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DEINDUSTRIALIZATION IN THE MIDDLE EAST AND NORTH AFRICA

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Executive Summary

Processes of deindustrialization have set the course of postmodernity. Though its impact varies with geography, it is deindustrialization which defines the conditions of social, political, and economic life across most the world today. This is certainly so in the Middle East and North Africa (MENA). There, *premature* deindustrialization bequeaths legacies of grave and enduring salience. In the economic domain, effects are observable in the region's struggles with job creation, productivity, growth, and macrostability. Socially, they are present in MENA's extreme levels of inequality. Politically, deindustrialization contributes to democracy's recurring failures to launch.

This report takes as its primary task identifying the drivers behind deindustrialization in the MENA. Based on months of desk research and an extensive exploration of the historical archive, we trace causality across time and beyond the borders of the region. Findings are many, prominently including the following:

(i) The early onsetting of deindustrialization in the MENA was provoked by the global economy's drift into stagnation beginning in the late 1960s.

(ii) Due to global issues of overcapacity and falling profit rates, securing the investment needed to nurture competitive manufacturing sectors thereafter has been exceedingly difficult.

(iii) Though global dynamics did make opportunities for healthy industrializing scarce, they did not condemn MENA countries to the fates ultimately suffered. Political choices and policy errors also played a role in shaping the course of events. Critical in these regards were modalities of state-capital relations, inadequate policy design, and a series of contingencies derived from the management of natural resource endowments.

(iv) Neoliberalism's *resolution* of capitalism's profitability crisis harmed MENA's industrial prospects significantly. The deepening of global value chains over the past forty years has been detrimental to capital accumulation in the region. The enforcement of intellectual property claims has obstructed traditional pathways to industrial progress. Furthermore, competitive pressures have forced firms to adopt capital intensive forms of production, limiting industry's capacity to absorb greater shares of MENA's workforce.

(v) The corporate welfarism that many MENA governments have institutionalized in hopes of attracting foreign investment in recent decades is fundamentally misguided: The extension of non-conditional benefits to corporate actors serves only to minimize the social and developmental utility of a prospective investment.

Looking ahead, it is plain that deindustrialization will continue weighing heavily on the region's outlook. For a better future to be realized, local policy officials and members of the international community alike will need reckon with the factors compelling deindustrialization. Materially, this requires rethinking the terms and incentives governing matters of production, trade, and investment.

1. Introduction

Deindustrialization weighs heavily upon local and global affairs today. If unevenly, its forward march conditions social, political, and economic possibilities in each corner of the planet. Nowhere is this more apparent than in the Middle East and North Africa (MENA).

Like for many others in the global south, deindustrialization came to the MENA prematurely: With the exception of some of the hydrocarbon producers, the retreat of industry in the region commenced well before countries reached levels of income per capita attained by the deindustrializing countries of the global north last century.

Premature deindustrialization's consequence for the MENA are as diverse as they are pronounced. They are observed in the scourge of mass joblessness. In struggles with pervasive informality and flatlining productivity. In reprimarization and balance of payments crises. In weak economic growth, worsening inequality, and deepening poverty. They are even discernible in democratization's troubles.

And yet, though its pertinence undeniable, deindustrializationin the MENA remains understudied. Mindful of this gap, our report puts the subject of premature deindustrialization in the region front and center. To fully uncover the why behind it all, an approach both historical and global in scope is adopted. In perioidization, the analysis commences with the late 1960s and follows events to the present day. In terms of level of analysis, variables operating across global, regional, and national scales are accounted for.

Organizationally, the report proceed as follows:

Section One sets out by furnishing a brief history of the current long (down) cycle of global capitalist development. It then details how this down cycle relates to premature deindustrialization, and explains why premature deindustrialization bears so strongly on developmental prospects.

Section Two moves the focus onto the Middle East and North Africa. It commences with a historical survey of industrial development in the region. Marshaling statistical data and representative case studies, it then documents the contemporary realities of premature deindustrialization.

Section Three concludes the report. It commences with a probe of incipient changes to the geopolitical and geoeconomic order and considers what they may mean for global economic performance. Next, it evaluates what the most probable consequences of these change are to be for countries in the Middle East and North Africa.

2.

A Brief History of Capitalism's Long Downturn

Causes of deindustrialization.

Beginning in the late 1960s, the pace of global economic expansion slowed significantly. Declines in the rate of manufacturing output growth were primarily behind the cool down. From annual average growth rates of 7.1% during the 1950s and 1960s, growth of global manufacturing output fell to 4.8% per year in the 1970s before sliding to approximately 3% per year in the 1980s.[1]

Manufacturing's loss of vitality pertained to global growth as much as it did because of the sector's standing as the engine of capitalism's dynamism. Since modern capitalism's consolidation in the 19th century, it has been manufacturing's booms and busts which have always driven the wider economic cycle.[2] The sector's activities have also been responsible for the efficiency gains and process and product innovations which are (predominantly) behind capitalism's jumps in productivity.[3] As such, with the deceleration of manufacturing's growth went the momentum behind the post-war boom. An era of secular stagnation followed in the wake.

There was (and is) debate about the causes of manufacturing's slackening. Dani Rodrik, perhaps the preeminent scholar of deindustrialization today, identifies technological advancements and their differential price effects as the driver. As Rodrik sees it, industry's incubation of consistent technological advances reduced the cost and labor intensity of production for manufacturers. With time, this shifted workers away from the industrial sector and led the price of manufactured goods to decline relative to the price of services.[4] Each development hastened deindustrialization in the global north, reducing those economies' growth potential in the process.

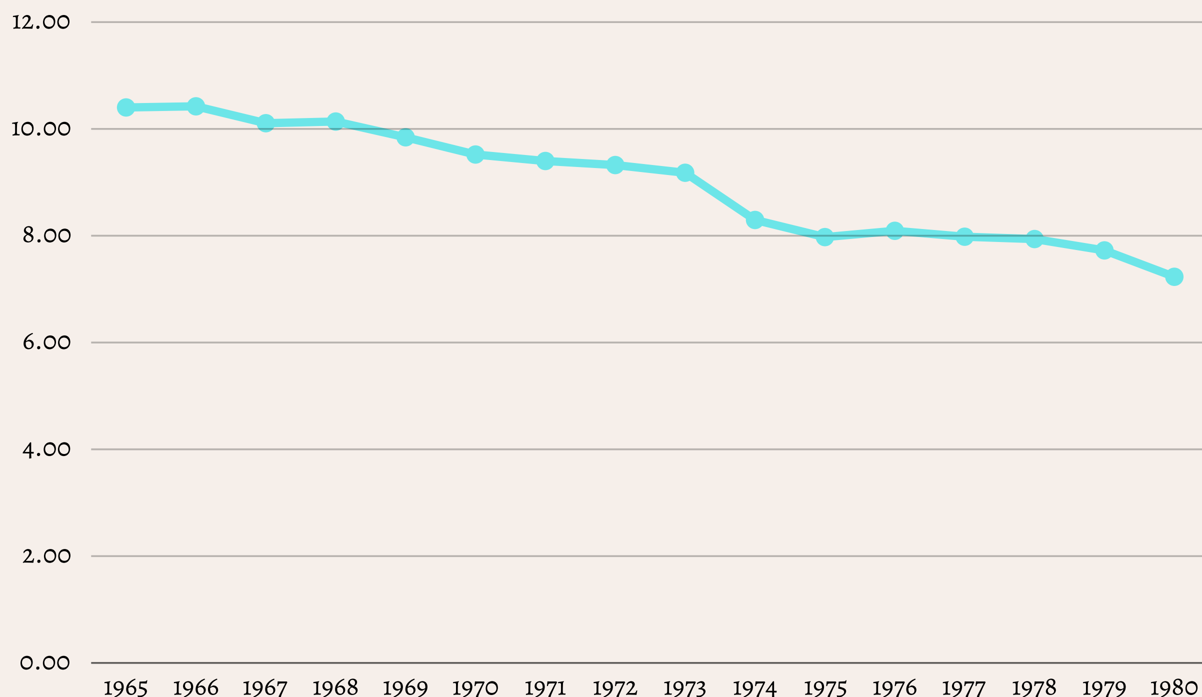
Those subscribing to long wave theories of economics, united by a lineage in Nikolai Kondratiev and Joseph Schumpeter, point the finger in a direction slightly different to Rodrik. Some Keynesian adherents of the school, like Robert J Gordon, also foreground the role of technology, tracing deindustrialization to the exhaustion of investable opportunities introduced by the emergence of general purpose technologies like electricity, the steam engine, railroads, and mechanization. Once saturated with the equipment, structures, and machines required for a thriving society, these scholars contend that northern economies' capacity to generate growth (including industrial growth) was irreversibly diminished. Other Keynesians explain deindustrialization in light of two historical contingencies. The first is the weakening of workers' movements and the diminution of the labor

[1] Aaron Benanav, "Automation and the future of work—I", New left Review 119 (Sept/Oct 2019).
[2] Aaron Benanav, "We are all stagnationists now", Jacobin (September 29, 2023).
[3] Dani Rodrik, Straight Talk on Trade: Ideas for a Sane World Economy (Princeton University Press: 2017).
[4] Ibid: 89-91.
[5] Robert J. Gordon, The Rise and Fall of American Growth: The U.S. Standard of Living since the Civil War (Princeton University Press: 2017).

share of income. In structurally reducing effective demand, the weakening of labor begat the long-term disinvestment trends which ultimately manifested in deindustrialization.[6] The second (recurring) contingency, favored by Richard Koo, is "balance sheet recessions". Per Koo, balance sheet recessions derive from debt-financed asset bubbles which themselves have their provenance in global trade imbalances. When these bubbles burst, Koo contends that they provoke the substantial, long-term reductions in borrowing and real investment that underlie deindustrialization.[7]

Going their own way, Marxist long wavists pinpoint the causality behind deindustrialization in overcapacity. As classically fleshed out by Robert Brenner, the overcapacity thesis holds that the (re)entrance en force of Japanese and German manufacturers in the 1950s and 1960s provoked intense price-based competition in world markets.[8] History and classical economic theory alike projected that competition would ultimately lead to the exit of the legacy players, namely, the industrialists of the United States. Weighed down by older and less efficient equipment and machinery, it was assumed American firms would find it impossible to sustain their profit rates amidst lower prices and so choose to close up shop. That was not how things played out in real life, alas. Due to the political importance of the industries being fought over and the spoils that stood to be collected by the final victors, all parties, new and old, stayed in the game. With none willing to give ground, production lines eventually grew overcrowded and prices for manufactured goods dropped on a permanent basis. The fall in prices (and in the capital productivity of industrial firms) translated to a wider decline in the rate of profit.

Figure 1: Country Aggregated World Profit Rates



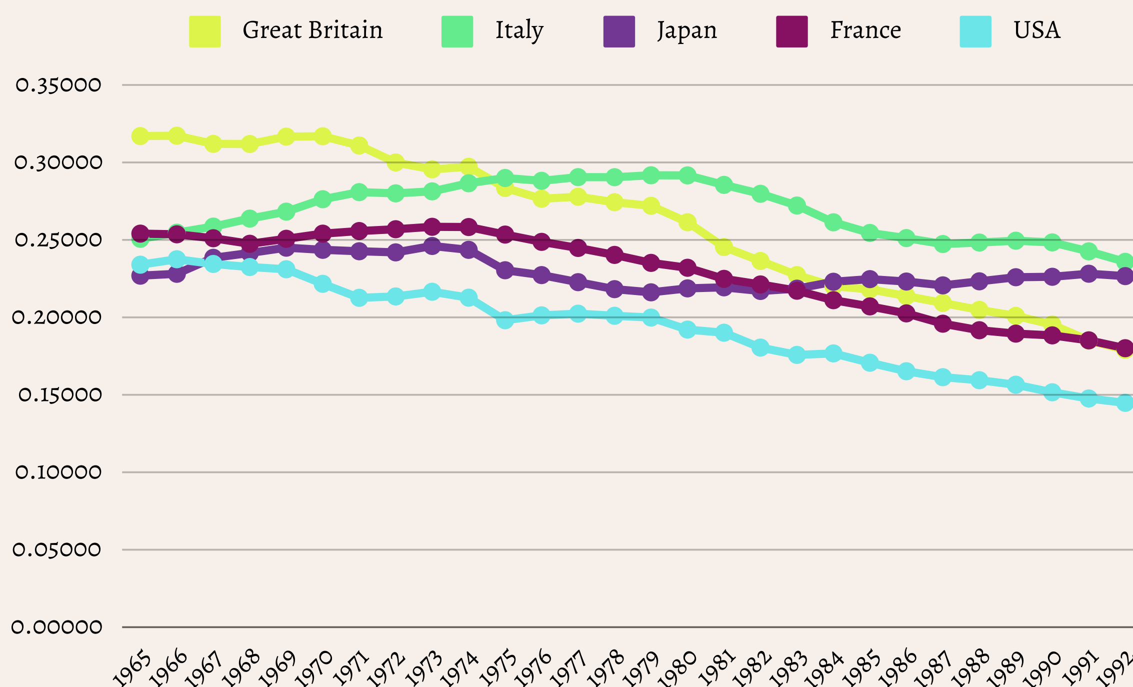
Source: Deepankar Basu, Julio Huato, Jesus Lara Jauregui, and Evan Wasner, World Profitability Dashboard (University of Massachussets Amherst)

[6] For a criticism of the "underconsumptionist thesis, see: Anwar Shaikh, Capitalism: Competition, Conflict, Crises (Oxford University Press: 2016).
[7] For a summary, see: Richard Koo: "Balance sheet recession is the reason for 'secular stagnation'", VoxEU-Center for Economic Policy Research (August 11, 2014).
[8] Robert Brenner, The Economics of Global Turbulence (Verso: 2006).

For Brenner and those who have built on his work, the decline in profitability serves as causa ultima for capitalism's long down cycle.[9] The logic is as follows: By lowering expectations of future earnings, the fall in the profit rate led industrial firms to cut back on investment. After all, regardless of borrowing conditions, firms only invest when confident that their hurdle rate—i.e. their desired rate of return—can be cleared.[10] Staring at supply gluts and low prices (as well as spiking energy bills), confidence was not found in spades come the 1970s. This was despite technological advances allowing for goods to be produced more cheaply. In the end, the combination of disinvestment and technological advance created something of a paradox. By dint of the former, the deindustrialization of national economies in the global north commenced, both in terms of employment and output (as a % of GDP). By dint of the latter, this transpired without issues of overcapacity being resolved: Even with less investment and workers allocating to industry, leaps in technology kept the supply of goods relatively high. Conditions conducive to investment (i.e. high profitability) were consequently not restored.

