wider issues of economic reform.

Unemployment

Egypt has a relatively good database on unemployment, although not without problems. Results of recent rounds of the Labor Force Sample Survey (LFSS) show that unemployment has been on the rise. A detailed analysis of the final results of the LFSS produced a lower estimate of the rate of open unemployment about 14 per cent corresponding to approximately three million unemployed persons (Fergany, 1995).

Regardless of the precise level of open unemployment, there is agreement that open unemployment has become "structural", or "organic", with grave social and economic consequences. Deficient demand for labor, stemming from stagnant economic growth as well as the labor-saving and capital-intensive, structure of growth and technological choice in the last two decades, are among the primary causes of large scale open unemployment.

Unemployment is expected to rise even further in Egypt since the first phase of the structural adjustment package was designed to be recessionary. Divestiture of public enterprise is a key component and is expected to result in layoffs. And indeed, the economy has continued to stagnate even after the first phase of economic "reform" was completed, and prospects for labor migration are diminishing.

More significant than the level of unemployment is its structure. Available data show that the vast majority of the unemployed are educated young persons entering the labor market for the first time (a result of discontinuing guaranteed employment of such graduates in the government and public enterprise sector). Unemployment rates are highest for graduates of intermediate education and next highest among graduates of higher education (indicating a negative societal rate of return to education, taking employment as a criterion). The unemployment rate for females is at least double that of males and the poor suffer higher rates of unemployment.

Unemployment data in other Arab countries are generally more deficient than in Egypt. Estimates of the level of unemployment in other Arab countries around 1990 are 6 per cent in Syria, 11 per cent in Morocco and

Tunisia, 16 per cent in Sudan, 17 per cent in Jordan, 21 per cent in Algeria, 33 per cent in Iraq and 48 per cent in the West Bank and Gaza (Fergany, 1994). Note the particularly high values for Algeria, Iraq and West Bank and Gaza, three of the most unstable places in the region.

For the Arab region as a whole, an overall open unemployment rate of 15 per cent around 1990 is reasonable. This corresponds to almost 10 million unemployed persons, mostly poor educated youth. And the trend upward. If the future entrants to the labor market are added to the existing pool of unemployed, the huge level of required job creation represents an awesome challenge to these economies. The labor force is growing at some 2 to 3 per cent per year, and the economies are nearly stagnant.

Standard treatments of labor underutilization in less developed economies stress visible underemployment. However, careful analysis of employment in such countries reveals that visible overemployment coexists with visible underemployment. Yet, underemployment, particularly the "invisible" variety, is the most serious employment problem affecting Arab countries. Unfortunately, it is in the area of invisible underemployment that the information base is weakest in all LDCs. Invisible underemployment is condition in which an employed person functions at low productivity, underutilizes his/her skills and qualifications, or earns less than is sufficient to satisfy basic needs, according to some norm. The first aspect underpins low productivity at the level of the economy as a whole. The second illustrates poor articulation between the education and employment systems. The last aspect of invisible underemployment defines poverty. The concept is complex and its measurement problematic.

All signs indicate that invisible underemployment is rampant in the economies of Arab countries, but precise measurements are rare. An attempt at approximating Egypt's level of invisible underemployment from a large-scale survey (the October 1988 round of the LFSS) resulted in estimates of various aspects of the phenomenon ranging between ten per cent and two-thirds of employed people (Fergany, 1991). The continuation of such levels of underemployment can only have dire consequences for productivity, the growth of output and, ultimately, poverty.

A Paradigm Shift in Employment Policy

International aid and private sector development in the past two decades have generally been both capital-intensive and labor-saving. This is indeed one of the main reasons for rising unemployment: the government stopped creating jobs in the public sector and the private sector has not taken on the role of the main employer. As a result, the labor market has not been able to generate high, and increasing, levels of productivity and social welfare. Current systems of governance, in which huge rents accrue to those who have access to centers of power, do not provide the requirements of efficient markets: free access to information and to markets as well as risk-taking. At the same time, completely unfettered markets in only a few sectors reinforce this disabling institutional environment and end up creating little or no economic growth. The inevitable widening disparity in the distribution of income and wealth, hence in power, reinforces the socio-political impasse.

Two major strategic directions should be adopted. On the one hand, a comprehensive approach is crucial, aimed at the entire social formation and its cultural, political, social and economic components, rather than the current emphasis on sectoral concerns. On the other hand, a long-term perspective is essential, since effective solutions to problems require many years of concerted effort. Overall, the new paradigm should have the following four interrelated objectives: reduce unemployment to a level near full employment as soon as possible; double economic productivity every few years; significantly improve and maximize the utilization of human capabilities; and ensure satisfaction of the basic needs of the population.

