

Political Economy of Arab Revolutions:
analysis and prospects for North-African
Countries

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Summary

Several similarities explain the spread of the Arab revolutionary process: the polarization of economies to limited sectors, a rentier-based management of resources, very low employment rates and extremely high rates of skilled migration. Finally, a similar external pact with the Western powers, and an inner pact between elites that have both imploded. This article suggests new directions for these economies that would combine regional integration and a catch-up strategy via service activities.

Keywords: political economy, Middle East and North Africa, unemployment, tertiary education, internal and international pact

JEL Classification: O15, O55, P520, P59

Résumé

Des similitudes expliquent la diffusion du processus révolutionnaire arabe : une polarisation sectorielle des économies, une gestion rentière des ressources, des taux d'emplois faibles et des taux d'expatriation de qualifiés anormalement élevés. Enfin, un même pacte externe avec les puissances occidentales et interne entre les élites. Ces pactes ont imploré. Cet article propose de nouvelles directions pour ces économies, combinant intégration régionale et stratégie de rattrapage par les services.

Mots-clés : Economie politique, pays d'Afrique du Nord et du Moyen Orient, Révolutions arabes, chômage, éducation supérieure, corruption, pacte interne et externe

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1. Introduction

The sudden changes that were witnessed by countries of the Southern and Eastern parts of the Mediterranean have surprised all observers. The events were all the more surprising taking into account the fact that these countries had resisted the economic crisis better than other regions in the world. The paper argues that behind the appearances and good macroeconomic performances however, these countries suffer similar symptoms which explain the diffusion of revolutions and democratic demand.

This paper analyses the nature of economic systems in these countries, the similarities in their internal and external functioning, and proposes an exit strategy combining a southeast regional integration and catching up strategy via skill- intensive service activities. The first section presents briefly the macroeconomic and social performances of the region before the Tunisian revolution. The second section analyses the similarities between Arab countries that explain the spread of the revolutionary process: a polarization of their economies to limited sectors, a rentier-based management of resources, very low employment rates associated with high rates of skilled migration, an education system in crisis with educated elites gone adrift and the diffusion and the “verticalisation” of corruption and rentseeking behaviour. Last but not least, a commonality deserving particular attention: a similar external pact between the Arab States and the Western powers which delayed the revolutions and an inner pact between elites. The Third section analyses the intra-regional trade perspectives and the new role Turkey can play in the North African region. Finally the fourth section suggests new directions for the economies of the Maghreb in particular, that would combine South-East regional integration

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and a catch-up strategy via service activities with intensive use of skilled labour and the fifth section concludes.

1. ECONOMIES IN NORTH AFRICAN COUNTRIES: THEIR NATURE AND RESISTANCE TO THE CRISIS

Countries in this zone have resisted to the 2008 global crisis of the subprime. On the one hand, the Maghreb countries were relatively little integrated in the international financial markets thereby limiting considerably the transmission of the financial crisis. Difficulties were also lower in oil exporting countries where foreign exchange reserves allowed a direct intervention on the prices of basic consumer goods such as food and the maintenance of public spending. The situation was more difficult in the non-oil based economies. Since the second half of the 2000s, governments have learned to manage crises by implementing, practically everywhere, effective countercyclical policies including among others: an extension of tax incentives to promote investment, a reduction in interest rates consistent with needs to maintain economic activity, etc. (Abdih et al., 2010).

Table 1: World ranking of highest growth in terms of human development (1970-2010)

Top Movers	Country	Rank	Index
1	Algeria	77	0,712
2	China	75	0,718
3	Indonesia	83	0,686
4	Korea (Republic of)	18	0,890
5	Lao PDR	101	0,574
6	Morocco	98	0,618
7	Nepal	107	0,502
8	Oman	48	0,789
9	Saudi Arabia	45	0,797
10	Tunisia	71	0,729

Source : UNDP Human Development Index trends, 1980–2011
<http://hdr.undp.org/en/statistics/>

