

## THE SOCIO-ECONOMIC ROOTS OF THE REGIONAL CRISIS AND THE WAY FORWARD

**Abstract:** The following note reflects detailed discussions held during a private roundtable in Istanbul on the socio-economic roots of the regional crisis in the Sharq region and ways to mitigate and reverse these crisis conditions. These exchanges took place during Al Sharq Forum's conference on October 8-9 examining the post-crisis regional order in the Sharq region. Although not dwelt on sufficiently elsewhere in the media sphere, there was a consensus after these discussions that unemployment levels, as opposed to the youth bulge in the region prior to Arab uprisings contributed to regional conflagrations. Unless the region gains stability, it will be very difficult to have a meaningful conversation about the socio-economic dimension. The issue of refugees has put immense pressure on national economies in the region. Jordan, Lebanon and Turkey have taken the brunt of the refugee crisis. At the same time, as in Turkey, refugees have started to contribute to the economy, as they are becoming more and more integrated into the host society by the day.

### **Terrorism, Extremism and Economic Growth**

Though the ominous threats of terrorism and extremism may be manageable in some countries in the region, such as Turkey, others seem poised to be affected more. Tunisia can hardly survive without revenue from tourism. The precautions that governments in the region are able to take to stop terrorist acts harming national economies hinges on the choices of terrorist organizations. For instance, Daesh and PKK have targeted tourist locations in Turkey from Istanbul to Antalya and Bursa in the last year in order to directly harm Turkey, which at the time had seen its relationship with Russia nosedive. In other countries in the region, such as Tunisia, Algeria and Egypt, tourism has been badly affected by the instability associated with terrorism and all other forms of disorder.

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Even Europe cannot remain immune to economic damage inflicted by Daesh in its attacks in Paris and Brussels. The economic damage terrorist groups are able to inflict in the region also include arms and drugs smuggling and other kinds of illegal black markets. Governments can focus on those sectors and business activities that are more immune to instability so that they can at least minimize the risks on this front. However, protecting national economies also depends closely on providing stability. Unfortunately there has been no discernible change in this situation. There appears to be no stability on the horizon for now, as crises continue unabated in

Syria, Egypt, Libya, Iraq and some of the rest of the region.

In order to break the cycle of crisis and bring relief to its national economy, the Egyptian government has recently signed a deal with the IMF. Yet, what the IMF's plan is for Egypt is unclear. If the conventional neoliberal IMF plan is put in place, this will create a lot of pain for Egyptian citizens. For now, the IMF wants Egyptian government's energy subsidies to be withdrawn. The 1977 bread riots during Anwar Sadat's era may provide a timely reminder as to the possible dangers. Harkening back to what happened back then, it may not be easy to convince the Egyptians to implement the changes the IMF may want. The type of political structure that might have to be put in place to allow the changes the IMF would like may also be in question.

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**The Problem of Reliable Data**

The problem of acquiring 'reliable data' on national economic performances complicates the problem of having a sincere conversation about the socio-economic roots of current crises in the region. Reliable data is a sine qua non in order to make intra-regional as well as inter-regional comparisons and arrive at useful conclusions and a roadmap. This data is sorely lacking. Here, the past dealings and performances that promoted the production of unreliable data must be acknowledged as well. For instance, the deposed leader of Tunisia, Zeinel Abidin Ben-Ali, had duped the World Bank about the growth rate in his country for many years. The World Bank did not cross-check the data it was handed by an authoritarian leader in the region. The World

Bank even rewarded Ben Ali for appearing to have the best economic growth in Africa.

**The problem of 'reliable data' is also aggravated by two other factors:**

■ The unaccounted growth of the 'informal sector' in many countries in the region. As of yet, it is unknown how large this informal sector is. In the meantime, shady areas continue to mushroom in national economies in many countries in the region.

