

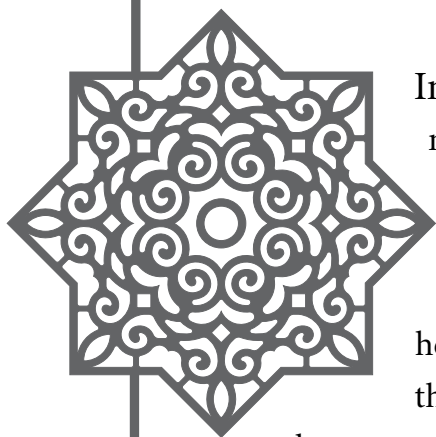


The Little Monarchies That Could



**How Oman, Jordan and Morocco
Survived the Arab Spring**

**BY ROBERT
LOONEY**



In early 2011, a Tunisian fruit vendor named Muhammad Bouazizi set himself on fire to protest the harassment he had apparently received from corrupt municipal bureaucrats. The match he lighted ignited popular uprisings across the Arab-speaking world that became known as the Arab Spring. One by one, authoritarian regimes in Tunisia, Egypt, Libya and Yemen were swept away, as younger citizens turned out en masse to vent their anger at the barriers they faced in securing education, finding jobs, starting small businesses, participating in civil society – and, in some cases, establishing Islamic fundamentalism.

Yet, while republican governments toppled, the region's monarchies proved to be made of sterner stuff. Absolutist domains, including Saudi Arabia, Kuwait,



Cairo, January 2011



Sanaa, Yemen, December 2011 – rally to commemorate the death of Mohamed Bouazizi

Qatar and the United Arab Emirates, managed to buy off opposition by using their abundant oil revenues to create jobs and to sweeten consumer subsidies.

This tactic, however, fails to account for the survival of the monarchies in Jordan and Morocco, which have little wealth to spread on troubled waters. And it isn't entirely convincing in the case of Oman, where the government did throw some money at the problem but where protests were never as serious as in the major Arab Spring countries.

By the same token, while financial and military assistance from Saudi Arabia almost

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Libya, February 2011 - Mummur Gaddafi's crackdown

certainly saved a fourth Mideast monarchy, Bahrain, from regime change, there is scant evidence that foreign aid made a substantial difference in Oman, Jordan or Morocco. On closer examination, it appears that, rather than money or armed might, the three king-

TOP: REUTERS/KHALED ABULLAH
BOTTOM: REUTERS/SUHAIB SALEH



Algeria, March 2011

REUTERS/LOUAFI LARBI

doms' ongoing enlightened domestic policy choices – particularly as they related to economic freedom, corruption and governance – shielded them from the tsunami.

In 2011, the year of the uprisings, Oman (57), Jordan (61) and Morocco (43) all scored

AT A GLANCE

	OMAN	JORDAN	MOROCCO
GDP (\$ billions, 2012, PPP)	\$92	39	174
GDP Growth (2012)	5%	2.8%	3%
GDP/Capita (2012, PPP)	\$29,600	6,100	5,400
Population (millions, 2013)	3.2	6.5	32.6
Population Growth (2013)	2.08%	0.14%	1.04%
Total Fertility Rate (2013)	2.86	3.32	2.17
Oil Production (barrels/day, 2012)	900,000	165,000	680,000
Infant Mortality (deaths/1,000, 2012)	14	15	25
Life Expectancy at Birth (2012)	75	80	76

SOURCE: CIA World Factbook

decently on the World Bank Governance Index' ranking on control of corruption, where a score of 100 is best. Meanwhile, many of the regimes destabilized by the Arab Spring – Libya (5), Iran (19), Syria (16) and Yemen (9) – certainly did not. Similarly, Oman (69), Jordan (69) and Morocco (60) did well in comparison with Libya (60), Iran (42), Syria (51) and Yemen (54) on the Heritage/WSJ Index of Economic Freedom that same year. (In this index, a high score means more freedom.)