Furthermore Tunisia, Algeria, Morocco, Oman and Saudi Arabia were ranked amongst the top 10 countries in the world to have recorded an increase in the human development index between 1970 and 2010². Rapid progress made by countries in the region in the areas of health and

² In 1970, Tunisia had a lower life expectancy than Congo and Morocco, and a schooling rate lower than that of Malawi.

education are highlighted in table 1 In North Africa, life expectancy has increased from 51 to 71 years between 1970 and 2010 and the percentage of schooled children has increased from 37% to 70% over the same period. Lower levels of fertility in the Arab region are associated with older age at marriage and an increased participation - albeit still rather low - of women in the labour market. On average, Arab countries experience an annual population growth rate of about 1 to 2%, while the working age population increases by 3% per year, demand for employment by 4% per year and the number of new graduates by 6 to 8% per year (Fargues, 2011).

How to explain in such a context of relatively good macroeconomic performance on the whole the uprising of such countries as Tunisia and Egypt? The Toqueville Paradox (Tocqueville, 1856) could shed light to our understanding of this phenomenon as it posits that when states progress and reform, inequalities and inequities³ become unbearable to both the elites and the populations. This is what happened in Tunisia, Egypt, Libya and Syria. According to data from UNDP, 85 countries in the world have attained a high level of development as per the Human Development Index. Amongst these countries only 19 are not democracies and among these 19 countries 10 belong to the MENA region including Libya, Tunisia and Bahrain.

In reality, if the countries of the MENA region are different in their economic and social structures, there exists a series of similitudes amongst them which could explain the diffusion of the revolutionary process: a rigid polarization on a few sectors of the economy, a rentier-like management of resources including non-natural ones, very low employment rates associated to abnormally high rates of expatriation of qualified youth. A last common point deserving special attention: a similar external pact between Arab States and Occidental powers which delayed these revolutionary processes and an internal pact between elites and the respective local powers leaving the masses of graduates outside the skilled job market. This paper posits that these two types of pacts have imploded in all Arab countries, even those where the revolution “did not take” such as Morocco and Algeria.

³ Referred to as “Hogra” in the Maghreb countries.

2. INEQUALITIES, MIGRATIONS AND CORRUPTION: AN INTERNAL AND EXTERNAL BALANCE BEING QUESTIONED

2.1 *A polarisation of the economy which excludes skilled labour*

Countries in that region share the same flaw: a very low diversification of the economy focused on three or four areas associated with primary or manufacturing sectors with low added value. The rentier nature of the regional economy is often associated with the existence of a large sector of oil and gas receiving an annuity more or less redistributed to the rest of the economy. Algeria, where 98% of foreign earnings continue to depend on oil, has even experienced a decline in manufacturing and has sacrificed agriculture. In fact, such an approach cannot alone characterise the Algerian productive system which is based on the co-existence of three key sectors with weak real ties (input-output) between them but which maintain financial relations.

First, the single-exporter public sector (oil and gas), is responsible for almost all external revenue. Contributing to one third of GDP, to two-thirds of budget earnings and to 98% of export earnings, this sector is a supplier of liquidity, especially during inflated oil prices. It also supplies, in part through the public banking system, a sector importing consumers' goods and equipment (hydrocarbons and petrochemicals). Second, the import sector feeds an area of international trade with low-level processing (food industry) and assembly (electrical, electronic, textile). This sector includes a large part of informal activities. Financing of imports is done partially with unofficial exchange rates and through national networks in developed countries, especially France. Short or medium term bank loans support the import activity. Formal activity and the informal sector are thus closely tied. This latter sector of import rolls into a third sector: services, retail trade, construction and non-tradable goods in general. The desired diversification of the productive system is hard to kick start. There is even a decline in the manufacturing industry to the benefit of mines and quarries, iron and phosphate, and construction.

By being dependent on exports and on oil and gas which are essentially volatile, the Algerian economy exposes itself to periods of excess liquidity. Alternatively, when revenues decline, liquidity constraints subject banks to treasury problems.