Furthermore, an integrated policy package needs to be formulated in order to reach the above goals. This policy package should ensure free access to information on employment opportunities and establish efficient employment exchanges. It should also gradually deregulate labor market in order to increase its flexibility within a competitive market framework. This would entail: full rights to management, including free hire and fire with adequate rights of severance for employees; full rights to labor, such as free unions and collective bargaining tools including slowdowns and strikes; adequate inflation-indexed unemployment compensation as an integral component of a safety net; and credible chances of productive employment for people, including retraining if needed.

In addition, new job creation should be expanded based on growth through new investment, a labor-intensive growth structure, and employment-intensive technology. With the aim of enhancing productivity, the level of education of the population should be improved. There should be an increase in the quality of education. A favorable incentive system should be instituted, with positive rewards to education and high productivity. Supporting technological development should be encouraged by raising the productivity of traditional labor-intensive technologies in small and micro enterprises, strengthening modern technologies, and reinforcing the linkages between the two sectors.

Moreover, a comprehensive policy package should undertake a reform in the civil service in order to institute accountability and link employment, promotion and wages to productivity (see below). It should also aim at minimizing multiple job holding; ensuring adequate wages sufficient to satisfy basic needs, reinstate employment discipline and enhance productivity; and promote increased coordination between the labor market and the educational system. Necessary measures should also include instituting an adequate safety net for the poor (indexed to inflation); raise the social value of productive work, particularly manual labor; and establishing a fair tax system. Lastly, an effective reform package should address issues of nepotism, clientelism, tax evasion; reshape the social incentive system so as to reduce the current emphasis on material possessions; and stress the rule of law coupled with increased government accountability, at both central and local levels.

As this list indicates, the task is awesome indeed and is not strictly limited to the labor market. However, the price of continued neglect of the extent, and implications, of unemployment in Arab countries is, to say the least, frightening.

Capitalist Restructuring

The discussions of education and unemployment indicate that Arab countries are experiencing, in varying degrees, deep changes in economic structure that I refer to as capitalist restructuring. These changes cause, in the local, regional and international context in which they take place, far-reaching societal transformations, to the extent that prospects for human development

may suffer greatly. Problems of human capital accumulation and utilization in the region, cannot be correctly understood without due consideration of this context. Nor can strategies for genuine human development be formulated or implemented.

By capitalist restructuring is meant introducing deep changes in economic structure leading to the supremacy of free markets in domestic and international economic activity. This means, in particular, instituting private capital as the primary economic actor, and the profit motive as the principal incentive for economic growth, the latter becoming almost a synonym of progress.

Developments of the last two decades impose on countries that are peripheral to the center of the "New World Order" (NOW) a certain level of adjustment to the world economy. Adjustment, however, does not make submission to the center of the NWO inevitable.

The collapse of the Soviet Union and the breakdown of the "Socialist" block were the last episode in a train of events establishing the dominance of the present phase of the Western civilization. Probably the crucial event was China's giving up the creation of the "socialist man". As a result, most third world countries, including Arab countries, seem destined to pay a heavy price for restructuring their economies. They face the risk that they may achieve little more than a deformed and stunted replica of western capitalism, with a savage form of economic freedom not paralleled in any mature capitalist economy.

This turn of events is made all the more melancholy because many third world governments choose to join this trend. As Ibn Khaldoun said, "the vanquished is fond of imitating the vanquisher". Further, third world countries mostly join the international order fragmented and hence weak and dependent. Such players in the NWO can only be on the receiving end, and have to "adjust". The penalty for fragmentation, weakness and dependency takes, in the case of Arab countries, a tragic twist. In no other proximate group of countries in the contemporary world can the pay-off to effective cooperation be as high.

Response to international stimuli, however, varies from one country to the other. China and Egypt, for example, opened up to the outside world at about the same time. Without endorsing whatever happened in China, and recognizing differences between the two countries, a comparison of the debt

burden, level of economic growth, and technological capacity building, lends support to the contention that the nature of "adjustment" is conditional on the respondent. Once more, how would the Arab countries' response to the international context have differed if it was managed through effective coordination?

A treatment of the international context for capitalist restructuring in Arab countries is not complete without considering the "Middle East" issue, particularly as the "naturalization before signing" mode has taken over the latest of Arab mirages: the "just and comprehensive peace". Unfortunately, Arab governments, and "business men", are too keen on cutting deals with Israel even at the expense of their own compatriots, let alone other Arabs.