To be sure, Tunisia and Egypt don't fit cleanly into this simple matrix. And, with hindsight, there are plenty of reasons to treat them as unique. Both, for example, had large middle classes alienated by rapidly widening income inequality and conspicuous consumption by the newly rich. Both, moreover, had cities teeming with unskilled and often unemployed workers displaced from the countryside. I'll focus here on the three little monarchies that have largely been left out of the Arab Spring conversation and managed to beat the odds.

Oman

The impact of good governance in general and good policy choices in particular is clear in the case of Oman, the lightly populated, largely Arab sultanate on the Indian Ocean side of the strategic Strait of Hormuz. It has consistently achieved growth rates above those of its oil-producing counterparts in the Gulf. Indeed, it has grown from poverty to high-income status in the last half century, and now has a per capita income of close to \$30,000 in purchasing-power terms – a shade less than that of New Zealand.

Oman began its development efforts in the early 1970s under Sultan Qaboos, who eschewed doctrinaire rigidity in an era marked by the ideological contest between socialism and capitalism. (And later, between Iran and its Sunni neighbors; Oman has solid relations with both Saudi Arabia and Iran.)

Central to Oman's growth strategy has been the paradoxical role of oil. Since the discovery of oil in the mid-1960s, Oman's monarchs have decreed that petroleum revenue was to be invested for the benefit of future generations. Thus, on the one hand, Oman has attempted to maximize the impact of oil revenues through effective resource development and allocation policies. On the other, the government has long been conscious that, because of its relatively modest reserves, the sultanate is under the gun to reduce the economy's dependence on oil by developing new sources of income.

When the country's state-led growth began to stall in the 1990s, the sultan responded favorably to IMF and World Bank pressure for market and trade liberalization. The new

strategy, Vision 2020, called for opening the economy, with a much greater emphasis on private development. To accomplish this, controls on foreign investment were lifted and expanded contacts were sought with international organizations, including the WTO and regional economic blocs.

Unfortunately, the country's development efforts have been accompanied by breakneck population growth. The total fertility rate approached an astounding eight children per woman in the 1980s, even as infant mortality was collapsing and life was being extended by better health care and sanitation. The number of citizens grew from fewer than 500,000 in 1970 to nearly two million today. And while the total fertility rate is now below three, the demographic elephant has yet to be fully digested by the proverbial python.

Oman's youth unemployment is estimated at around 30 percent, with nearly 100,000 additional youths leaving secondary school each year. Speedy population growth and limits on petroleum revenues to finance industrializa-



Sultan Qaboos

MOHAMMED MAHJUB/AFP/GETTY IMAGES



Oman's fertility rate pushed the population from fewer than 500,000 in 1970 to nearly two million today

tion are certainly exacerbating the problem. But at the heart of Oman's unemployment problem – a problem shared with all the Persian Gulf petro-states – is its continued reliance on foreigners to fill jobs ranging from middle management to manual labor.

To combat this dependence, an “Omanization” initiative encouraging Omanis to find alternatives to public employment by shifting the emphasis of education toward technical and vocational skills has been imposed. Oman also introduced several programs to encourage entrepreneurship. The Fund for Development of Youth Projects, started in 1999, bankrolls Omanis willing to start small- and medium-size enterprises; likewise, the 2001 SANAD Program aims to speed up Omanization through self-employment.

A third program, the Sharakah Fund for Development of Youth Projects, provides financing options for young Omanis starting or expanding businesses with total project costs of less than one million Omani rials (about \$2.6 million). The fund offers entre-

preneurs more flexibility than privately raised equity, encouraging business owners to buy back the fund's equity share within six years. The idea is to ensure that young entrepreneurs have the short-term financing they need without repayment deadlines, as well as the long-term option of regaining complete ownership of their enterprises.

But in spite of efforts at Omanization, dependence on expatriate workers in Oman, once one of the lowest among the Gulf Cooperation Council states, jumped from 24 percent in 2003 to about 44 percent in 2013. As in the other oil-rich Gulf countries, poor work habits, unrealistically high minimum wages and a pervasive sense of entitlement make employers loath to hire locals.

Only time will tell if policy changes will reverse the trend. The creation of a more robust small- and medium-size enterprise sector could have far-reaching effects by contributing to job creation and diversification, while generating more innovation and stronger competition among businesses.