Over time, cuts to industrial investment deprived global capitalism of its dynamism. At its core, this was attributable to the premium that industry bears over the service sector when it comes to productivity enhancements. On average, productivity gains in the services work out to a bit less than 1% per annum. Contrarily, industry's rate of annual productivity growth over the last fifty years are over 2%, even with the sector facing falling prices.[11] By increasing the size and employment share of service sectors in the global north relative to industry, deindustrialization structurally reduced those economies' ability to generate productivity gains and as such, their ability to grow. This pertained to the health of capitalism as a world system because of the north's outsized weight in the global economy: With deindustrialization in the north came secular stagnation for global capitalism as a whole.

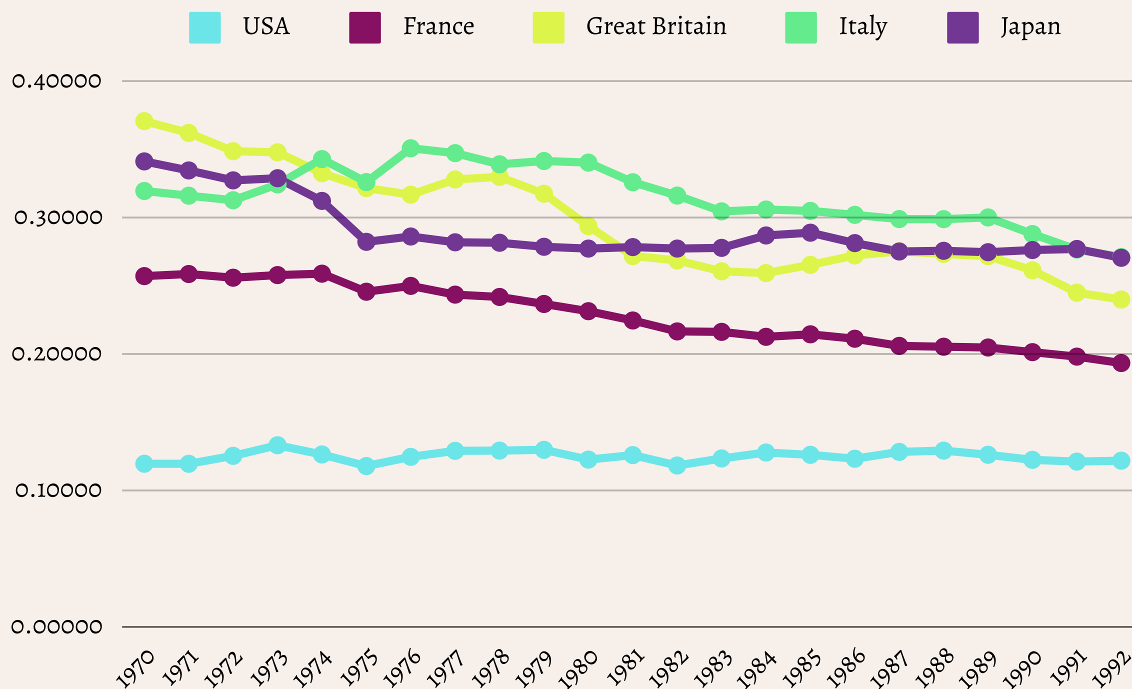
Figure Two: Manufacturing Employment as Percentage of Total Employment



Source: Groningen Growth and Development Centre/UNU-Wider Economic Transformation Database

[9] For a full reflection on profitability's effect on capitalism, see: Phillip Neel, "Global China, Global Crisis: Falling Profitability, Rising Capital Exports
and the Formation of New Territorial Industrial Complexes", Doctoral Dissertation: University of Washington (2021).
[10] Niels Joachim Gormsen and Kilian Huber, "Corporate discount rates", Economics Working Paper no.2023-81: University of Chicago, Becker Friedman
Institute (2023).
[11] See: Benanav (2023).

Figure Three: Manufacturing Value Added as Percentage of GDP



Source: Groningen Growth and Development Centre/UNU-Wider Economic Transformation Database

Something of a revival was experienced in the 1990s. At the level of highest abstraction, this was achieved through the multipronged neoliberal coup. Coordinated attacks on workers—executed through crackdowns on unions, hawkish monetary policies, and the lifting of restrictions on cross-border capital flows—functioned to sever the tie between wages and productivity in the global north. Corporate tax cuts boosted the rate of retained profits.[12] The junking of capital controls across the global south—often imposed through conditionalities attached to IMF lending arrangements, demand for which was effectively guaranteed by Paul Volcker's hiking of interest rates—allowed northern businesses to buy up productive assets on the cheap, speculate, and arbitrage global differentials in the cost of labor. Progress in information and communications technologies (ICT) combined with the standardization of shipping containers, the opening of China and the former Soviet bloc, and the introduction of new multilateral and bilateral trade treaties to facilitate significantly higher levels of international commerce. The establishment of global value chains—in granting those sitting atop them what amounted to monopoly and monopsony powers—eased northern corporations' extraction of surplus value from the production process.[13] At a slightly later date, the enforcement of intellectual property regulations—primarily advanced through bilateral investment treaties—created new rent streams for northern patent holders while obstructing the emergence of challengers in certain industries. The loosening of monetary policy and deregulation of finance in the United States, finally, by leveraging private debt and the inflation of asset prices to boost consumption otherwise restrained by weak income growth, kept aggregate demand relatively healthy.

[12] See: Gerard Dumenil and Dominique Levy, The Crisis of Neoliberalism (Harvard University Press: 2011).
[13] Deepankar Basu and Ramaa Vasudevan, "Global value chains and unequal exchange: market power and monopoly power", Working Paper 2021-13: UMASS Amherst Economics (2021).

Combined, the most immediate effect of these measures was to boost mean profit rates back up to levels last seen thirty years prior.[14] The restoration of profitability, in turn, breathed a degree of dynamism back into the world economy as a whole. Global GDP grew healthily again. A surge in the growth rate of total factor productivity (TFP) of global north countries was also observed, albeit one much smaller than the 1950s iteration.[15] Ultimately, however, the manner by which profit rates had been restored was to ensure that the 1990s boom had little staying power—and that global capitalism's long down cycle persisted on.

The brevity and relative weakness of the 1990s boom stemmed from the fact that neoliberalism had predominantly restored profit rates through growing the capital share of income rather than income itself. Put differently, neoliberalism lifted profits not by baking a bigger pie, but by cutting capital a larger slice. Depending on the measure deployed, global estimates of the factor share of income show labor's take falling by five to ten percentage points between 1975 and 1990.[16]

Capital's reliance on a distributive path to good health was understandable. Implicitly or not, it stemmed from the recognition that the problem of overcapacity remained unresolved. In fact, the problem had actually worsened due to the full maturation of east Asian manufacturers. In the face of such conditions, allocating investment into productive assets at scale meant worsening overcapacity and therefore worsening the issue threatening profit rates in the first instance. As intimated, neoliberalism afforded a multifaceted workaround to this conundrum, one which ultimately decoupled profitability from economic growth. In keeping investment low, neoliberalism eased overcapacity-related pressures. Furthermore, by reducing demand for labor, this same development reduced the leverage of northern workers and thereby rendered them more easily exploited. Neoliberalization's globalization-related measures, meanwhile, offered a fivefold boon: (i) More access to global consumers. (ii) Reduced input costs, achieved by squeezing global suppliers and workers. (iii) The opportunity to scoop up what were often state-owned properties for a song. (iv) The opportunity to speculate on non-tradables around the world—financial assets and real estate, primarily—and thereby grow and preserve wealth without feeding the overcapacity problem. And (v) the opportunity to expand rent streams sourced on public and private debtors in the global south.

While rupturous in many ways, neither the financial crisis of 2007-2009 nor its resolution would break the neoliberal order. As such, the conditions pushing businesses to eschew investment persisted—and this despite the post-crisis years seeing stark falls when it came to the costs of issuing debt or equity within the global north.

The cheapening of capital following the financial crisis was a function of the loose and aggressively interventionist monetary policies adopted by western central banks. These policies, broadly referred to as quantitative easing (QE), were effective in injecting liquidity into financial markets and thereby staving off the cascade of defaults which might have otherwise followed. Contrarily, they were not effective in shifting executives' outlooks on value creation and risk. The former remained weighed down by the endurance of the overcapacity issue while the latter was elevated due to the crisis just experienced. As such, and as it is concerns for value creation and risk which ultimately govern investment decisions, firms continued to avoid steering funds into productive assets.[17]

One way of appraising this trend is by tracking discount rate wedges. Discount rate wedges measure the gap between a firm's perceived costs of capital and the return they require to make a new investment. Despite the former falling considerably post-2009, in the heart of global capitalism—the United States—the latter stayed flat and in some years, grew. Discount rate wedges widened to a

[14] Deepankar Basu, Julio Huato, Jesus Lara Jauregui, and Evan Wasner, "World Profit Rates, 1960-2019", Working Paper: Economics Department Working Paper Series, University of Massachusetts Amherst (2022).
[15] See: Neel (2021): 84.
[16] Marta Guerriero, "The labor share of income around the world: evidence from a panel data set", Working Paper no.920: Asian Development Bank Institute (February 2019); Loukas Karabarbounis and Brent Neiman, "The global decline of the labor share", Working Paper: Universite Paris Sciences & Lettres (2013).
[17] There is some evidence to suggest managers' perception that shareholders prefer higher rates of return on investment also informed firms' unwillingness to invest.

significant degree as a result[18]: To wit, firms wanted the same if not higher returns on investment, even though they could finance investments much more cheaply. Expectantly, the aggregate effect of corporations' conservative approach to investment were profound. The "missing" investment which resulted from the increase in discount rate wedges post-2002 is estimated to be equivalent to more than 20% the United States' existing capital stock.[19]

Come the 2020s, the evidence suggested that capital in the north had become fully acclimated to a world of low growth. In the face of overcapacity and risk, the play was to funnel cheap credit and profits won by squeezes on labor into elite consumption (via stock buybacks and the payment of dividends) and speculation rather than investment.[20] The forward march of deindustrialization, low global manufacturing output growth, and secular stagnation were thereby scheduled to endure.

Stagnation and the south: drivers of premature deindustrialization

The consequences of deindustrialization for the countries of the global north have been significant. Those suffered in the global south are nevertheless considerably more corrosive. Discrepancies in effect reveal the bound fates of north and south: To a large degree, it was by dint of the north following its particular developmental trajectory that the south experienced deindustrialization and all its attendant effects prematurely.

As a general rule, deindustrialization proceeded in the north according to the progressions of a multi-step process called "structural transformation." As delineated in the formulations of W. Arthur Lewis, Albert Hirschmann, Nicolas Kaldor, and Simon Kuznets, structural transformation begins with a large share of the workforce moving from traditional, low-productivity activities to modern, high-productivity ones. As theorized, this movement has a dual effect: It leads the traditional sectors of the economy (namely, farming) to become more productive as relatively fewer laborers deploy new technologies to generate an equal if not superior amount of output to what previously been generated by the great many. It also leads to a larger share of workers and capital resources being allocated to sectors (namely, industry) which bear a higher potential for generating productivity gains.[21] With traditional sectors now more productive and modern ones enlarged, the combined effect is to enhance the overall productive capacity of an economy. Nor do the developmental effects of this stage of structural transformation end there: The economy will also be set up to go through the next step of its structural transformation in as healthy a manner as possible. The step in question entails the eventual movement of workers away from industry which, as a result of recurring technological advance[22], no longer requires them to the degree it once did. This labor market transition does lower the economy's capacity to enhance productivity and generate growth, as previously discussed. Declines are mitigated, however, by conditions put into place by the industrialization process. Specifically, due to the wealth heretofore accumulated as well as a host second-order social and political effects, human capital levels within the classically deindustrializing economy will have risen significantly, and a particular institutional infrastructure will also be in place. The combination of institutional infrastructure and human capital endowment pertains because it allows for the cultivation of high productivity service activities. The expansion of these activities creates demand for workers once plying a trade on a factory floor (or their children). While insufficient for canceling out the productivity losses stemming from industry's relative declines in employment, the consolidation of a high value-add service sector softens the blow.[23]

[19] Ibid.
[20] See: Benanav (2023); Jason E. Smith, Smart Machines and Service Work: Automation in an Age of Stagnation (Reaktion Books: 2020); Michael J. Howell, Capital Wars: The Rise of Global Liquidity (Palgrave Macmillan: 2020).
[21] See: Xinshen Diao, Margaret McMillan, and Dani Rodrik, "The recent growth boom in developing economies: a structural-change perspective", Working Paper 23132: National Bureau of Economic Research (2017).
[22] The Marxist perspective would add declining investment and relative declines in the price of manufactured goods to the variables driving the out-movement of labor from industry.
[23]Dani Rodrik, "Premature deindustrialization", Economics Working Paper 107: Institute for Advanced Study: Princeton University (2015).

If structural transformation was conceived as a general law of national development, the north's actual experience of the process ensured the law's violation across most of the south. When deindustrialization in the north was bringing about slowdowns in the growth rate of manufacturing worldwide, countries in the global south were only in the early days of structural transformation's first step. Per Hirschmann et al., preceding years and in some instances decades had seen large numbers of people driven from countrysides and the traditional low value-add activities that once sustained their communities, compelled into motion by differing combinations of agrarian reforms, new agricultural technologies, and cheaply imported American and Soviet grain. The trouble was where they wound up. With global manufacturing stalled out because of overcapacity, industrial investment in the south was not the proposition it had been when northern countries were at the same point of their developmental timelines. Profit rates simply were not there. Even where states intervened whether as direct investors or by installing protective measures for domestic industry, fixed capital formation in manufacturing sectors ended up inadequate.