Capitalist restructuring cannot be isolated from the confluence of two crises, one internal and the other international, in most third world countries.

The persistence of "stagflation" in mature capitalist economies for an extended period after the mid 1970s, followed by spreading unemployment after economic growth Western countries blamed the oil "price shock" in the seventies. However, it has become clear that the essence of the crisis is a long-term technological transformation carrying mature capitalist economies to information age.

The international crisis had two leading consequences for third world countries. Since most third world economies are critically dependent on mature capitalist economies, recession in the center was exported to the periphery. At the same time, the flow of oil revenues to western financial centers, at a time of economic recession there, provided a vast pool of liquidity that was used for easy lending to the, only too-ready, third world governments. The rapidly increasing debt burden contributed to the growing development crisis in LDCs.

The failure of development policies and programs in many LDCs became only too apparent in the early 1970s. Third world countries were tempted to try the enchanted world of "opening up" to the West. Some countries experienced temporary successes, in terms of high rates of economic growth, measured in deficient monetary-based indicators.

Capitalist restructuring, in the institutional context of most third world countries, results in immediate and deeply adverse societal effects. Without going into details, making private capital the principal mover of economic activity invites favoring capital at the expense of labor. Needless to say,

owners of capital represent a small minority in poor countries where earnings (income from work) is the principal source of livelihood for the vast majority of the population. Favoritism to capital, especially large capital, in the context of economic recession, invariably results in widespread unemployment, deepening poverty and increasing disparity in income and wealth. Foreigners gain commanding footholds in the national economy. Change reaches the social incentive system, which leans more to consecrating material possessions and individualist values.

The socio-political context of economic restructuring in many LDCs ensures the worst possible results of free markets in a sea of market imperfections (barriers to entry and competition such as red tape, cronyism, corruption, risk aversion). Ironically, economic restructuring helps reinforce these very same market imperfections since government, and governance, reform does not, for many reasons, score highly on the "capitalist restructuring" agenda. In particular, such political reform runs against the interest of ruling coalitions, the "national" side of the capitalist restructuring contract, and it is not pursued by the international side of the contract with anything close to the fervor of insisting on macroeconomic "reform", private sector supremacy and free trade.

The Institutional Context of Arab Countries

The two overriding features of the institutional context in too-many Arab countries are the marginalization of the people in governance and the prevalence of an incentive system that sends social and economic signals inconsistent with development.

The prevailing social system is one of paternalism based on acceptance, and fear, of authority. In addition, most Arabs lack the rudiments of reading and writing; an even greater majority has lost the ability to think critically and express themselves freely; and almost all are barred from effective participation in public affairs. This state stems from governance regimes that control access to wealth and power, manipulate minds, and do not refrain from using brute force.

As a result, the state has managed to create a condition of "negative consent" on the part of the people. Given their limited political awareness and weak social consciousness, people are sinking into a morass of

individual interest at the expense of the public interest. The apathy of Arab masses, particularly youth, is the other side of the coin of a dominating state and marginalized people. Unfortunately, the deepening economic and social crisis will lead to worsening social conflict.

Weak social consciousness is reinforced by an unfavorable political context. The starting point of politics is the dominating role of unrepresentative regimes that deny people their basic human rights. The continuation of these regimes is indeed dependent on the denial of these rights, particularly the rights of expression, organization and effective political participation, to forces outside the prevailing power structure, i.e. the vast majority of the people. In particular, government is centralized (local "government" is a mere extension of the central administration), heavy-handed, and essentially unaccountable to the people.

Consistent with this type of governance is a social incentive system that rewards access to sources of power (political authority and wealth), glorifies material possessions and consecrates individualism at the expense of knowledge, work and altruism. This social incentive system underpins corruption, big and small (the rich want to become richer and the poor have to find means of surviving). If negative social incentives dominate Arab societies, social conflict can only intensify.

The prevailing disabling institutional environment has direct economic consequences. Risk-taking is a pre-requisite of efficient market mechanisms. But ordinary Arabs, particularly youth, have evolved into risk-averse social agents. Social productivity in Arab countries is low, and probably deteriorating. In spite of lucrative incentives, in the form of tax breaks, free remittance of profits and other facilities, the contribution of private capital, foreign and national, to technological capacity, production and employment has been marginal. Instead of attracting investment, capital flight is variously estimated at hundreds of billions of US dollars.