Jordan

Jordan's situation is the most precarious of the monarchies. The country is resource-poor and situated where many of the region's problems are actively playing out – Jordan borders Israel, Syria, Iraq and the West Bank, and is a stone's throw across the Gulf of Aqaba from Egypt. What's more, it is home to 1.5 million Palestinians displaced by conflict with Israel, who in the past have challenged the political dominance of ethnic Hashemite Arabs. Despite its many problems, though, the kingdom withstood the stresses of the Arab Spring with no sign of cracking.

That achievement is in part attributable to ongoing economic and political reforms. Two years after regime change in Tunisia, King Abdullah II seems committed to an ambitious agenda for giving Jordanians a greater voice in government and raising living standards. His plans include a series of initiatives to directly address many of the country's longstanding impediments to prosperity.

Jordan has experienced relatively strong growth in the last decade: the rate has been as high as 10 percent and never slipped below 2 percent during the global financial crisis. Nonetheless, the official unemployment rate has hovered at 13 percent and the unofficial rate is closer to 30 percent. Indeed, to absorb all the entrants into the

labor force each year would require real GDP growth of around 9 percent annually, far above the rate that Jordan – or any other country outside Southeast Asia – has been able to sustain.

Job creation is further complicated by the tightening fiscal constraints facing the government. The Jordanian economy was certainly buffeted by the shock waves of the Arab Spring coming from multiple directions. First, supplies of natural gas from Egypt (purchased below market price) were disrupted by sabotage, costing the kingdom billions to replace. Then, tourism was hit, as fears of unrest kept visitors away. Next, the Syrian conflict dislocated Jordan's trade with Turkey, adding significant transport costs to many of Jordan's key exports. Finally, an influx of more than 400,000 refugees from the Syrian civil war strained the government's financial resources, which were already stretched to

meet the needs of long-term Palestinian refugees and the remnants of the Iraqi diaspora from the war.

Why, then, did Jordan escape the Arab Spring with aplomb? Sara Tobin, an anthropologist at Northeastern University, argues that the emergent middle class in Amman, with its sense of "aspiring cosmopolitanism," has reoriented critical groups of Jordanians away from ethnic strife and radical politics. De-

spite the very real divide between economically and culturally globalized West Amman and working-class Palestinians concentrated in East Amman, the separation is blurring as increasing numbers of the latter are crossing into West Amman for work and leisure.

Most development economists argue that



King Abdullah II



Young entrepreneurs work on their laptops at the Amman-based Oasis 500, a seed investment firm

growth promotes political stability only if it nourishes social mobility. And by no coincidence, Jordan's development policy emphasizes the encouragement of small- and medium-size enterprises. Modest-scale businesses in Jordan are already a crucial part of the economy, with SMEs accounting for around 40 percent of GDP and 70 percent of employment. Like Oman, Jordan has laid a solid foundation for private-sector activity, with a steady improvement in governance and investment in social cohesion that would appear to support bottom-up expansion.

However, Jordanian SMEs have traditionally faced a number of hurdles – it still ranks just 119th out of 189 countries on the World Bank's Ease of Doing Business Index. This applies particularly to obtaining financial support. Jordanian banks have been reluctant to lend to SMEs, which are typically unable or unwilling to provide the financial transparency that the banks require. That increases dependence on extended family and friends, as well as personal savings, for capital.

Note, too, that SMEs often engage in unregistered economic activities that, thanks in

part to a blizzard of government regulation, business owners are reluctant to formalize via the kind of reporting a bank would require. Thus in 2012, SMEs received only around one-tenth of all the loans extended by financial institutions.

To free up financing for smaller enterprises, a new fund was established by the Ministry of Planning and International Cooperation and the Jordan Loan Guarantee Corporation (JLGC) in August 2012. Under this scheme, the JLGC will guarantee up to 70 percent of loans taken by firms participating in the scheme, up to a maximum of 100,000 Jordanian dinars (about \$140,000). A separate track facilitates loans of a maximum 15,000 dinars to microbusiness.

Meanwhile, foreign donors – notably, USAID and OPIC – are also working to increase access to lending. The NGO Global Communities operates an initiative called the Jordan Loan Guarantee Facility, which guarantees up to 70 percent of loans from commercial banks to SMEs and gives banks technical support to improve their capacity for assessing risk in the sector.