Missing the skylines full of factories and smoke stacks, depeasantization did not give way to mass proletarianization. Instead, those cut loose from the land often came to comprise southern countries' ever-growing surplus populations: Those whose labor were not required for markets to function.[24]

The economic implications proved enormous. In never getting manufacturing fully up and running, southern economies lost out on the sector's unconditional and historically unique ability to close the gap on the technological frontier at a rate of 3% a year.[25] In never moving major numbers into industrial employment, southern economies saw their capacity to generate productivity gains and economic growth fundamentally reduced. In never deriving the wealth and institutional gains that northern countries did from earlier industrial booms, these economies found the road to developing high productivity service sectors blocked, too.[26]

With time, these dynamics became self-reproducing. Transpiring amidst demographic booms in many parts of the global south, the entrenchment of capitalism's long down cycle meant that the passing of years often saw the ranks of countries' surplus populations grow in both absolute and relative terms. Members of this unfortunate many either forewent income generating activities or pursued opportunities outside contracted wage labor. As such, their emergence on the historical scene was coterminous with the explosion of southern economies' informal sectors. Informality, in turn, redounded onto country's economic outlook through a number of channels. In some cases, it disincentivized formal firms from investing. More significantly, informality undermined capacity for generating productivity gains: Animated by low value-add service, construction, and manufacturing activities, large informal sectors put a hard ceiling on countries' developmental outlooks.[27]

How to Define Premature Deindustrialization

Empirically, premature deindustrialization is considered in effect when industry retreats before a country reaches the following thresholds:
(i) $11,750 per capita income;
(ii) Manufacturing's employment of 18% of the labor force;
(iii) A manufacturing share of GDP of 25%.[28]

[24] See: Aaron Benanav, "A global history of unemployment: surplus populations in the world economy, 1949-2010", Doctoral Dissertation: University of California, Los Angeles (2014).
[25] Dani Rodrik, Straight Talk on Trade: Ideas for a Sane World Economy (2017): 95
[26] Down the road, circa the 2000s and 2010s, at which point the rate of growth in the international trade of services significantly outpaced the rate of the international trade of goods, the weakness of high-value service sectors took on outsized importance.
[27]For an empirical review, see: Franziska Ohnsorge, Yoki Okawa, and Shu Yu, "Lagging behind: informality and development", in Franziska Ohnsorge and Shu Yu (eds.) The Long Shadow of Informality: Challenges and Policies (World Bank: 2022).
[28] Dani Rodrik, Straight Talk on Trade: Ideas for a Sane World Economy (2017)
Rekha Ravindran and Suresh Babu M, "Premature deindustrialization and income inequality in middle-income countries", Working Paper 2021:8 (United Nations University-WIDER: 2021).

And premature deindustrialization’s effects of course extended beyond the economic domain. It wrought significant physical and geographic change. By their millions, surplus populations came to construct and inhabit the unplanned, haphazard neighborhoods of peri-urban spaces. A “planet of slums”, as Mike Davis coined it, thereby came into being.[29] Socially, meanwhile, the ballooning of surplus populations would alter class compositions, interlope upon class relations in ways non-conducive to labor’s interests, and considerably complicate the coalescence of workers’ movements. And naturally, the consolidation of deindustrialization and informality as structural facts of life in the global south was to prove of great political salience as well. For incumbent autocrats, the weakening of industrial bases diminished democratic oppositions’ capacity to exert leverage by limiting the consequence of strike actions. It also left societies without a critical mass of what history has shown to be the most reliable pro-democracy constituency: manufacturing workers. Both factors functioned to lower the cost of administering repression and have made defending authoritarianism a far simpler task as a result.[30] In complicating the coalescence of workers’ movements[31], meanwhile, the spread of informality has often disrupted the building of workers’ parties.[32] Where mobility between formal and informal sectors is more restricted, it has also been seen to increase voter abstentionism and support for rightwing populists while pushing politics towards transactionalism and an undue focus on corruption.[33]

The boom of contemporary globalization in the 1990s did afford a few opportunities for renewing and enhancing industrial development. As is well documented, these opportunities were seized almost entirely by a handful of countries in east and southeast Asia. Through deft policy choice and good geopolitical fortune, the likes of Vietnam, Indonesia, Malaysia, Thailand and of course China leveraged an era of offshoring and global value chains into building national manufacturing champions. Differently from how things played at mid-century, however, the spoils were disappointing in terms of employment. Disappointment derived from the demands of international competition and the homogenizing effect it had on technological adoption.[34] In short, with prices compressed due to overcapacity (and consumer quality demands high), the only path to industrial success lay in the use of capital intensive and technologically sophisticated forms of production. By definition, this meant success yielded a lower yield in terms of job creation than was the case in the past, when labor intensive forms of production were commercially and developmentally viable. It also meant that industrial booms could not fully unlock the growth dynamism of the post-war period. The latter change was also attributable to the booms’ reliance upon capital intensity in production. With lesser percentages of the workforce moved into industry—and with large shares of the labor pool therefore either puttering along in service trades or not working at all—new industrial powers enjoyed smaller leaps in their economies’ overall level of productivity.[35]

The turn of the century did nothing to alter these underlying trends. Like in the decades prior, a number of countries managed to grow manufacturing output through a combination of good policy and fortunate positioning within territorial industrial complexes. Also like in the decades prior, the increasing mechanization of industry meant that gains in manufacturing output did not bring gains in manufacturing employment, at least in relative terms. As such, structural transformation processes continued to be obstructed, and the developmental benefits of industrial success continued to narrow.

[29] Mike Davis, Planet of Slums (Verso: 2005).
[30] Sam van Nort, “Industrialization and democracy”, Social Science Research Council (2020).
[31] Note that the IMF recognized the likelihood of this outcome in the early 1990s. See: Robert Rowthorn and Ramana Ramaswamy, “Deindustrialization: its causes and implications”, Working Paper: IMF (1997).
[32] On workers movements’ historical importance to democracy, see: Evelyn Huber, John Stephens, and Dietrich Rueschemeyer, Capitalist Development and Democracy (University of Chicago Press: 1992).
[33] Anil Duman, “Does it matter to be informal? Type of employment and political opinions in the MENA region”, Social Science Research Network (2021)
Andy Baker and Vania Ximena Velasco-Guachalla, “Is the informal sector politically different” (Null) answers from Latin America”, World Development 102 (2018).
Andy Baker, Sarah Berens, German Feierherd, and Irene Menendez Gonzalez, “Labor informality and its political consequences in Latin America”, Insights Series 144: Latin American Public Opinion Project (2020).
[34] Phillip Neel, “Broken circle: premature deindustrialization, Chinese capital exports, and the stumbling development of new territorial industrial complexes”, International Labor and Working-Class History 102 (2023).
[35] Diao, McMillan and Rodrik (2017).

Decreasing Returns on Industrial Success

The upgrading of industrial sectors is no longer delivering the yields it once did. The recent experiences of Ethiopia and Tanzania attest as much. There, the record shows that the large firms responsible for major productivity and manufacturing output gains have evinced negative employment growth in recent decades.[36] While these star firms' high performance triggered some job creation amongst small and informal manufacturing suppliers, it did not draw serve to workers into high-productivity activities at scale and consequently did not lift national productivity levels significantly.

Even China has found itself subject to the dynamic at play. Despite its status as the world's factory, competitive pressures have imposed an increasing capital intensity of production. The latter, in turn, has led to a decoupling of manufacturing output from manufacturing employment: Though output continues to grow, beginning in 2012, manufacturing employment as a percentage of total employment commenced what is likely to be an irreversible slide.[37]

Appreciated in full, then, the long downturn of global capitalism has clearly had immense impacts for aspiring industrializers. With each business cycle, the length and intensity of manufacturing booms has reduced. Implications for output and economic growth are of course pronounced, though felt most acutely in the labor market. As every next boom relies on the deployment of a greater capital intensity of production, the employment and wage gains generated during the good times trends lower and lower.

Of course, if things have been getting worse for the winners of the 1990s and 2000s, they were considerably worse for the losers: Indeed, outside east and southeast Asia, growth in industrial output (in relative terms) was as rarely observed as growth in industrial employment. The prevalence of full-bore premature deindustrialization was a function of the particular ways through which northern capital restored its profit rates. Especially key were the establishment of global value chains (GVCs) and enforcement of intellectual property regulations.

Pertaining to GVCs, the size of consumer markets in the north, northern corporation's preexisting endowments in terms of branding and innovation power, the density of the market for suppliers, and the relative ease with which lead firms could change those they contracted led to the establishment of rigidly hierarchical systems of production.[38] For suppliers at the lower end of the chain, these systems imposed extreme levels of price competition, forcing constant cuts to unit wage costs and the acceptance of thin bare profit margins.[39] Price competition also dictated that the capital intensity of production be increased.

A number of deleterious effects for southern economies resulted. In the first instance, the job creation potential of manufacturing activities declined significantly on the back of production's capital intensity. More consequently, perhaps, GVCs wound up distributing value in a manner resembling a "smile curve." At the front end of the production process, GVCs ensured that R&D and concept design firms captured enlarged shares of the surplus generated. Likewise, in granting marketing and distribution firms what amounted to monopsony market positions, GVCs ensured that those at the back end of the production process accrued outsized shares of surplus as well.[40]

[36] Xinshen Diao, Mia Ellis, Margeret McMillan,and Dani Rodrik, "Africa's manufacturing puzzle: evidence from Tanzanian and Ethiopian firms", Working Paper 28344: National Bureau of Economic Research Working Paper Series (2021).
[37] Mary Lovely, "China is deindustrializing but has a way to go to match other upper-middle-income economies", PIEE Charts: Peterson Institute for International Economics (February 26, 2021).
[38] Bruno Carballa Smichowski, Cedric Durand, and Steven Knauss, "Participation in global value chains and varieties of development patterns", Cambridge Journal of Economics 45:2 (2021).
[39] Basu and Vasudevan (2022); Benjamin Selwyn and Dara Leyden, "Oligopoly-driven development: The World Bank's Trading for Development in the Age of Global Value Chains in perspective", Competition & Change 26:2 (2021).
[40] Wen Chen, Bart Los, and Marcel Timmer, "Factor incomes in global value chains: the role of intangibles", Working Paper 25242: National Bureau of Economic Research (2018).

Contrarily, for most those in the middle of the production process—where manufacturing and assembly work is done, but where price competition is extremely stiff—GVCs squeezed the amount of value which could be captured: Facing constantly deteriorating prices, capital which would have otherwise been accumulated on the back of firms' significant productivity gains wound up lost. These lost profits, in turn, reduced resources available for investment and as such, limited firms' capacity to move up the value chain. At the same time, the persistence of overcapacity issues and the attendant weakness of global manufacturing output growth meant higher profits could not be pursued through scaling up volumes of production.

In the end, then, the system of pricing consolidated within GVCs ensured that the era of globalized production did not arrest deindustrialization in the south. Rather, by limiting capital accumulation (due to low levels of value capture) and job growth in manufacturing (due to competition amongst suppliers forcing technological adoption), in many instances, GVCs accelerated deindustrialization.[41]

The enforcement of intellectual property regulations (IPR) had a similar if lesser effect. Its impacts on premature deindustrialization were exerted through a number of mechanisms. IPR enforcement locked in lead firms' ability to capture market power in the provision and production of "intangible assets" like technological know-how, product designs, brands, and computerized information. Despite these assets being non-rival in consumption, their transformation into property via the law allowed for the capture of what amounted to rent flows[42]: For a sense of scale of rents, consider that in 2022, cross-border payments for the use of intellectual property exceeded $1 trillion USD.[43] Of this sum, the United States claimed more than $127 billion while the likes of Germany, Japan, Netherlands, and Switzerland grabbed north of $30 billion each.

For those in the global south, the consequence of the wider toll system which now legally encloses knowledge were pronounced. Firms operating in product lines near the technological frontier, such as information and communications technologies, often suffered the most.[44] With some exceptions, the costs of rent payments combined with the elongation of patent lives and geographic quarantining of key process and product innovations within the north through licensing, franchising, and subcontracting arrangements to obstruct industrial upgrading.

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As this brief survey establishes, deindustrialization is a secular feature of contemporary global capitalism. Since the late 1960s, deindustrialization's forward march made opportunities for maintaining large shares of national workforces within manufacturing sectors increasingly scarce. This not only lowered productivity growth rates, but ushered in an era of low global growth. For those in the global south, the era was predominantly defined by the experience of premature deindustrialization. Effects were especially acute when it came to employment. And in the Middle East and North Africa, where a host of locally specific variables mediated the process, premature deindustrialization's intensity would be uniquely intense.

[41] For a large N empirical study of GVCs effects on premature deindustrialization, see: Emre Ozcelik and Erdal Ozmen, "Premature deindustrialisation: the international evidence", Cambridge Journal of Economics 47:4 (2023).
[42] Cedric Durand and William Milberg, "Intellectual monopoly in global value chains", Review of International Political Economy 27:2 (2020).
[43] David Bonaglia and Sacha Wunsch-Vincent, "Cross-border payments for the use of intellectual property (IP) surpass 1 trillion US dollars in 2022, a record high", Global Innovations Index Blog: World Intellectual Property Organization (June 28, 2024).
[44] Richard Allen Posner, "The law & economics of intellectual property", Daedalus (Spring 2002).

3.

The Stunting of Industry in the Middle East and North Africa

Premature deindustrialization in the MENA region is evinced beginning in the early 1970s. Structurally speaking, its advance was propelled by forces discussed in the previous section. The global economy's drift into secular stagnation gave an initial impetus, while capitalism's subsequent reorganization helped maintain deindustrialization's momentum.

If variables (largely) exogenous to the region can therefore be called deindustrialization's primary drivers, it is nonetheless local variables which have mediated deindustrialization's unfolding. Natural resource endowments, vagaries of domestic and international politics, and policy choices at critical junctures, amongst other things, determine the phenomenon's form and intensity across time.

Shortcomings of import substitution industrialization

During the early post-war period, conditions were relatively conducive to bold industrial policies.[45] The policy regime established at Bretton Woods in 1944 put in place a currency hierarchy and system for regulating cross-border movements of capital and goods which limited macroeconomic volatility. If not supportive, the financial institutions chartered at the same conference in New Hampshire—namely, the International Monetary Fund and International Bank for Reconstruction and Development—were not yet antagonistic to states taking heavier hands in economic development.[46] Cold war rivalries, meanwhile, afforded alternative sources of credit, the availability of which disciplined the west into making aid relatively generous and non-burdensome.