■ Secondly, the role of some Middle Eastern militaries (as in Egypt, Algeria, and previously Syria) in national economies distorts the picture. For instance, everybody agrees that the Egyptian military has large business dealings, but no one is sure how big this sector is. This distorts the real picture on the national economy and may also exacerbate the endemic problem of corruption. The nexus between economic growth and putting an end to armies' unaccountable involvement in national economic life is clear. If there was a way found to boost the Egyptian economy, this rising level of economic conditions could likely put an end to the generals' clout in different sectors in the country.

Turkey has been an exception in this regard, because the Turkish military's economic involvement has never been as overt or as large as its counterparts in the region. While participants argued that economic dealings of armies in the region stifled competitiveness in different markets, this has never been the case in Turkey, where private investment and a competitive spirit have always been prominent. Notably, the issue of military involvement in national economies is also connected to the role of retired generals on the governing boards or in the direct management of many military companies. This entrenched role feeds the corporate interests of the military, giving it large stakes in the continuation of the status quo and protection of its interests, provides



the military with loose networks in different economic sectors, and allows the military to advertise itself as the savior of the people. When there is a crisis and shortage of basic things such as flour in Egypt, the military provides these and plays the role of protectors of the people.

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**Prospects for Economic Integration in the Region**

The state of different political and economic cooperation platforms in the region must also be addressed. The problems afflicting the Maghreb Union and the Gulf Cooperation Council (GCC) provide a clear glimpse of larger problems in the entire al-Sharq region. The members of the Maghreb Union need each other more than members of the GCC, all of whom think of themselves as the patrons of that organization. However, the Maghreb Union is handicapped by the Western Sahara problem between Morocco and Algeria, while in the GCC Oman stands closer to Iran, while Saudi Arabia would like to take over the organization. In the meantime, Berber nationalism in Algeria is on the rise, which may complicate things further because they now reject Maghreb al-Arabi as the term for their region and want it to be changed. No solution to mutual issues between Algeria and Morocco appear to be on the horizon in the short term either. There are not even official economic transactions between Algeria and Morocco at the moment. All the members of the Maghreb Union play the nationalism card against each other too, all of which render the Maghreb Union a long-term dream. Tunisia has achieved some sort of stability, whereas Libya and Egypt remain very unstable. This is despite the fact that there is untapped potential in the Maghreb Union on the grounds that Algeria

may provide energy in return for economic capital from other members of the Union for funding certain projects and deals. Regarding the Arab League, it is in a deep coma, and close to being dead. The Arab League was based on the wrong premises from the time of its founding, as it was built not for solidarity or for real political cooperation, but for protecting national sovereignties and borders. Suspicion rather than trust guided its founding. It may be a waste of time to revive it. The founders of the League actually decided to close down some offices in Europe recently, only delaying their decision due to political pressure.

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Here a fruitful discussion pertains to comparisons between the Maghreb Union, the GCC and the European Union in terms of prospects for economic integration in the region. It becomes clear that the EU was a political project from the start, with France and Germany putting aside their mutual problems and historical animosities. It is crucial to note that the political future of the EU was never discussed at the start; economic integration was slowly realized without even trying to sell it to ordinary Europeans. It is striking to remember how the founding fathers and members of the European project were a very small group at first. While political and economic integration is increasingly called into question within Europe, the EU experience provides valuable clues as to what can be done in terms of more economic cooperation in other regions.



Nevertheless, this kind of solidarity looks unlikely before Iran and Saudi Arabia exhaust each other militarily on the warzones of Yemen, Iraq, and Syria. This conflict is not really about mutually hostile ideologies in Iran and Saudi Arabia, but rather that their ideologies hide warring elites and help maintain the rivalry for power among these ruling elites. In other words, sectarianism is used and employed by Iran and Saudi Arabia to protect their secular geopolitical interests. The idea that Hezbollah went into Syria to save the Shia does not provide the full picture. Iran is supporting Syria/the Assad regime because it is their land-bridge to the Levant. Likewise, Saudi Arabia is not involved in the Syrian conflict in order to establish democracy or to create a Sunni regime. Their presence is aimed at preventing the further expansion of Iranian influence. Both Saudi Arabia and Iran currently view regional issues strictly in terms of security lenses, not economic ones.