Morocco

Morocco's pre-Arab Spring position resembled that of Jordan in a number of ways. Both were constitutional monarchies that gave the king effective control of public policy. Both had pursued very gradual paths toward true parliamentary democracy. And both escaped the season of discontent without violence or true regime change. But their politics and economics are quite distinct.

In June 2011, a popular referendum in Morocco approved a new constitution under which the king was no longer to be called "sacred;" moreover, he must appoint a prime minister from the party with the most parliamentary seats. And the following November, voters for the first time favored the avowedly Islamist Party of Justice and Development (PJD). This important change, which took place without violence, inspired speculation that Morocco had managed a "third way" – incremental Islamic democratization. Maybe, they say, Morocco could be a model for other Mideast monarchies.

Perhaps. But it is important to bear in mind that the PJD hardly resembles the conservative Islamist parties vying for power in Egypt and Tunisia, or the fundamentalist groups that have risen to prominence in Gaza and Syria. It followed, rather than led, the protests in the wake of upheaval in Tunisia and Egypt. And it was quick to accept a compromise with the monarch that transferred relatively little power to the parliament. Arguably most important – and in contrast to other Islamic parties – the JPD has espoused a neo-liberal, market-oriented approach to economic reform.



Morocco's King Mohammed VI

Indeed, it turns out that the policies espoused by the JPD are fairly consistent with Morocco's existing growth strategy. That strategy can be loosely characterized as "inclusive growth," with a focus on job creation, economic mobility, equal access to government services and a reduction in poverty.

This may sound like the boilerplate served up by any number of incumbent regimes seeking popular support without accepting radical reform. But to the surprise of cynics, Morocco has achieved some successes. GDP per capita (measured in today's purchasing power) rose from \$3,200 in 2003 to \$4,500 a decade later. And the rising tide has carried a lot of boats: the portion of the population that fell beneath the national poverty line decreased from about 16 percent in 1999 to less than 9 percent in 2008. A word of caution is in order, though: high income inequality persists and has even increased slightly in both urban and rural areas.

After the outbreak of Moroccan protests and Arab Spring uprisings in neighboring countries, the king announced the acceleration of the already existing decentralization



Prime Minister Abdelilah Benkirane



Post-election celebration, November 2011

of development planning and management. This approach, which devolves control to local authorities, reflects the government's stated desire to build democratic capitalism from the bottom up. The rationale is that development projects designed by local citizens have a greater chance of follow-through and a smaller chance of regression.

The Moroccan model seems to fit the region in the sense that it focuses on increasing social cohesion by reducing poverty while identifying with the Islamic concepts of *shura* (participation and mutual consultation regarding all matters involving the whole community), *umma* (a decentralized yet integrated worldwide Muslim community that brings about human rights and social justice) and *ijma* (consensus building).

WHAT NEXT?

Forecasting events in the Middle East is probably a fool's errand. That said, I would argue that these three monarchies have a real shot at pulling away from their neighbors in terms of both economic development and progress toward true democracy. They have laid a more

solid foundation for sustaining prosperity. Moreover, their rulers have not alienated a great majority of citizens – strikingly, Arab Spring protestors did not demand the abdication of the monarch in any of them. One could go even further and speculate that all three may be on the verge of a virtuous circle in which a young and increasingly influential entrepreneurial class helps reform-willing governments to sustain the push for growth, social mobility and job creation in a part of the world not known for paths of moderation.

Still, these countries face daunting obstacles. At a time of heightened economic expectations but limited government resources, they all face a youth bulge that is far too large for the public sector to absorb in make-work jobs. With education systems hard-pressed to provide skills needed by productive, export-oriented industries and limited political leeway for labor market reform, youth unemployment will present one of the greatest challenges to the each country's stability.

If private-sector jobs are not created at the breakneck pace of labor market entry, each may find itself overwhelmed by restless populations and political interests peddling religious or statist fixes. In this regard, the one sure thing each monarchy has in its favor is the fact that their populations have witnessed the doleful consequences of alternative paths taken in Egypt and Syria. **M**