[45] See: Joel Beinin, "The working class and peasantry in the Middle East", Middle East Research and Information Project 210 (Spring 1999).
[46] For a full history of the period and the role of the international financial institutions, see: Michele Alacevich, The Political Economy of the World Bank: The Early Years (Stanford University Press: 2009); Sarah Babb, Behind the Development Banks: Washington Politics, World Poverty, and the Wealth of Nations (University of Chicago Press: 2009); Aart van de Laar, The World Bank and the Poor (Luwer Nijhoff Publishing: 1980)

In charting paths within this context, MENA's post-colonial leaders, excepting the proudly laissez-fairist Lebanese, edged toward the development paradigm du jour: import substitution industrialization. That is not to say that a single playbook was followed. Socialist states took a tack different from dirigiste ones and still more different from those holding to liberal tenets of development. Energy importers certainly gave host to different dynamics than did the energy exporters. Those opting to appropriate and/or buyout colonial capitals (Algeria, Egypt) triggered different feedback effects than those acquiescing to their enduring dominance (Morocco). Nevertheless, as a general rule, the countries of the region saw government assume interventionist postures, stepping into the process of industrialization as owners, operators, creditors, and planners.

The achievements of the era were not nothing. In some instances, economic diversification was boosted, as reflected in manufacturing's growing contributions to national GDP. Leaps in capacity for extracting and processing hydrocarbons were also notable.[47] On balance, however, progress in terms of industrialization was disappointing.

Failures of process factored significantly in these regards. Discontinuities in policy strategy, unstable political and policymaking leadership, verticality in planning and administration, erratic institutional set-ups, high turnover rates for senior personnel, and frequent misses in policy implementation (particularly in delivering investment designated for relevant sectors) abounded.[48] Process flaws particular to each of the region's competing ideological camps also impacted performance. For the republics (be they of state capitalist or socialist leanings), the privileging of distribution above growth undermined the industrial build-up, as did the concentration of power within narrow military-technocratic elites.[49] For those following more liberal courses, shortcomings in nurturing developmentalist bourgeoisies—in converting merchants and financiers into industrialists—proved compromising.[50]

Come the early 1970s, the combination of MENA's late start with policy missteps caused its industrial sectors to flash similar warning signs. Due to import substitution's orientation toward domestic markets, investment had largely concentrated in textiles, food processing, and the production of light consumer goods. In nature, these product lines were technologically static. As such, their accumulation of fixed capital did not jumpstart cycles of process innovation or convey much in the way of new production techniques, applications and equipment. This contributed to the region's falling further adrift of the global technological frontier. The low technological sophistication of textiles et al also meant the productivity gains being generated by manufacturing writ large were kept relatively low.

Moreover, the pattern of investment allocation evinced in the 1960s ensured that the MENA remained extremely dependent on the importation of capital and intermediate goods, eroding terms of trade.[51] Nor, unfortunately, did struggles in industrialization end there. Widespread neglect of the fertilizer industry alongside ill-conceived experiments in agricultural collectivization left food production in weak stead across most of the MENA.[52] The resulting reliance on food imports added recurring strains to many countries' balance of payments. Due to the poor calibration of industrial policies, meanwhile, backward linkages between manufacturers and the rest of national economies were rarely cultivated. The absence of these linkages vastly reduced spill-over effects from industrial investment.[53]

[47] Abbas Al Nasrawi, "The Arab economies: twenty years of change and dependency", Arab Studies Quarterly (9:4 (1987).
[48] See: Yusuf Sayigh, The Determinants of Arab Economic Development: Volume 8 (Routledge: 1978).
[49] Shimaa Hatab, "Political economy of development in the Arab republics: The state and socio-economic coalitions", Economic History of Developing Regions 38:3 (2023).
[50] Ibid
[51] Samir Amin, The Arab Economy Today (Zed Press: 1982).
[52] Sharif El Musa, "Dependency and industrialization in the Arab world", Arab Studies Quarterly 8:3 (1986).
[53] Gunter Barthel, Industrialization in the Arab Countries of the Middle East: Problems and Trends (Akademie-Verlag: 1972).

Upshot of all this, the region had only made a few tentative gains in industrializing when global capitalism commenced its fall into secular stagnation. Thereafter, with global manufacturing output growth declining drastically, the road to progress would grow far more treacherous.

The lost decade of the 1970s

Stressors set into motion by global capitalism's crisis provoked the breakdown of the Bretton Woods regime, as was first announced by the ending of dollar convertibility into gold in 1971. Changes to the regulatory systems overseeing trade and capital controls followed. So too did reforms to the missions of the international financial institutions established three decades prior.

In and of themselves, these developments shifted conditions in a manner non-conducive to autonomous industrial policymaking. For the MENA, the moment at which the developments in question arrived made their impact even greater. With the cataclysm of the Six Days War in 1967 had went much of the popular legitimacy once held by the standard bearers of Arab socialism. Associated as these parties were with the project of modernization, the opprobrium of their defeat complicated the politics of industrialization considerably. The drying up of economic assistance from the Soviet Union from the mid-1970s made things tricky, too. Moscow's closing of credit lines ate into the (already withering) ideological credibility of big statist ventures. It also reducing the leverage MENA governments had in negotiating with western lenders.[54]

The world historic transfer of wealth precipitated by the OPEC embargo of 1973 did buy economic governors in the MENA time and leeway. Largely due to choices made in the domain of monetary policy, however, the oil boom hardly wound up the blessing seemed at first light. With the global capitalist system sliding into stagnation, all would still need adjust course.

Why little help from the oil boom

On the positive side of the ledger, OPEC's 1973 embargo constituted a positive historical contingency for the MENA region because the spike in primary and secondary oil rents[55] eased pressure on resolving external imbalances. Nonetheless, while benefiting from a stay of execution, the receipt of oil rents did not delay a reckoning with those imbalances forever. As pertains to our subject matter, moreover, the manner with which the windfall oil receipts were handled by monetary authorities worked at direct cross-purposes to the interests of the region's manufacturing sectors. Allowing currencies to appreciate in exchange value beyond fundamentals weighed especially heavily.[56]

While strong national currencies helped control import bills and juice household purchasing power, for export-oriented manufacturers, they torpedoed competitiveness. Currency overvaluation hindered import substitution ventures, too: By making imported final goods comparatively more affordable, the commercial viability of producers aiming to serve local markets was degraded.

In the context of overvalued currencies, interest rate policy choice at this juncture wound up working at cross-purposes to industrialization as well. Part and parcel of ISI, many MENA governments maintained low or negative real interest rates well into the 1970s. The problem was that with national currencies so strong, the cheapness of credit incentivized industrial firms to import capital goods at scale. In turn, this led manufacturing to become unduly mechanized relative to national factor endowments. The employment gains that could be squeezed from industry declined commensurately.[57]

[55] From the mid-1950s through 1970, the MENA region received 40% of all the economic aid that the Soviet Union extended to non-communist partners. With Anwar Sadat's ascendancy to the Presidency, relations shifted with Egypt. In 1977, Egypt ceased servicing debts owed as part of past military purchases. Trade with Russia subsequently ticked downward, while credit predictably dried up too. Facing its own fiscal strains, Moscow also cut off Syria from credit between 1977 and 1982.
See: Directorate of Intelligence, "Soviet Policy Toward the Middle East", Research Paper: Central Intelligence Agency (1986);State Department, "National Intelligence Estimate: Soviet Policies in the Middle East and North Africa", NIE Report 11-6-70 (1970).
[56] Secondary oil rents refers to the remittances, financial aid, budget transfers, discounted commodities sales which non oil-exporters accrued by virtue of the boom in oil prices brought on by OPEC's embargo.
[57] Guy Pfefferman, "Exchange rate policies: overvalued exchange rates and development: how overvaluation retards growth", Finance & Development 22:1 (1985).

When it came to industry, regional policymakers pivoted in two directions. The first pointed the sector toward export-orientation: Without renouncing import substitution, many countries attempted to nurture or recruit firms capable of selling abroad. Heavy industries, extractives especially, were frequent targets for support.[58] State-owned enterprises in the space continued to benefit from subsidies, cheap credit, and the like while foreign firms (and foreign work forces) were brought in at steep cost to construct and operate new plants.[59] In some instances, the export push also contained a manufacturing emphasis. In certain instances,, attempts at boosting of manufactures came by way of the legal and physical construction of "off-shore" spaces within a nation's territory. There, special fiscal incentives and infrastructure were made available to qualifying firms. Attracting multinational corporations into off-shore spaces was often privileged, as their knowledge and capacity to compete within international markets was regarded as essential to getting export production churning.

In execution, both thrusts of MENA governments' export-oriented plots ran into issues.

On the positive side of the ledger, the output of heavy industries did increase significantly across the 1970s and early 1980s. Due to the high capital intensity of production, however, growth yielded relatively few returns in terms of jobs. In some instances, antiquated management techniques also bequeathed exceedingly low productivity levels. With time, fiscal costs incurred in supporting the industrial firms in question grew burdensome as well.[60] Subsidized inputs provided to state-owned firms contributed significantly in these regards, but so too did governments' need to cover foreign firms' bills for labor and capital imports.[61]

In addition, the expansion of heavy industries' failed to meaningfully enhance countries' capacity for deploying and developing technology. Responsible for this shortcoming was a causal chain connecting inadequate public investments in technical education and R&D, on the one hand, to the turnkey nature of foreign operations in the petroleum and petrochemical sectors, on the other: With human capital levels below what was required for local participation in project planning and execution, the building and running of plants in by foreign firms amounted to "technology-free transfers" from the outside.[62] Nor were returns out in the off-shore spaces any more satisfactory. Due to western firms tightening their belts in the face of overcapacity, foreign investment was never attracted at the scales which had been hoped for. When foreign investment did arrive, moreover, the gifts it came bearing were not what was promised. In North Africa, multinationals in low sophistication product lines like textiles and garments exploited the Cooperation Agreements signed between the European Economic Community and Algeria, Morocco, and Tunisia in 1976. Via subcontracting arrangements with local firms, these multinationals were able to indirectly reduce labor costs so as to increase profitability.[63] If generating some foreign exchange for the hose countries, this did little for technological upgrading or improving national manufacturing-to-manufacturing terms of trade.[64] The exemptions on customs duties for raw materials and capital goods on offer in offshore zones, meanwhile, led multinationals' operations throughout the region to be closed-circuits, isolated from the rest of the host economy apart from the workers employed. Their expansion therefore did not address MENA manufacturing's struggles with missing backward linkages.

[58] Apart from the hydrocarbon producers, Jordan's build up of potash and phosphates industries and Tunisia and Morocco's build up of phosphate and fertilizer industries were emblematic of these efforts.
On Jordan, see: Matthes Buhbe and Sami Zreigat (eds.), The Industrialization of Jordan: Achievements & Obstacles (Friedrich Ebert Stiftung: 1989).
[59] In many countries, note these boosts to state-owned firms extended beyond heavy industries. In Egypt's case, they were extended to textiles and agricultural-food processing firms, amongst others.
See: Helene Djoufelkit-Cottenet, "L'industrie egyptienne depuis le debut des anneses 1970: histoire d'un developpement contrarie", Report: Agence Francaise de Developpement (2008).
[60] Algeria's state-owned industrial sector provides a good example of woeful management leading to low productivity. See: George Joffe, "The role of violence within the Algerian economy", Journal of North African Studies 7:1 (2001).
[61] See: Sharif el Musa, "Dependency and industrialization in the Arab World", Arab Studies Quarterly 8:3 (1986).
[62] A.B. Zahlan, "Established patterns of technology acquisition in the Arab world", in A.B. Zahlan (ed.) Technology Transfer and Change in the Arab World, The Proceedings of a Seminar of the United Nations Economic Commission for West Asia (Beirut 1977): 17-18.
[63] Maria Cristina Paciello, "Do working-class women in the Arab region benefit from trade liberalisation? Looking at the export-oriented garment industry in Jordan, Morocco, and Tunisia", Studi Maghrebini 21:1 (2023).
[64] On Tunisia, see: Mohamed Ayadi and Wided Mattoussi, "Scoping of the Tunisian Economy", Working Paper no.17: Brooking's Africa Growth Initiative (2016).

The second pivot governments attempted at this juncture was a re-embrace of local private initiative. For reasons shared and specific to individual countries, these efforts came up short, too.

In the Maghreb, Tunisia fared best though without achieving a full industrial breakthrough. The country's liberal reformer Hedi Nouira, Prime Minister from 1970 to 1980, leveraged a mix of subsidized credit, tax breaks, exclusive licensing, fixed pricing and state-guaranteed demand to successfully midwife a cohort of privately-owned industrial conglomerates.[65] These firms boosted the private sector's share of investment and industrial production considerably. As Tunisia's new scions all serviced protected domestic markets, however, their ascendance moved the needle little in terms of export income, technological convergence, or international competitiveness.

To the west, the Algerian state adopted investment code reforms as early as 1966 to encourage industrial investment from the enterprising locals who had stepped into wholesale commercial businesses vacated by the French a few years prior: Along with guarantees against appropriation, private capitals were fed cheap inputs so that they might furnish a deregulated domestic consumer market with simple goods.[66] Under Houari Boumediene's hand, however, there was little room for private participation in heavy industries, as evinced by the state's growing share of output in product lines like chemicals and steel.[67] Nor was effort taken for pushing the private sector into higher value-added activities. The result, clear by the 1980s, was an industrial sector partitioned in two, with neither side having any prospect of achieving international competitiveness. In capital-intensive product lines, the state's loss-making firms dominated while in light manufacturing, market protections meant private capital enjoyed profits without needing upgrade into more sophisticated operations.

Along the Atlantic coast, meanwhile, Moroccanization policies, advanced in proper from 1973 on, did serve to expand and diversify the country's bourgeoisie. Pass-through effects on industrialization, though, were extremely limited. The state still controlled the main heavy industries and assumed responsibility for investments with long horizons, like establishing an auto assembly sector. Entrepreneurial energies also remained depressed by virtue of the fact that fifty-odd families, most with origins in Fez and Soussi, retained enormous shares of the national stock of privately owned productive capital. Cherry on top, Europe's closing of the continental market to Moroccan textiles in 1977 sent one of the few manufacturing lines showing momentum into a lengthy tailspin.[68]

In Libya, the private sector puttered on across the 1970s, understandably freezing any planned investment in fixed assets upon the release of Muammar Gadhafi's Green Book (1975). With the state's plans for economic diversification waiting for Qadhafi's second five-year Economic and Social Transformation Plan—launched in 1981—national industrial capacity was kept exceedingly weak.