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That being said, it would also be wrong to think that the EU project was only realized after the exhaustion of rivalry and enmity between France and Germany. It was also about the foregoing of nationalism on both sides. The implication of this for the Middle East is that rational thinking is required on both sides, by both Saudi Arabia and Iran. When that happens, Saudi Arabia, Iran, and Turkey will be able to form a small kernel, a creative nucleus to bring others into the fold and gradually form something bigger. However, the exhaustion of the Iranian-Saudi Arabian rivalry is not in sight at the moment because the gap between them is quite large. One important lesson for the future is the glimmer of hope provided by

educated young people in both countries, who are not sectarian. If some projects are developed for those young people, such as entrepreneurship training and some joint education opportunities, this would be very helpful.

If the European Community was a top-down, elite project that was never put to a democratic vote in the beginning, can a similar business elite deliver the same result in the region? Turkey's businessmen could be potential candidates here, given how they played a role in normalizing relations with Iraq, the Kurdistan Regional Government, Egypt, and even Israel. One starting point for regional economic integration can be bilateral trade agreements. For example, KRG, Saudi Arabia and Turkey or similar combinations of countries can engage in this exercise and form a small group to entice others in. Investors and business elites can play a role in economic integration attempts in the region, but business class independence from the political class, which is lacking, is very much needed for this purpose. Otherwise, politics overshadows economics. For example, a Turkish company invested in an airport in Iran recently but the Revolutionary Guards intervened and stopped the project. This caused a small amount of friction between the two countries. Turkish-Iranian relations, however, are still an important example of the role that businesses can play in fostering cooperation, despite political problems.

Governments in the region need to put aside their ideological differences and focus on the economic dimension. A good illustration of this approach has been demonstrated by Turkey for the last decade through burgeoning Turkish-Iranian and Turkish-Israeli relations. Although both countries have had their fair share of disagreements over Syria, Iraq and other issues, their economic relations have continued to blossom. When bilateral relations between



other countries in the region are considered, however, the political dimension blocks the development of economic relations at the moment, and this creates an impasse that needs to be overcome.

### **The Problem of Trust**

However, one of the most long-standing problems in the region remains a lack of trust between governments in addition to the lack of trust that governments have in their own people. Here the four billion dollars the United Arab Emirates supposedly gave Egypt for security considerations instead of solidarity or economic projects is instructive. However, the Turkish model provides a counter example in that regard. Over the last decade, Turkey has created not just an economic powerhouse but also a political powerhouse, by incorporating large parts of the conservative population into the political system and trusting them. Given these problems and challenges, energy-sharing might be the impetus for economic cooperation in the region.

However, no integrated energy market exists in the region due to the high levels of mistrust already mentioned. The nature of energy, by contrast, is that there has to be mutual trust. Saudi Arabia is currently building a short pipeline to Qatar, which shows their belated perspective on the issue, but it is doubtful if this will ever amount to much more than that. The future of hydrocarbons as sources of energy and sources of revenue for the region must be addressed as well. The current business model in energy in the region is under severe pressure as hydrocarbons look likely to be replaced with solar energy and other sources of renewable energy in the near future. It is worth remembering that Germany now gets one-third of its electricity from solar energy, while Qatar just finalized a bid on solar energy, and Morocco is also taking the issue of renewable energy seriously.

### **EVENT DESCRIPTION**

Envisioning a Post-Crisis Regional Order in the Sharq Region, organised by Al Sharq Forum, took place in Istanbul at Swissotel the Bosphorus on Oct 8-9, 2016. The event brought together over 90 experts, academics, politicians, high level officials from the region and the West. Around 450 people attended the panels on the 8th. On the 9th, invitation only closed round tables were held, and these reports are produced as a result of these meetings.

### **ABOUT ALSHARQ FORUM**

The Sharq Forum is an independent international network whose mission is to undertake impartial research and develop long-term strategies to ensure the political development, social justice and economic prosperity of the people of Al-Sharq. The Forum does this through promoting the ideals of democratic participation, an informed citizenry, multi-stakeholder dialogue, social justice, and public-spirited research.

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