The Libyan economy is similar to the Algerian economy on a smaller scale: oil revenues amount to almost all foreign exchange inflows and over half of the GDP. Small population size, and oil revenue made Libya, which saw very

high GDP growth rates in the 2000's, the country with the highest GDP per capita in the African continent during the last decade. This however does not speak to the distribution of this wealth between the Libyans on the one hand, and the clans who continue to structure this country on the other.

The Tunisian economy, which has fewer natural resources than its neighbours Algeria and Libya, also has an economy structurally concentrated on a few sectors: mass coastal tourism, labour-intensive in low-skilled or skilled (educated) but downgraded and under paid, represents a dominant share of GDP.

The export sectors of subcontracted segments of assembly in the textile and clothing industries have had little effects on the rest of the economy. In support services (IT maintenance, call centres, basic information services...) the same path is taken by using classical advantages in terms of labour costs either by doing away with professionalization of manpower or by using underpaid and declassified graduates. To this, we can add a little agriculture and non-tradable services. Direct investments do not come to this country because of the small size of the domestic market. Outsourcing often takes the shape of subcontracting assembly of European SMEs.

The Moroccan economy is a little more diverse than the others but suffers nonetheless from a number of structural dependencies with respect to certain natural resources, the volatility of agricultural income, and the financial inflows of migrants who continue to represent nearly 10% of Moroccan GDP. The Egyptian economy is mainly concentrated in mass tourism, oil, and metals and agriculture. Tourism is the first economic activity in terms of currency inflows followed by remittances from migrants. Economic shocks and political uncertainties make these inflows volatile and fragile.

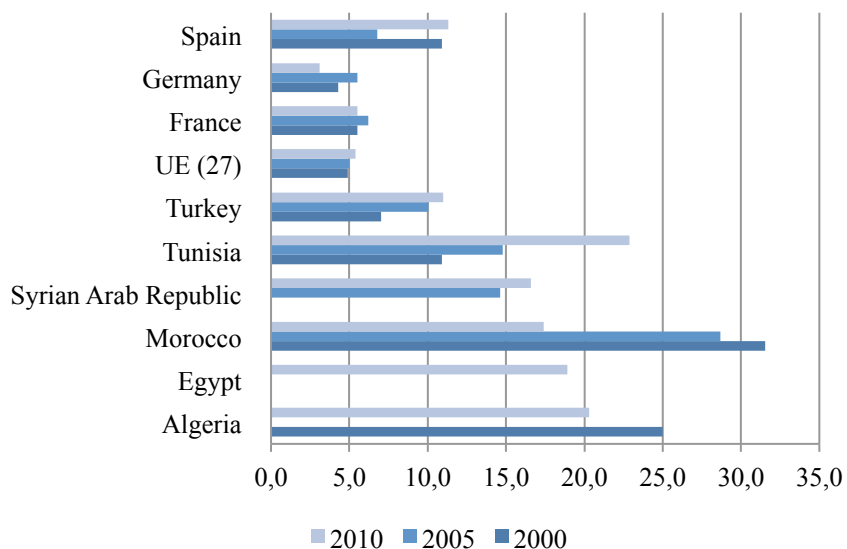
In conclusion, sectoral and spatial polarization of the economy and outstanding overall performance can go hand by hand, and, clearly obscure the real flaws of these societies.

2.2 *Very low employment rates, educated elites gone adrift*

In Southern and Eastern Mediterranean economies as a whole, the high rate of unemployment, especially youth unemployment, the low participation of young people and women (although increasing) in the labour market, coupled with a substantial informal sector, result in one of the lowest formal employment rates in the world (less than 40%) (graph 1). Meanwhile, we are witnessing a considerable increase in the number of post-graduates and increased university enrolment. The massive nature of the phenomenon of higher education was ignited by the end of colonization

which saw a sudden increase in both secondary and higher education enrolment rates (graph 2).