[65] Eva Bellin, "Tunisian industrialists and the state", in William Zartman (ed.) Tunisia: The Political Economy of Reform (Lynne Rienner Publisher: 1991).
[66] Djillali Liabes, Capital Prive et patron d'industries en Algerie; Bradford Dillman, State and Private Sector in Algeria: The Politics of Rent-Seeking and Failed Development; Anouar Mokrani, "Analyse sociologique de la crise du capital prive dans l'Algerie independante", in Amar Moahnd-Amer and Belkacem Benzenine (eds.) Le Maghreb et l'independance de l'Algerie (CRASC, IRMC et Karthala: 2012).
[67] Mohamed Djamil Merad-Boudia and Zine-Eddine Benkablia, "Quelques aspects de l'evolution du secteur prive industriel algerien", Revue d'Economie et de Management (2014).
[68] Jean-Francois Clement, "Morocco's Bourgeoisie: Monarchy, state, and owning class", Middle East Research and Information Project 142 (1986).

Things were no better on the Red Sea facing side of North Africa. Anwar Sadat's infitah program famously restored private capitals to a place of prominence in Egypt. Attendant gains in terms of productive capacity were few, however. Epitomized by schemers like Osman Ahmad Osman, the kinds of businessmen that carved out empires for themselves in Sadat's Egypt did so through control of import markets, gatekeeping market access, or winning state contracts.[69] As such, their good fortune was of minimal utility to the country's developmental outlook. To Cairo's east, Jaafar Nimeiri famously made his own bid for lifting up the Sudanese private sector.[70] Due to the recklessness of debt issuance and policy planning alike, his efforts ended in disaster for all by the late 1980s.[71] Apart from the fraction of Sudanese capital mediating the entrance of Gulf liquidity into the country, few in the Sudanese private sector made any headway while the country as a whole descended into a devastating, multipronged crisis.

The lift-off of private manufacturers in the Levant didn't happen, either. Alongside reinvigorating old and new money merchant types, Hafez Assad's economic opening of the 1970s did serve to nurture a new generation of industrialists. Drawn in by a local consumer market pumped with petrodollars, these parties directed their capital toward soft industries like garments, soft drinks, cosmetics, and food stuffs. And to their credit, they created a lot of jobs.[72] They did not, however, contribute much in the way of pushing Syrian industry into higher sophistication, higher value-add product lines. They also failed to arrest industry's declining contributions to GDP, which steadily fell from 1970 onward.[73] In Lebanon, war economics interacted with continued commitments to laissez-fairism to undermine industrial development.[74] Turning south, King Hussein's lieutenants looked to buttress Hashemite control after the tumult of Black September by midwifing and empowering a new bourgeoisie of Transjordanian stock. Though partially successful, the emergence of this loyalist business class likewise did not enhance industrial capacity: Industrial output continued to be dominated by the state's phosphate operations, and manufacturing continued to linger in low value-add product lines.[75] In Palestine, times were even rougher. After 1967, Israel's establishment of a one-sided customs union—affording Israeli products free access to Palestinian markets while restricting Palestinian products access to Israeli and foreign markets alike—combined with its absorption of workers from the occupied territories to devastate national manufacturing.[76] Seeing the road blocked, those with movable capital pursued their business in Jordan and the Gulf.[77] If some became prosperous, their wealth was thereafter wholly decoupled from their country's productive capacity.

[69] Marie-Christine Aulas, "Sadat's Egypt: A Balance Sheet", Middle East Research and Information Project 107 (1982).
[70] Robert Tignor, "The Sudanese private sector: an historical overview", The Journal of Modern African Studies 25:2 (1987).
[71] Tim Niblock, "Sudan's economic nightmare", Middle East Research and Information Project 135 (1985).
[72] Volker Perthes, "The bourgeoisie and the Baath", Middle East Research and Information Project 170 (1991).
[73] Elisabeth Longuenesse, "The Syrian working class today", Middle East Research and Information Project 134 (1985).
[74] Nick Chafic Kardhahji, "A deal with the devil: the political economy of Lebanon 1943-1975", Doctoral Dissertation: University of California, Berkeley (2015).
[75] For a comprehensive review, see: Mohammaed al-Masri, The Jordanian bourgeoisie composition and structure 1967-1989, Doctoral Dissertation: Durham University (2005).
[76] See: Ibrahim Shikaki, "The political economy of dependency and class formation in the occupied Palestinian territories since 1967", in Alaa Tartir, Tariq Dana, and Timothy Seidel (eds.) Political Economy of Palestine: Critical, Interdisciplinary, and Decolonial Perspectives (Spring International Publishing: 2021).
[77] Pamela Ann Smith, "The exile bourgeoisie of Palestine", Middle East Research and Information Project 142 (1986).

Processes of class (re)formation were super-charged across the Gulf during these years, too. In the monarchies, new private wealth rose on the back of oil rent distribution: Public procurement in the domains of construction, infrastructure development, and service provisions propelled the ascendance of khaliji and non-khaliji businessmen alike.[77] With time, many in this cohort went on to leverage the capital accumulated into building diversified, multisector conglomerates. However, the effects of Dutch disease and the underlying suturing of their profits to the built environment and state coffers, respectively, depressed contributions to manufacturing growth. The early tenure of the Ba'ath party in Iraq likewise buttressed and reconfigured the national bourgeoisie. Excluding oil rents and state spending on defense and administration, by 1975, the activities of the private sector were accounting for 58% Iraqi GDP. At the heart of this boom, alas, was construction again, where revenue flows and investment funds for private fixed capital formation derived from the state's oil rents. Private manufacturing did grow in relative and absolute terms in the 1970s as well—and some leaps into more sophisticated industries like metals, plastics and chemicals were made. The sector's expansion was, however, tied to a large degree to cheap credit from the Industrial Bank and low sophistication final assembly activities. Even had the Iran-Iraq war not thrown a spanner in the work, then, it was not as if manufacturing was set up for international competitiveness.[78]

Sovereign debt crises, selective neoliberalism, and deepening stagnation: the 1980s through the present

The region's difficulties in developing industrial capacity during the oil boom years was of great significance. On the labor market front, these difficulties reduced countries' ability to create economically useful jobs. Though public sector hiring and the exporting of workers abroad blunted the immediate effect on unemployment, those mitigating measures were insufficient for stopping the growth of informal employment throughout the region. With time and accelerating demographic expansion, weak job creation, powered by the lack of industrial take-off, begat metastasizing surplus populations. Low levels of economic participation and high levels of informality and youth unemployment calcified into structural properties of most MENA labor markets. Unplanned peri-urban neighborhoods swelled larger and larger, filled with those forced to carve out livings on the margins (and their descendants). The stalling of industry also caused labor and total factor productivity to flatline. This reduced economies' capacities to sustainably generate growth by a considerable degree. The failure to nurture globally competitive manufacturing firms, meanwhile, led to the running of regular trade imbalances amongst the non-hydrocarbon exporters. These imbalances were a source of recurring strain on countries' balance of payments.

Despite the strains generated by external imbalances, MENA countries were initially able to avoid the currency and debt crises suffered across much of the global south from the early 1980s onward. Their capacity to do so stemmed from a number of variables. The region's private sectors had incurred low levels of external debt. For many countries, remittance flows were always there to help buoy the current account. And when it came to sovereign debt management, conditions were comparatively favorable. Strategic utility ensured the transmission of rent flows from one side or the other of the Cold War divide (increasingly the United States by the late 1970s). More importantly, regular access to long-term, low-interest credit lines from the Gulf's oil exporting states was also available. This access meant MENA states steered clear of Eurodollar and American financial markets. As a result, they were not be subject to immense pressure when Paul Volker began hiking interest rates in 1979. The combination of continuing capital transfers and lengthy grace periods and low interest rates on the state-to-state debt financing from the Gulf gifted the region's policymakers a ladder to escape the solvency and capital flight issues: Servicing external debts remained a reasonable proposition.[79]

[77] Adam Hanieh, Capitalism and Class in the Gulf Arab States (Palgrave Macmillan: 2011); Adam Hanieh, Money, Markets, and Monarchies: The Gulf Cooperation Council and the Political Economy of the Contemporary Middle East (Cambridge University Press: 2018).
[78] On Iraq, see: Isam al-Khafaji, "State incubation of Iraqi capitalism", Middle East Research and Information Project 142 (1986).
[79] Francesco Saverio Leopardi and Massimiliano Trentin, "The international 'debt crisis' of the 1980s in the Middle East and North Africa: a review, an outline", Middle Eastern Studies (2022).

Everything changed when oil prices tanked starting in 1982. Thereafter, fresh capital injections from the Gulf declined and in some cases ceased. Aid from the United States, Europe, and the Soviet Union fell, too, the west making its turn to neoliberalism and Moscow hemmed in by fiscal and financial troubles. In these new conditions, paying for exports while staying current on debt payments often became impossible. For non-hydrocarbon producers, hard currency receipts from exports were far too small to cover the bills coming due, and weak tax revenues cut options down further. Now short on the cross-border capital transfers which had previously made up the difference, defaulting was a matter of time. Over the course of the next seven years, Morocco (1983), Egypt (1987), Tunisia (1988), Jordan (1989) and even Algeria (1989) would need turn to the International Monetary Fund for emergency relief. The era of neoliberalism and structural reform commenced thereafter, even for those as yet spared the fate of negotiating with the IMF.

Over the course of the following thirty years, MENA governors did preserve a relatively high degree of autonomy in managing their economies. Their greater margin of liberty derived from the region's enduring geopolitical importance. For some, this sufficed to secure debt write-offs on the occasion of the United States' first invasion of Iraq. Lining up with Washington on Israel/Palestine negotiations earned others a jubilee. Going a different route, Syria carved out some independence by borrowing widely and navigating the waters of debt diplomacy deftly.[80] Regardless, the upshot was that MENA governments recorded highly inconsistent policy records. Despite being celebrated as perfect pupils, Egypt, Jordan, and Tunisia in particular were seen to regularly buck the wishes of the IMF and Paris Club. Amongst other things, they backtracked on promises of exchange rate policy reform, preserved capital controls, slowplayed financial liberalization, retained subsidies on consumer staples and producer inputs, and deployed tariff and non-tariff barriers to protect particular markets. In nominal if not population relative terms, many also kept the public sector payroll elevated beyond the wishes of official creditors.

Alas, there was no amount of geopolitical weight that earned a country full reprieve from the demands of the neoliberal age. This was particularly evident when it came to industrial policy. Wiggle room was initially limited through the World Bank and IMF's embrace of lending conditionalities, as well as through establishment of new international conventions and multilateral trade and investment treaties. In 1979, the General Agreement on Trade and Tariffs (GATT) scaled restraints on the application of export subsidies. Upon the World Trade Organization's (WTO) coming online in 1995, these restraints as well as reductions on import tariffs and restraints on the use of local content requirements and import quotas for manufactured goods were deepened. Enforcement mechanisms were also enhanced.[81] The WTO's Agreement on Trade Related Investment Measures, Agreement on Subsidies and Countervailing Measures, and introduction of the concept of "serious prejudice" were key in these regards.[82] Altering the policy landscape for promoting innovation, meanwhile, was the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), also made effective at the WTO's launch on January 1, 1995.

The practical consequence of the WTO's disciplinary regime never quite matched its legal potential: Violations of rules in letter and in spirit would be frequent1, and the provision of particular carve-outs —allowances of subsidies for research and development and backdoor measures to import protection—kept the policy space of developing countries from retreating too harshly.[83] Nonetheless, it would be difficult to argue that the basic parameters of policymaking had not shifted.[84] The deployment of tariffs, quantitative restrictions, and local content requirements were now (largely) taken off the table. Governments' ability to target subsidies at particular enterprises, industries, or regions were complicated if not disallowed. Pathways to technological adoption were closed through the enshrining of intellectual property rights. Ideationally, the sense that there was no

[80] Manon-Nour Tannous, "Syria's debt or the power of the debtor", Middle Eastern Studies (2022).
[81] On local content requirements, see: Natalia de Lima Figueiredo, Local Content Requirements in WTO Law: Between Free Trade and the Right to Development, Doctoral Dissertation: University of Maastricht (2022).
[82] Chad Brown, "Modern industrial policy and the WTO", Working Paper: Peterson Institute for International Economics (2023).
[83] Shamel Azmeh and Ken Shadlen, "Rethinking developmental policy space in a fragmented trade regime", Blog: Global Policy Journal (May 1, 2023); Holger Hestermeyer and Laura Neilsen, "The legality of local content measures under WTO Law", Journal of World Trade 48:3 (2014).
[84] Vinod Aggarwal and Simon Evenett, "Do WTO rules preclude industrial policy? Evidence from the global economic crisis", Business Politics 16:4 (2014).

alternative to neoliberalism pervaded, too. And in the background to it all, creditors had gotten around some of their collective action problems so as to ensure that defaulting would trigger a debtor's blacklisting. States' hands were tied to a non-negligible degree, and vertical industrial policies in particular were something of a non-starter.

In the case of the MENA region, the impact of changes to the institutional environmental wound up especially acute. This was partially due to the influence that personnel from the World Bank, development organizations, and management consultancies exerted on policy deliberation. In many countries, these actors became heavily involved in the design of development plans and administration of development projects: Their presence certainly expedited the advance of neoliberal prescriptions. At the same time, the heightened impact of changes to the institutional environment was mediated by local agents as well. Across the MENA, the 1990s and 2000s saw a new generation of policymakers rise to prominence. Self-styled reformers, most had been trained and socialized in the economics departments of American and European universities, and many had been employed by commercial and investment banks if not at international financial institutions like the World Bank and IMF. True believers in many instances, they did not require the crack of the lender's whip to act responsibly. In certain cases, in fact, they voluntarily reduced their freedom of maneuver to keep policy more tightly within the confines of prevailing orthodoxies. For instance, in Jordan, Morocco, Bahrain, Egypt and Palestine, it was local policymakers who took it on themselves to negotiate bilateral trade and investment treaties with the United States and Europe that served to more harshly restrain what the state could do in supporting innovation via the imposition of TRIPS-Plus provisions.[85] It was thus with a push from the outside and a guiding hand from the inside that a new ball game began for industrial development.

Regional policymakers did not play the game in the exact same manner, and would undoubtedly enjoy varying levels of success. A number of commonalities in approach are evinced, though.