It is important to note that the outside world plays a crucial role in reinforcing the unfavorable institutional context in Arab countries, particularly in view of the unipolar world of today. The West, led by the USA, supports most governance regimes in the region in reward for catering to western interests, especially rearranging the Middle East.

Three important issues of the institutional context of development in Arab countries are dealt with: privatization, civil service reform and Arab cooperation.

Privatization

Overall privatization, especially in the sense of divestiture, is advocated as the linchpin of "structural adjustment". Fast and large-scale divestiture is promoted as an essential requirement for market mechanisms to function efficiently. Whether, in the prevailing institutional context of Arab countries, privatization could produce the intended results is doubtful. In addition, overemphasis on divestiture overshadows the wider issue of private sector development as well as the critical questions of civil service reform and ensuring that governance regimes enable effective market mechanisms. Let us consider the likely impact of privatization on human development.

Could privatization of education help improve formation of human capital stock? It is unlikely. For evidence we turn again to the Egyptian case. Ministry of Education-supervised schools, government and private, account for more than 90 per cent of primary education pupils (the rest go to schools run by Al-Azhar). Private schools enroll less than 7 per cent of primary education pupils. Compared to government schools, private education has lower internal efficiency, and does not significantly improve acquisition of basic literacy skills.³

I believe that access to education, and more critically, educational quality, would benefit in the long run from the presence of a strong non-governmental, not for profit, education systems competitive to that of the government with strict control for quality through rigorous accreditation. A revitalized NGOs movement represents a window of opportunity in this respect with basic education as a major entry point to community-level social development. In the prevailing institutional climate, however, if private education were to become a big for-profit business with influential

³ The elite "language schools" accommodate a small fraction of private schools' pupils. Many private schools cater to the "rejects" of government schools.

investors, control of quality by a weak and inefficient government administration, that is also keen on attracting investment in education, would be almost impossible.

Could privatization, as practiced in most Arab countries at present, especially in the form of divestiture, help generate jobs on the vast scale required? This appears equally improbable.

To the contrary, divestiture is widely feared as resulting in lay-offs in order to wipe out the over-staffing of public sector enterprises. Serious civil service reform is expected to have a similar outcome.

Private sector development in the past two decades has been both capital-intensive and laborsaving. This is indeed one of the main reasons for rising unemployment. Once again, a disabling institutional environment is easily identified as a main culprit. Bureaucratic red tape and corruption as well as macroeconomic and political instability drive capital out rather than to attract it. Big business is decidedly favored in the prevailing institutional environment. Unfortunately, a strong bias for big capital under present economic restructuring regimes has left the small investor at the mercy of the worst of government ineptness and of hostility of the legal and administrative framework to private investment. However, there may be hope for large-scale employment generation through private sector development only if it leads to labor-intensive growth as well as productivity enhancement. A tall order indeed.

Could divestiture lead to higher productivity in privatized enterprises? Here an assessment by the ILO says that it depends (van der Hoven, 1996). In the Republic of Korea, "incomplete market structures, continued government regulation and interference in enterprise-level decision-making, and neglected human resources management have been suggested as causes of the failure of some enterprises to improve their operation". In India, where "industrial malaise is pervasive not only among public enterprises but also in the private sector... privatization by itself has not increased efficiency" (page 11). This observation would appear to be applicable to most Arab countries. In many LDCs, including Arab countries, inefficiency is not limited to public ownership. It is a generalized trait of such economies.

With low levels of human capital and in a disabling institutional environment, private enterprise, especially if large and influential, can be as inefficient as public enterprise. Worse, in the absence of competitive market

mechanisms and strict market regulation, large private enterprise can be more harmful of the public interest (private monopolies, restriction of access to information and market entry to political clients). In the words of the ILO paper "in many cases it has been found that it is exposure to competitive forces rather than the nature of ownership that creates the greater pressure for improved efficiency... when privatization has been combined with thorough reforms, both within the enterprise and in its policy environment, it has produced substantial positive results. But it remains to be debated whether these results could not have been achieved without privatization, with the same type of internal and external reforms" (page 20).

In conclusion, sale of public enterprise by itself is no panacea for human development problems in Arab countries undergoing economic restructuring. Private sector development within the present institutional context does not hold much of a promise either. Nothing short of a complete paradigm shift is needed. Based on an integrated policy package that weaves intensive investment in human capital formation with extensive labor market reform, the paradigm shift also requires institutional change, spanning the range of civil service to governance reform while guaranteeing the social welfare of the people. Such changes could enable high growth of output and rising productivity leading to adequate levels of social welfare. Only in this way can the foundation for economic efficiency and equity throughout society be laid down.