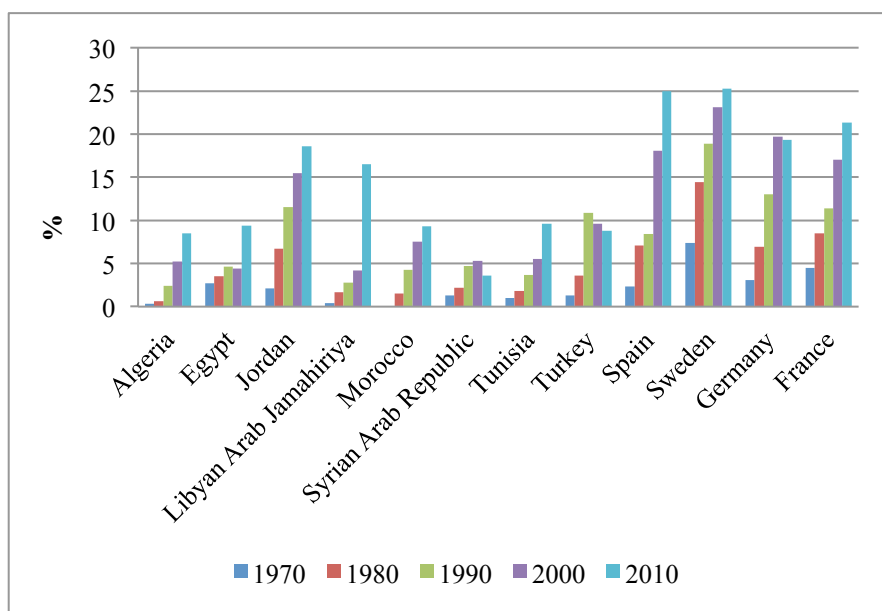
Graph 1: Unemployment Rate of population (15+) with tertiary level attainment



Note : Algeria 2001

Source : Eurostat and author estimation from National Databases.

Graph 2: Proportion of the population (25+) with a tertiary degree



Source : Author estimation from nationals database.

But the economic crisis which hit non-oil countries more acutely results in lower spending on education and a crisis in the education system. The annual growth rate of the number of students amounts to 10 to 15% in Algeria, Morocco, and Syria. Furthermore, the breakdown by discipline shows gaps compared to other emerging countries in the field of construction and industrial engineering, agriculture, health and services. In contrast the share of social sciences is much higher than in countries with rapid growth.

There are actually two types of elites in the Arab countries. The first category, smaller in number, consists of persons associated with the nomenklatura in power whose children are educated in foreign schools and universities and who will be given the reserved spots in the skilled job market.

The second category, involving the mass of graduates of higher education, usually from poor or middle-class families is a numerical majority. Mass unemployment of these young graduates, even after going through competitive courses of study, is amplified for youth in small towns or rural areas who cannot find work, even that which is underpaid and downgraded in the big urban centres, because the exorbitant cost of housing. They are thus in a situation akin to "house arrest" under a material and moral paternal control.