On ownership of existing productive assets, governors adopted a mixed approach. On the one hand, commitments to private sector leadership were reavowed. These were primarily honored through large scale privatization pushes. As they presented the greatest value to foreign parties, state-owned firms in extractive industries were sold off at the highest clip. Other heavy industries, contrarily, were frequently retained by MENA states, be it through the maintenance of direct ownership or through the acquisition of large equity positions via public pension funds and other public financial institutions. Generally speaking, firms in the mining and quarrying sectors were most often kept, as were companies in the refinement, steel, and cement production businesses.[86] Depending on local dynamics, firms in a variety of other sectors were also kept. In the Gulf, state ownership was maintained over companies in real estate and construction and those handling upstream operations in the fields of chemicals, petrochemicals, and plastics production. In Tunisia, the state held onto simple manufacturers like tobacco producers. In Egypt, the state kept light manufacturers in the cotton ginning industry under its own ownership. Though not involved in production per se, note as well that MENA states generally refused to privatize service firms handling public utilities like gas and electricity provision, water supply and management, and transportation.[87] As in the past, state-owned enterprises in the post-debt crisis era continued to enjoy subsidized inputs, credit lines set at submarket rates, and the public backstopping of debts, amongst other things.

[85] Mohammed el Said, "From TRIPS-minus to TRIPS to TRIPS-plus: Implications of the IPRs for the Arab world", The Journal of World Intellectual Property 8:1 (2005).
[86] OECD, State-Owned Enterprises in the Middle East and North Africa: Engines of Development and Competitiveness?, OECD Publishing (2013).
[87] Ernesto Ramirez Rigo, Christine Richmond et al., "State-owned enterprises in Middle East, North Africa, and Central Asia: size, costs, and challenges", Departmental Papers 19: International Monetary Fund (2021).
On utilities, note that in the last few years, regional governors have turned to public-private partnerships for securing investment into these sectors, energy production and distribution especially. Across the Gulf as well as in Morocco, Jordan, Tunisia, and Egypt, schemes have been put in place comprised of feed-in tariffs, subsidized credit, first loss acceptance, and similar derisking measures to attract private investment.

Outside the Gulf, however, state supports were henceforth designated primarily for helping with operational costs: No longer did state moneys fund fresh investment at scale.[88]

A second commonality of the era's industrial strategy was the redoubling of efforts aimed at reorienting manufacturing toward export markets. Copying, at least superficially, the model established by the Chinese in the Pearl River Delta (and the Irish out in Shannon), these initiatives were generally housed within special enclaves—export processing zones, free economic zones, free trade zones, qualifying industrial zones, amongst others. Within these spaces, MENA governors furnished upgraded infrastructure and extensive fiscal incentives, inclusive of semi-permanent tax holidays and exemptions on customs duties. In many cases, carve outs from prevailing labor laws were also provided and regulations on foreign ownership, employment visas, and capital movements lifted.[89] As a general rule, the programs of corporate welfarism thereby installed did not impose meaningful conditions on the investor. There was no sunsetting of benefits, or tying of them to performance-related metrics. Policymakers also forewent the option of explicitly requiring that foreign firms agree to transfer technologies, engage in joint ventures, or perform R&D locally. When it came to local manufacturers, they also opted against availing themselves Articles XVIII, XIX, and VI of the WTO's TRIMS Agreement, which provided grounds for protecting infant industries.[90]

A third commonality, derived from the above, was ceding the private sector responsibility for new fixed capital formation in industry and manufacturing. The only exception here were those states possessing well-capitalized sovereign wealth funds. For the rest, special premiums were put on attracting foreign direct investment (FDI): Multinational corporations were broadly entrusted with facilitating industrial upgrading via technological conveyance. Toward attracting them, investment code reforms, business climate improvements, and enclave-based corporate welfarism were deployed. As for the approach to privately-owned domestic firms, tokenist measures were taken to increase small and medium enterprises' access to credit. Significant cuts to corporate income taxes were instituted across the region as well, and attempts at deepening capital markets—stock exchanges in particular—were commonly pursued. In a number of countries, cronyist arrangements between domestic commercial banks and local industrial champions were also reinstated.

A fourth commonality is observed in trade policy. A handful of steps were taken toward facilitating higher volumes of exchange within the region. On paper, the yields of these steps include the Arab Maghreb Union agreement of 1989, the establishment of the Greater Arab Free Trade Area in 1997, and the Free Trade Agreement concluded between Jordan, Egypt, Morocco, and Tunisia in 2004. Materially, gains were far less impressive. Excluding the trade arrangements reached between the member states of the GCC, boosts to regional trade were negligible. Between 1990 and 2021, intra-MENA trade, exclusive of intra-GCC trade, never exceeded 12% of the region's total trade.[91] Beyond war and political instability, the application of non-tariff barriers to trade (post-2000 especially) and lack of uniformity when it comes to standards largely explains the failure in question.[92] Regional commercial exchange being weak, trade-minded policymakers eyeing export expansion and greater value chain participation targeted external markets. Due to geography and colonial legacies, many of these efforts wound up deepening existing dependence on Europe and to a lesser extent, the United States and China.

[88] With the acquiescence of trade unions—most of whom had been co-opted or weakened by the 1980s to the degree that they resigned themselves to negotiating the terms of defeat for workers' movements—these supports were also allocated for making payroll and pension obligations rather than new hires.
[89]Beginning in the 2010s, these kinds of enclave initiatives were so lavish as to earn MENA governments the censure of officials from the OECD and World Bank. Criticism centered on the wastefulness of the policies in terms of foregone tax revenues. They also touched on policy incoherence (due to the involvement of multiple government agencies in the management of enclaves), policy inefficacy (the incentives on offer did not attract higher levels of foreign investment), and the distortive effects that the enclaves' special legal regimes exerted on economies as a whole.
[90] Article XVIII allows countries to restrict imports if they threaten a countries balance of payments. Article XIX allows restrictions to be imposed to protect domestic industry from import surges. Article VI allows restrictions to be imposed to protect against unfair trade practices such as dumping.
[91] Nasser Saidi and Aathira Prasad, "A mercantile Middle East", Blog: Finance & Development Magazine (International Monetary Fund: 2023).
[92] Blanca Moreno-Dodson, "Trading together: reviving Middle East and North Africa regional integration in the post-Covid era", MENA Economic Update (World Bank, 2021).

As with the policy efforts of 1970s, those of the neoliberal era would largely fail to move the needle on industrial development. Particular historical contingencies did not help, of course. The elimination of the last set of quotas established in the WTO's Agreement on Textiles and Clothing on January 1, 2005 flooded global markets with Indian and Chinese goods. Unable to compete on cost, MENA textile and garment manufacturers got crushed, especially in Europe, precipitating large foreign exchange and job loss.[93] Insofar as women primarily toiled in the clothing factories of the region, an ancillary effect was the defeminization of industrial labor.[94]

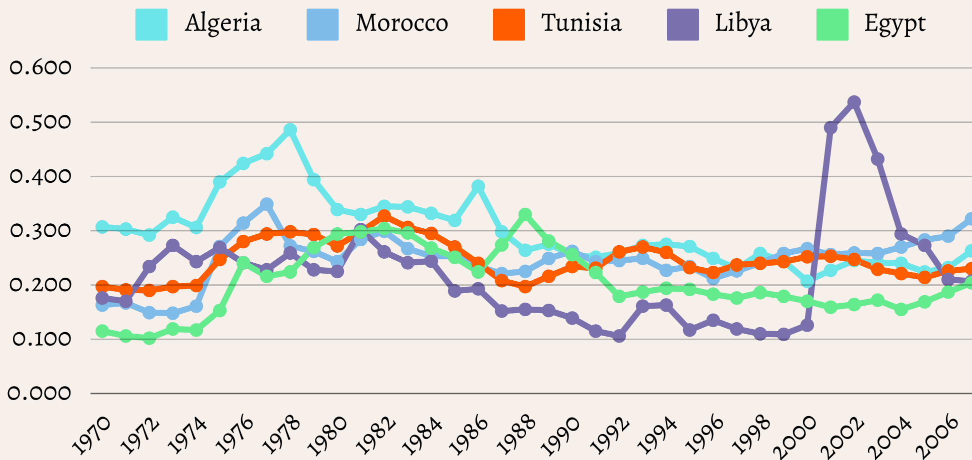
For many Arab countries, decades marred by inter and intrastate war, state and non-state terrorism, and recurring episodes of social contentiousness acted as another headwind. As greenfield manufacturing investment, particularly in higher value sectors, is acutely sensitive to political risk, the constancy of violence and instability undermined efforts to build industrial capacity to a substantial degree.[95] Biases and herding behavior observed on the part of international investors hindered performance, too. Regardless of underlying fundamentals, MENA states pay sizable premia on their debts and credit default swaps.[96] Downstream, this increases borrowing costs for domestic firms and raises the hurdle rate—or the profit rate a firm requires to make an investment—for foreign ones, all of which is detrimental to manufacturing growth.

If unaided by fortune, the troubles of MENA's industrial sectors were nevertheless primarily driven by the interplay of external conditions and policy design. As discussed at length in section one, at the level of global economy, the period under discussion was shaped by capital's search for a way to restore profits amidst overcapacity. Resolution was found in the neoliberal coup. And yet, while this coup did indeed boost profit rates, the macro environment thereby created was one hardly conducive to global growth—or to the growth of MENA's industries. In the first instance, the problem of overcapacity was left untouched. Multinational corporations were, as a result, reluctant to add supply to the global market for manufactured goods and therefore reluctant to put money into productive sectors. Certainly, the higher levels of international trade facilitated by globalization did furnish some opportunities for expanding manufacturing output. Competitive pressures, however, dictated that this be achieved through capital intensive production. As such, the space for moving large shares of the workforce into industry was reduced. The ways with which global value chains (GVCs) became structured and intellectual property rights enforced was no help, either. Jointly, they made it difficult for local suppliers to capture the kinds of profits necessary to upgrade into higher value-add activities while walling off innovation within the global north. Participation in GVCs often also entailed high levels of labor exploitation, which limited the benefits workers could score in terms of wages.

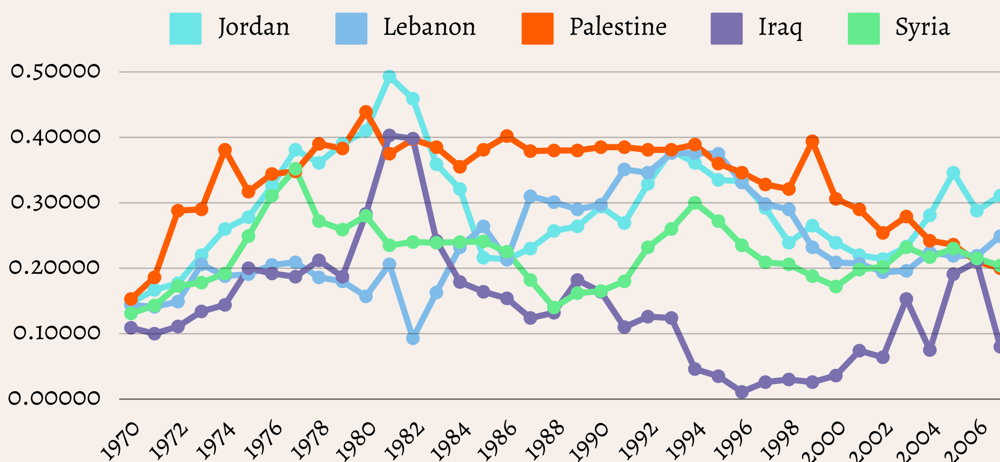
[93] World Bank, "Morocco, Tunisia, Egypt and Jordan after the end of the Multi-Fiber Agreement: Impact, challenges, and prospects", Report No.35376 MNA (World Bank: 2006).
[94] Yasemin Dildar, "Gendered patterns of industrialization in MENA", Middle East Development Journal (2021).
[95] Martin Bujger, Elena Ianchovichina, and Bob Rijkers, "Risky business: Political instability and greenfield foreign direct investment in the Arab World", World Bank Policy Research Working Paper no.6716 (2016).
[96] Eman Moustafa and Amira el-Shal, "Sovereign risk mispricing and investor herding: MENA debt markets", Economic Research Forum (2024); David Tennant and Marlon Tracey, Sovereign Debt and Credit Rating Bias (Palgrave Macmillan: 2016).

Figure 4: Gross Fixed Capital Formation (% GDP)
Source: United Nations Conference on Trade and Development UNCTAD)

North Africa



Levant



The Gulf

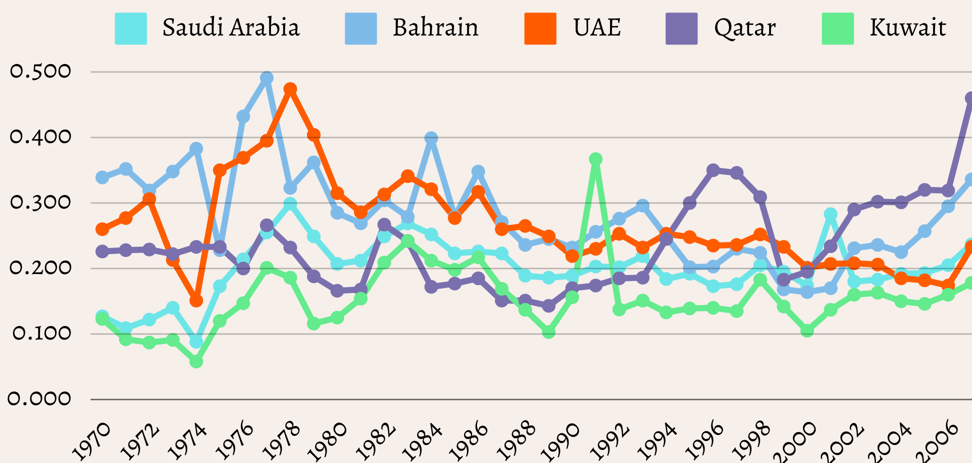
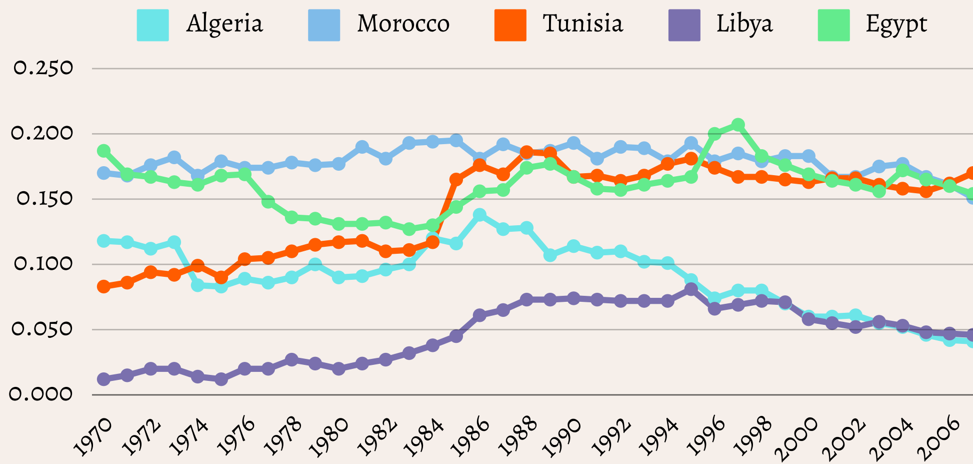