Civil Service Reform

There are essential economic functions that remain the unique domain of government in all systems. A major problem is that governments in LDCs are notoriously inefficient. However, the criteria for efficiency, differs from one perspective to another. The conventional wisdom in civil service reform concentrates on problems of pay and employment practices. This characterization, though accurate, can be considered "technical" based on efficiency considerations. But the level of government efficiency has implications for economic performance in general, and for the private sector in particular. It is also important to consider the "social" dimension of the role of government, i.e. the effectiveness of government in attaining the social objectives of economic activity.

Assessment of the economy-wide, particularly social, implications of government performance, and attempts at civil service reform, is generally weak. Issues such as impact on unemployment, productivity and poverty are rarely addressed. This is partly because it is more difficult to carry out such assessments. But also because there is little concern in structural adjustment programs for other than macroeconomic and international trade considerations.

It is sometimes claimed that civil service reform has been "politically easy". The claim is then followed by the recommendation that "bolder" reforms be attempted in the future. But it is also recognized that the small political price paid so far has probably been a result of three realities. They are the limited extent of civil service reform attempted in the past, the authoritarian nature of most third world regimes, and the related weakness of civil society in countries where civil service reform has been tried. These realities render the recommendation to be bold almost irresponsible.

Nevertheless, reform of the civil service, remains an essential component of a labor market reform. Reward to government service needs to be reformed through transparent structure, adequate wages, decompression of scales, and equalizing discrepancies among various parts of government service. Allocations for equipment, operation and maintenance, necessary for efficient functioning, should be made available.

Sound public administration practices, leading to higher productivity, need to be instituted. These practices should include recruitment, advancement and termination of service based on merit, including competency exams for employees; rigorous use of information, planning, follow up, and evaluation (including customer satisfaction as a major criterion for service departments and periodic functional reviews) in government administration; continuous, and serious, training for employees; and decentralization of government. In order to reduce the budget deficit, the tax structure should be reformed to ensure fairness as well as to raise the efficiency of tax collection; government spending on other than civil service cost (conspicuous consumption, spending on the military) should be rationalized. In case of retrenchment of public service employees, remedial measures such as severance packages, redeployment and retraining, credit programs and public works programs, will have to be implemented.

Arab Cooperation

The very notion of Arab cooperation might ring hollow in times when, according to a high-ranking Arab official, "coordination" between Arab countries is orchestrated by the "American sponsor" of the peace negotiations in preparation for a new Middle East in which Israel is expected to reign supreme. Nevertheless, I am a firm believer in the critical importance of Arab cooperation. The Arab homeland is partitioned, backward and dependent on the outside world. These three features interact to reproduce the miserable conditions Arabs suffer. Overcoming these features represents a historic undertaking in pursuit of a better future. This, in short, is what development means in this part of the world. Development is a long-range struggle that requires mobilizing the capabilities of the nation against the dominating powers, in the region and outside, that benefit from the perpetuation of the status quo.

As three dimensions interact to reproduce backwardness, development requires synergistic effort on three fronts to achieve a form of unity leading to independence and progress. This requires a form of social organization based on effective popular participation within the context of cultural authenticity that allows for enriching diversity within unity. Arab joint action needs to be the cornerstone of development in this part of the world. Independence and unity are inseparable goals. Building an advanced technological capability or a strong productive base is not possible for any one Arab country, no matter how large or "rich". In short, development of Arab countries is possible only on the Pan-Arab level. Benefits from integration in the world economy can be maximized through Arab cooperation. Cooperation with the shaky peace partner, at the expense of Arab cooperation, is an error of dramatic historical proportions.

Unfortunately, the chain of events of the last few years makes these tenets sound irrational, if not outright absurd. As lukewarm as it was, the principle of "Joint Arab Action" is in steady decline and its institutions weakened beyond redemption. Consider the futility of the League of Arab States and the deliberate destruction of the Arab Unity Council. This is taking place while preparations are underway to build new "Middle Eastern" institutions as the crowning achievement of an unjust and shaky "peace settlement".

The path to genuine development requires a state of Arab rationality leading to reallocation of resources, and maximizing the effectiveness of their utilization, to attain the greatest developmental return throughout the Arab world. In the final analysis, whether this path will be found is dependent on political processes taking place in Arab countries at the time being.

Unfortunately, because of the institutional context of development described above, the prospects of reaching this path seem dim at present. Escalating social, and perhaps regional, conflict, fueled by deepening socio-economic crises coupled with blockage of peaceful, and effective, political participation, seems a more likely prediction.

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