Figure 5: Manufacturing contribution to GDP
Source: United Nations Conference on Trade and Development UNCTAD)

North Africa



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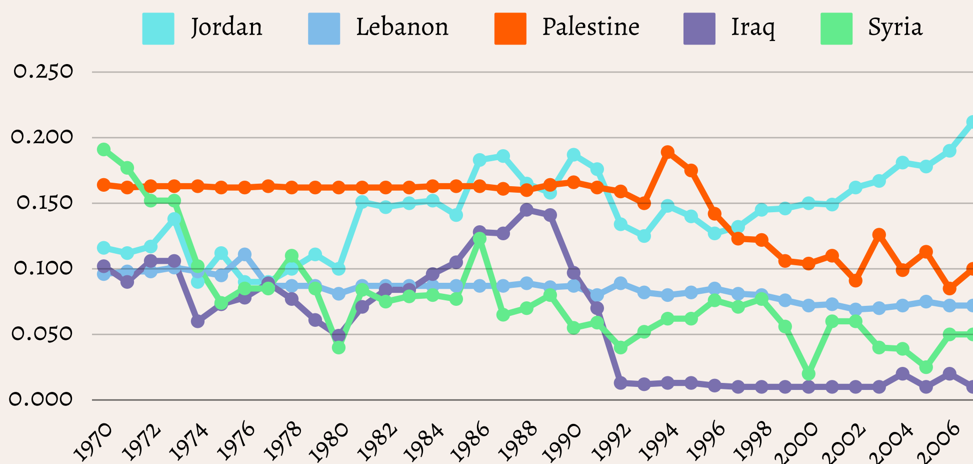
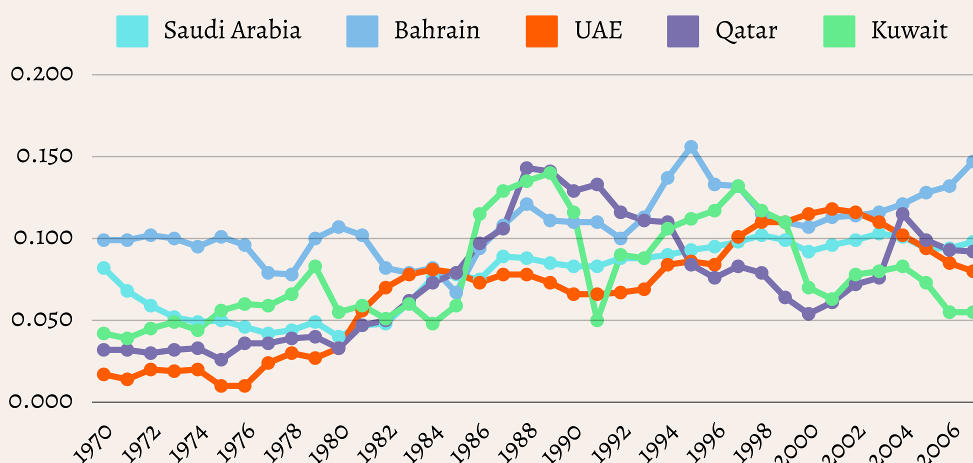


The Gulf



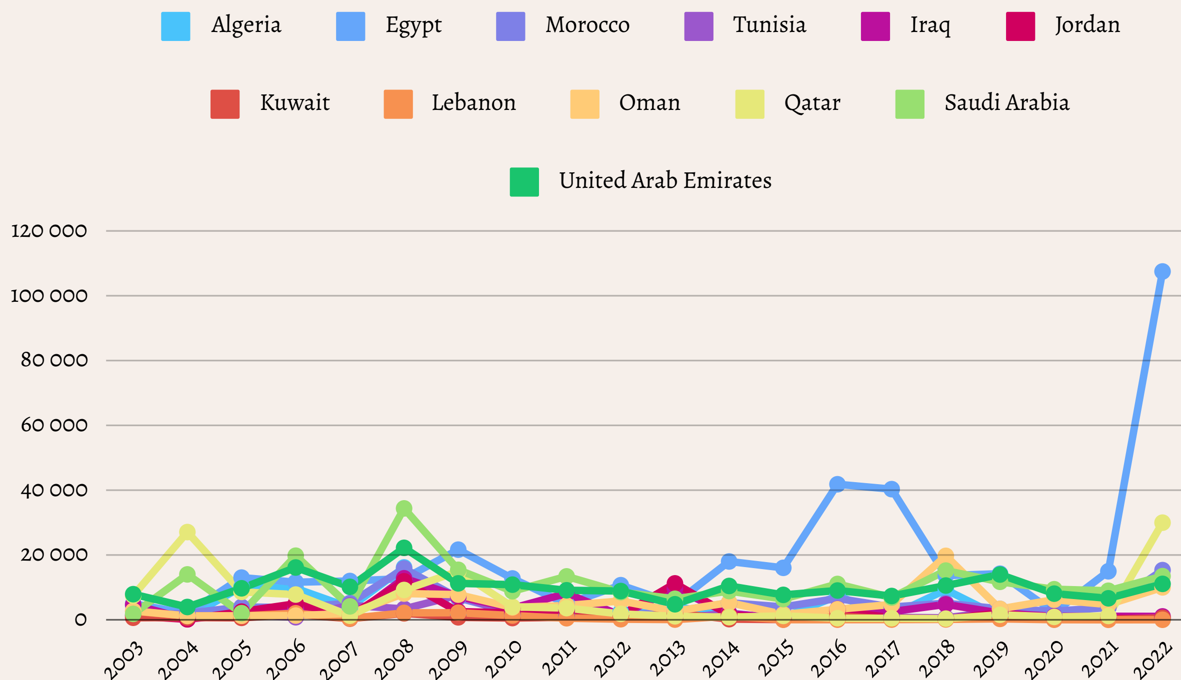
In the face of external conditions thusly constituted, there existed no policy strategy which might have facilitated an industrial take-off of the kind observed in Europe and the United States during the post-war period. Be that as it may, the strategies chosen in MENA were undoubtedly suboptimal on a number of grounds.

Heavy reliance on foreign investment in the first instance was a predictable misstep made worse by the deployment of laissez-faire investment incentives. Chastened by overcapacity concerns, flows of greenfield FDI never arrived in the desired volumes and largely dried up by the turn of the millenium.[97] Unencumbered by conditionalities on market access, the greenfield investment that arrived thereafter also proved of notably limited help to industrial prospects.

Over the past twenty years, greenfield FDI in the MENA has been either resource seeking in nature, concentrating in the energy sector; bound for real estate development; or, to a lesser degree, efficiency seeking.[98] Resource-seeking FDI generates few jobs and plenty of ecological externalities. Investments in real estate and construction—the special predilection of Gulf-based firms—has come in search of wealth preservation and the prospect of speculative gains. Generally premised on extreme labor exploitation (with special talents for taking advantage of non-citizen labor pools), it has been generative of marginal spill-over effects developmentally speaking. Efficiency seeking FDI, meanwhile, has tended to be footloose: Running simple light manufacturing operations, the firms supplying these investments are extremely sensitive to labor costs and always liable to pack up shop for a neighboring country if wage demands grow too great. Though they established higher productivity levels than their local counterparts, they did so through squeezing workers ever closer to the bone.[99] Contributions to technological conveyance and innovation have been negligible.

Figure 6: Value of Announced Greenfield FDI Projects (USD Millions)

Source: United Nations Conference on Trade and Development UNCTAD)



[97] Philipp Harms and Pierre-Guillaume Meon, "The composition of FDI in the MENA region and other countries: Econometric investigation and implications for MENA countries", Working Paper 793: Economic Research Forum (2013).
[98] OECD, "FDI qualities in the Middle East and North Africa: a mapping of policies and institutions that can strengthen sustainable development", Background document for the regional seminar on sustainable investment in the MENA region (June 19-20, 2023: Istanbul).
[99] Ibid

In a handful of cases (Morocco and Tunisia's in particular), greenfield FDI has done at least some of what it was meant to do. There, foreign firms built positions in technologically sophisticated product lines in the auto and aeronautics industries like wiring harnesses. They also helped carry those countries' R&D spending. Nevertheless, in relative terms, foreign corporations' spending on R&D was still fairly low, and their local operations have generally been contained to assembly rather than development and design activities.[100] Both factors undercut contributions to industrial upgrading. Like the foreign firms in the textile and garments business, moreover, the MNCs in the automotive and aeronautics sectors of Morocco and Tunisia have also relied heavily on labor exploitation: Despite their high productivity, Moroccans and Tunisians working for foreign companies enjoyed a negative wage premium.[101] Nor have firms investing and operating further up the value chain offered the host countries the elixir they needed. In Morocco, for instance, Renault, Stellantis, and Chinese electronic vehicle manufactures have all located more complex production and assembly work in-country in recent times.[102] Competitive pressures, however, dictate that these operations be capital intensive. As such, if significant in nominal terms, the numbers of jobs being created are nevertheless insufficient for meaningfully increasing the share of the national labor pool working in industry. Which speaks to a generalized phenomenon of foreign investment in recent years: Due to the same competitive pressures Morocco's automotive industry navigates, foreign firms are leaning toward capital intensive production models whenever they make new investments in the region. By consequence, their operations are generating shockingly few employment opportunities[103]: Post-2013, one million USD in foreign capital expenditures yielded less than one new job, on average in Egypt, Jordan, and Libya. In Palestine and Algeria, the corresponding figure was less than two jobs.[104]

If not in enormous quantities, non-greenfield FDI (i.e. investment designated for mergers and acquisitions, M&A) came into the region over the last few decades, too. This form of investment has, in fact, dominated foreign investment writ large over the past twenty years. And much to the detriment of the region.

M&A's inherently of less developmental utility than their greenfield cousins, as they do not add to the capital stock but rather marks a change in capital ownership.[105] In the case of the MENA, moreover, the utility of M&As has also been compromised on other grounds. After being deployed in the 1990s and early 2000s for the purpose of acquiring a range of formerly state-owned enterprises—telecommunications firms often being the favorite prize—M&A's have concentrated in the region's financial sectors, from which rents and speculative gains can be squeezed. Necessarily, this has done little for enhancing productive capacity.

With the exception of the Gulf, which managed to facilitate a boom in steel, aluminum, and petrochemicals production between 2002 and 2007, efforts to juice domestic investment in manufacturing fell flat as well. As hometown giants across the region retained dominant positions within protected local markets during the years in question, they tended to retain high hurdle rates. In this context, the cutting of corporate taxes did not incentivize investment as investment was not primarily constrained by matters of funding. Rather, it was constrained by perceived prospects for value creation. With those prospects weak, savings from tax cuts wound up redirected into elite consumption (via dividend payments), speculation (via real estate ventures), or attempts at diversifying rent streams (via the acquisition of public and household debts).[106] Efforts to bolster financial inclusion and ensure that smaller manufacturers could access credit floundered as well. Survey data from Egypt, Jordan, Morocco, Tunisia, and Palestine showed only one in five firms of the size in question having access to bank loans in 2019.[107] And failures to arrest or roll-back the

[100] Shamel Azmeh and Abeer Elshennawy, "North Africa's export economies and structural fragility: the limits of development through European value chains", Paper 42: LSE Middle East Centre Paper Series (2020).
[101] OECD (2023)
[102] Abdelmonim Amachraa, "Driving the dream: Morocco's rise in the global automotive industry", Policy Paper: Policy Center for the New South (2023).
[103] Dildar (2021)
[104] OECD (2023)
[105] Harms and Meon (2013)
[106] Alexandros Kentikelenis, Amine Bouzaiene et al. "The Middle East and North Africa Gap: Prosperity for the rich, austerity for the poor", Report: Oxfam (2023): 28
[107] Emanuele Brancati, Michele Di Maio, and Aminur Rahman, "Jobs, access to credit and informality in the Middle East and North Africa", MENA Enterprise Survey Report Working Papers: Volume 2 (European Investment Bank: 2022).

growth of informal economic activities—activities that were themselves a product of past industrial failures—proved a detriment to manufacturing investment, too. This was due to two interconnected factors. Banks showed hesitancy in lending to firms facing competition from informal enterprises. Firms facing competition from informal enterprises, meanwhile, showed themselves less willing to seek out financing, even where realized sales were healthy.[108]

Trade policies underperformed, too. Eschewing export market diversification was problematic in and of itself. For the countries of North Africa especially, Europe's fall into deepening stagnation after the financial crisis of 2007-2009 made this abundantly clear. But there were bigger troubles to MENA countries simultaneously adopting export-oriented growth models while pursuing the same export markets. Recall that non-GCC regional economies presented similar levels of factor endowments and similarly composed manufacturing sectors. Recall as well that they had converged on an industrial policy regime centered around unconditional corporate welfarism. In this context, chasing after the same export markets often meant directly competing with one another. Declining prices was the result.

Attempts to integrate trade and production within global value chains (GVCs) likewise missed the mark. In the first instance, the region did not manage to embed its firms especially deeply within GVCs: This was especially so in Egypt, where GVC participation collapsed after 2006.[109] Where firms did secure themselves a place within the chain, they encountered troubles of a different kind. As a general rule, they found their place near the bottom of chains, where pressures amongst suppliers is stiffest and markups are smallest. As such, opportunities to capture value have been few: There is data to suggest European companies capture 84% the total profits created in the production and sale of garments, with the leftover 16% accruing to their North African suppliers.[110] Being forced to settle for such small shares of the spoils, in turn, created two corrosive dynamics. First, with firms unable to accumulate capital at scale, their upgrading into higher value activities is made harder. Second, with their piece of the pie so small, sustaining profit rates and competitiveness often requires intense labor exploitation. Evidence of the latter abounds: In the contractless or highly flexibilized work arrangements that are so common amongst export-oriented firms; in the abuses, organizing restrictions, and targeting of vulnerable populations for hiring which firms in special economic zones engage in; and in Jordanian manufacturers' striking decoupling of wages from productivity over the past decade, with the former falling despite output growing.[111]

Taken in full, then, the post-debt crisis era would prove a significant bust for MENA industry. By way of policy failures and global conditions, countries' secured but a fraction of what they needed in terms of fixed capital formation, technological conveyance, R&D, manufacturing output, industrial upgrading, and external income. Come the period's end, the region ended up further adrift from the global technological frontier and highly dependent on the import of heavy machinery and equipment. Worse, it also saw growth rates in terms of productivity within industry stagnate. Due to declining capital-labor ratios and low levels of innovation, the sector meant to serve as engine of progress for the economy writ large stuttered in the 1990s and early 2000s before stalling out altogether in the 2010s.1 This showed up in sharp declines in total factor productivity between 2010 and 2019.[112] And then there was the jobs side of things. With labor demand from foreign and local manufacturing firms weak, employment-based deindustrailization continued to gather steam. Across the years in question, the percentage of national labor pools employed in manufacturing froze or declined at levels way below global averages, and miles below the levels achieved in the global north in the mid-20th century.

As such, both key aspects of structural transformation failed to get firing: MENA economies did not move a greater share of workers into industry, and industry itself failed to power expected gains in terms of productivity. The consequences have been dire. MENA is the only region in the world that has failed, in relative terms, to close the labor productivity gap on the United States since 1992. It has

[108] Ibid
[109] Yasmine Eissa, "GVC and labor market outcomes: evidence from MENA", Paper: Economic Research Forum (2024).
[110] Maria Cristina Paciello, "Do working-class women in the Arab region benefit from trade liberalization?", Study Maghrebini 21:1 (2023)
[111] See: Paceillo (2023); Quds Brahmi, "The feminization of the workspace in untraditonal fields: A case study from Tunisia", Assafir al-Arabi (October 15, 2022); Matthew Lacouture, "The landscape of labor protest in Jordan: between state repression and popular solidarity", Memo: Project of Middle East Political Science (2022); Lorenzo Cotula and Liliane Mouan, "Labour rights in special economic zones: between unilateralism and transnational law diffusion", Journal of International Economic Law 24 (2021); International Trade Union Confederation, 2023 ITUC Global Rights Index, Report (2024); International Labour Organization, "Productivity growth, diversification and structural change in the Arab states", Report (2022)
[113] Georges Harb and Charbel Bassil, "Manufacturing and productivity in MENA: a long-term perspective", Blog: Economic Research Forum (March 8, 2022); Georges Harb and Charbel Bassil, "TFP in the manufacturing sector: insights from a new dataset based on macro-panel estimations", Social Science Research Network (2021).

lost even more ground over the past fifteen years. Masses remain condemned to joblessness or the struggle of carving out a living in an informal trade. Economies' capacity to sustainably generate growth remain hamstrung. On every indicator that matters, the picture is daunting.

Figure 7: Manufacturing Value-Added as Percentage of GDP: Select Arab Countries

Source: United Nations Industrial Development Organization (UNIDO)

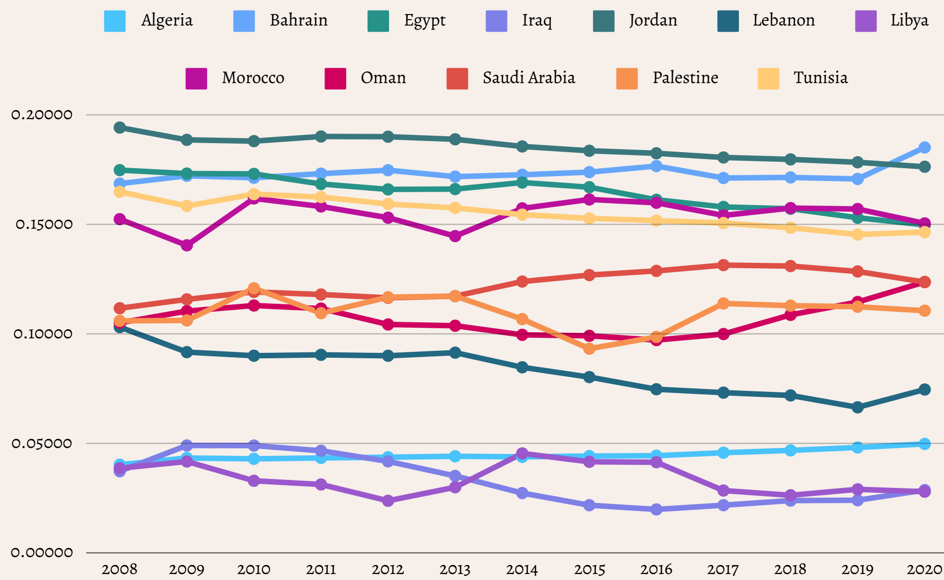


Figure 8: Medium and High-Tech Manufacturing Value-Added Share in Total Manufacturing Value-Added Share: Select Arab Countries

Source: United Nations Industrial Development Organization (UNIDO)

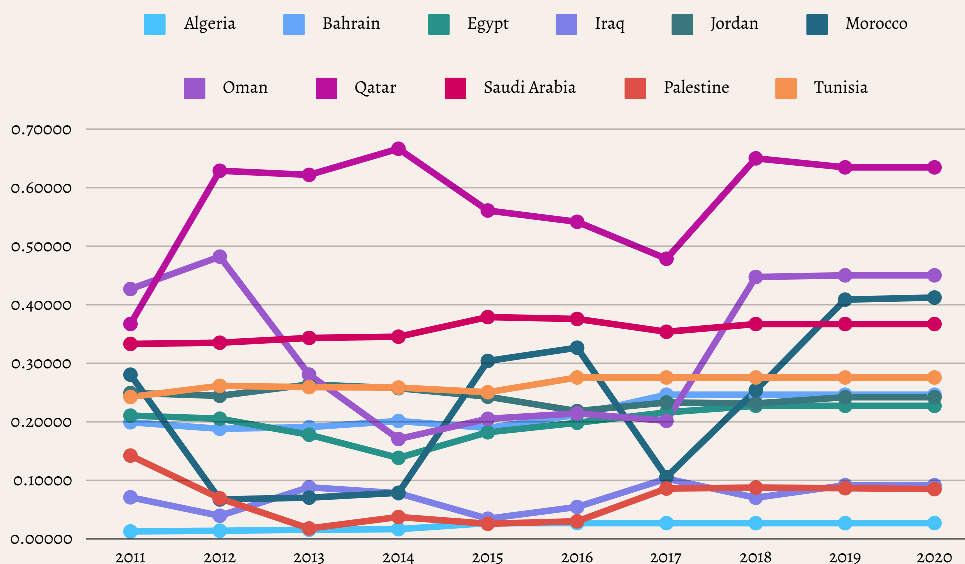
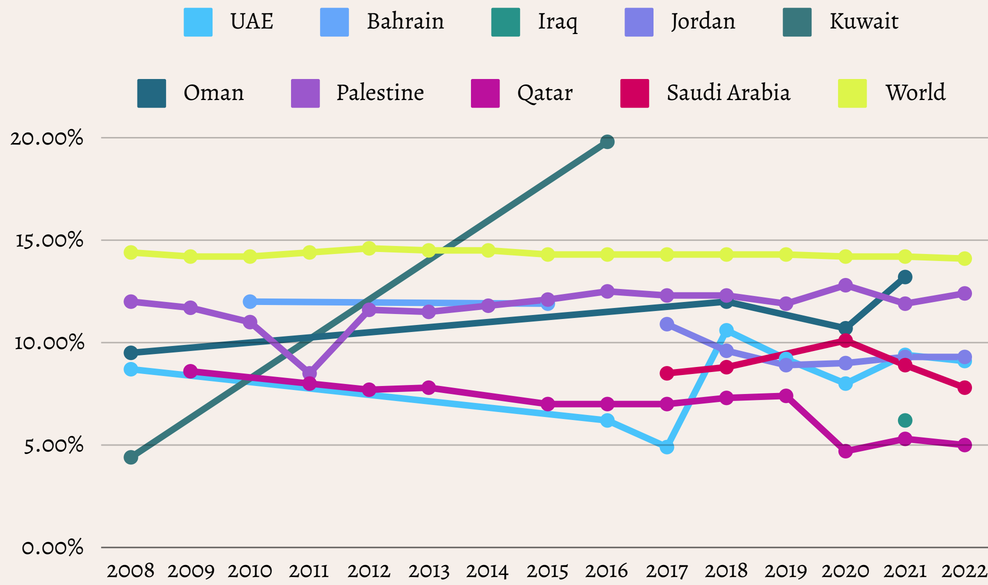


Figure 9: Manufacturing Employment as % of Total Employment: Select Arab Countries

Source: International Labour Organisation



4. Conclusions

The organization of the global economy is undergoing significant reforms at the time of writing. The impetus can be traced to the social and political pressures which two decades of weak growth created within the countries of the global north, the United States especially. The cascade of shocks which have rocked the world since the global financial crisis of 2007-2009 has clearly had a hand as well. The ascension of the Trump administration in 2017 acted as an accelerant, while the spread of SARS-CoV-2 and the Russian invasion of Ukraine in 2020 and 2022, respectively, gave the process even greater momentum.

If still inchoate, the consequences of reform look to be substantial. Protectionist and mercantalist spirits have support amongst the ruling classes of the great powers. Distrust in globalized supply chains are pushing those with the requisite capital resources to try their hand at reviving domestic industry. Trade patterns are also beginning to fragment according to geography and political alignment.[114]

For the countries of the MENA region, though a new era may be dawning, it unfortunately promises few improvements to the neoliberal one on the outs. With the exception of certain GCC countries, sovereign debt issues and capital shortages dictate that regional governments must forego experimentation in bolder forms of industrial policy. If the myriad failures of the Biden administration are anything to go by, that may not quite be the curse it seems. Despite making billions in grants, subsidies, and tax breaks available through the Inflation Reduction and CHIPS Acts of 2022, adjusted for inflation, U.S. private investment in capital goods (equipment, specifically) is flat and growth in total US industrial production markedly weak.[115] Such struggles attest to the difficulties of reindustrializing in the face of overcapacity and capital's learned reluctance to invest. And yet, if this paints a distressing picture for the United States, MENA's one is even worse. After all, the majority of the region's states will not even have the chance to attempt overcoming the difficulties of reindustrializing. Their further retreat from the global technological frontier is therefore something of a foregone conclusion.

The broader patterns of trade and investment that are currently congealing also offer little good for the region. Yes, Morocco may benefit from the "friendshoring" of European supply chains. Yes, the UAE and Saudi Arabia look to have secured their place amongst the handful of countries in the global south currently attracting foreign investment.[116] For the rest, however, the trends in motion work at cross purposes to the achievement of developmental objectives. In real terms, growth in the cross-border trade of merchandise has been negligible since the end of 2021.[117] The stuttering of international trade has also been accompanied by a stuttering of global economic expansion. Excepting 2021—whose year on year growth appears healthy due to the collapse of 2020—growth in output worldwide has failed to break 3% for five years running.[118] For countries in the global south, the MENA included, this slowdown is closing opportunities for upgrading and diversifying export-oriented manufacturing. It undoubtedly contributes to the fact that the MENA region has the most

[114] United Nations Conference on Trade and Development, "Global Trade Report", Report (June 2023).
[115] U.S. Bureau of Economic Affairs, Quarterly data: Real Gross Private Domestic Investment: Fixed Investment: Nonresidential: Equipment; U.S. Bureau of Economic Affairs, Quarterly data: Industrial Production: Manufacturing.
[116] United Nations Conference on Trade and Development, "Investment Trends Monitor: January 2024", Report (2024)
[117] United Nations Conference on Trade and Development, "Trade and development report update", Report (April 2024)
[118] Ibid

concentrated exports in the world today.[119] And with disruptions in the Red Sea and the European Union's Carbon Border Adjustment Mechanism soon to price out some MENA exporters from EU consumer market, the outlook going forward looks no better.[120]

News on the front of global investment is troubling, too. Though growth in global FDI had already stagnated as far back as 2010, its stalling out has worsened recently. 2022 saw a 12.4% decline in FDI volumes worldwide.[121] Growth returned to 3% in 2023, but in light of the previous year's decline, this hardly painted a picture of health.[122] Geographically speaking, the global south is bearing the brunt of the trend, as evinced by its 9% fall in FDI receipts in 2023. As mentioned, all but Morocco, Saudi Arabia, and the UAE in the MENA region are feeling the pain. Sectorally, meanwhile, manufacturing is being most starved of investment[123]: What investment is mobilizing these days is disproportionately "asset-light" and as such, of little assistance to economies seeking to build productive capacity and scale up job creation.[124] If there are still those hoping on a foreign investment-funded miracle in industrial development for the MENA region, the data shows it is clearly not in the cards.

Given restraints and idiosyncrasies at the local level, this all suggests the years ahead in the Middle East and North Africa are scheduled for more turmoil, repression, and privation. Condemned to miss out on healthy manufacturing development and the attendant coalescence of strong workers' movements, the region will continue to lack what history has shown to be the most reliable engine of economic, social, and political progress. Sustainable growth in national income and consumption. Technological progress. Reduced levels of inequality. Democratization. Democratic stability. They, and many other things, have been shown to hinge on manufacturing. In the MENA's case, certainly, one would always need temper expectations around manufacturing's knock-on effects. The mediating factors of imperialism, settler colonialism, and war demand it so. Be that as it may, in view of the region's present condition—the stagnation and crisis-proneness of its economies; the extremities of its inequalities; the deepness of its democratic deficits—it ought be clear that even a reduced manufacturing bump would make a world of difference.

Past is not always predictive. Paths yet unseen to a better tomorrow may emerge in the years ahead. If we should abide by the pessimism of the intellect, however, one can only look to the MENA region with trepidation. As premature deindustrialization continues to do its worst, it seems likely these societies will be deprived of the futures they deserve.

[119] United Nations Conference on Trade and Development, Handbook of Statistics 2023, Report (2023): 25
[120] William Bratton, "U.S. and EU embrace of industrial policy puts Asia at risk", Nikkei Asia (April 14, 2023).
[121] United Nations Conference on Trade and Development, Handbook of Statistics 2023, Report (2023): 46
[122] United Nations Conference on Trade and Development, "Investment Trends Monitor: January 2024", Report (2024).
[123] United Nations Conference on Trade and Development, "Global economic fracturing and shifting investing patterns: A diagnostic of 10 FDI trends and their development implications", Report (2024)
[124] Ibid

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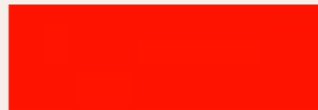

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