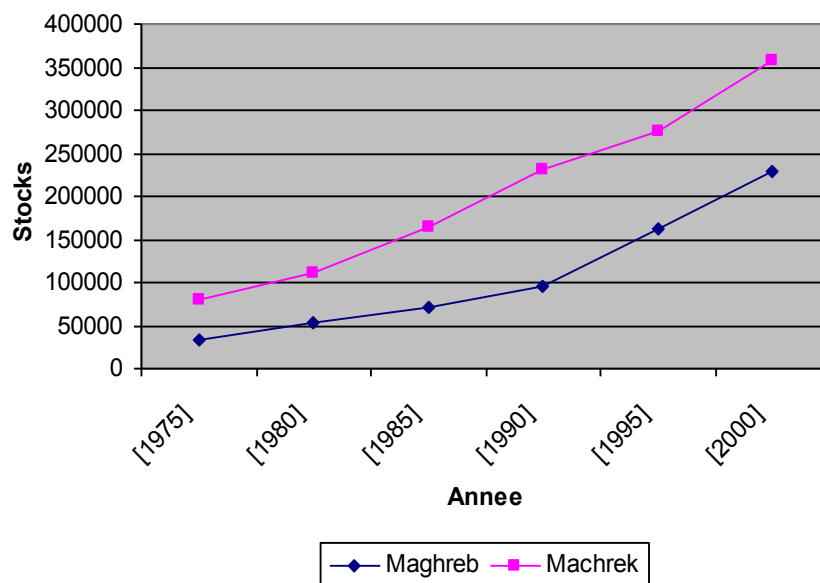
2.3 Abnormally high expatriation rates

In the case of Arab economies, there is a "brain drain" more pronounced than in other regions comparable in terms of per capita income. The expatriation rate of graduates is over 10% against 8.3% in Latin America and 7.1% in East Asia. The main flows associated with migration of highly skilled workers come from countries of North Africa, specifically Algeria, Morocco and Tunisia to France and Belgium and more recently to Spain and Italy. North America is increasingly attracting the most qualified. The "new migrations" of the 1990s and 2000s includes young men and women called "Harragas"⁴, who are characterised by weak attachments to their country of origin and who declare a lack of desire to return (Miotti, Mouhoud, Oudinet, 2010) (graph 3 and 4).

The Tunisian revolution has sanctioned a breaking away from this implicit internal pact whereby the elites of the Nomenklatura had a protected place on the skilled job markets and where the educated elite of the poor and middle class were relegated to declassified employment in the domestic economy or to expatriation, at times associated with declassified employment abroad too.

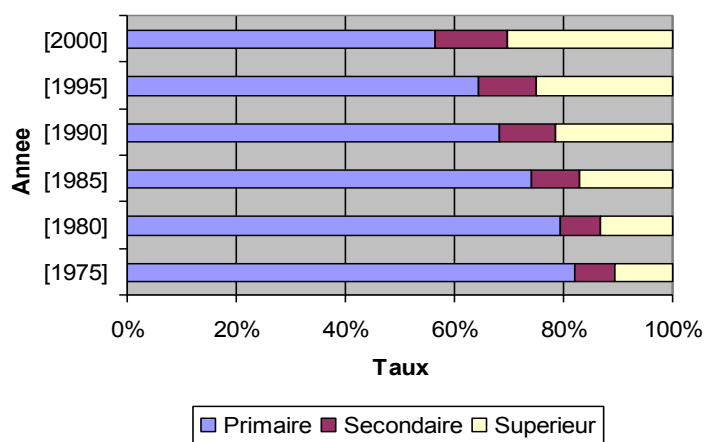
⁴ The origine of the word in Maghreban Arabic could be translated by "who burn" referring to identify papers.

Graph 3: Evolution of Tertiary level migrants from Maghreb and Machrek in OECD countries



Source : Docquier & Marfouk database.

Graph 4: Stock migrants from MENA countries by level of éducation (primary, secondary, tertiary) in 6 main OECD host countries (France, Germany, UK, Netherlands, Italy, Belgium and Luxembourg)



Source : Docquier and Marfouk Database.

2.4 Corruption and punctures on the economies

Typologies separating fuel-endowed countries from the others provide an incomplete picture of what might be at the root of the revolutionary process⁵. Actually, all the states of the Arab economies can be defined as “rentier states” (Beblawli & Luciani, (1987) even if the rent doesn’t come from natural resources such as oil or other raw materials. Characterizing a rentier state needs the presence of three conditions: first, the rentier situation must predominate; second, the rent must be external; 3) The generation of wealth involves a small number of people. The latter characterization is associated with corruption. This characterization doesn’t concern only the « Fuel-endowed countries » but all the countries even those who have not any oil sector.

Evans’s “developmental state theory” (Evans, 1995) may be useful to understand the nature of the Arab regimes. A developmentalist state is able to undertake public investment and state expenditures that create an economy characterized by a set of assets based on knowledge, exploited by skilled labor” with “highly selective meritocratic recruitment”. It was the case for example with the Syngapourian experience of increasing wages and training in the 1980’s. South Korea is also a good example of a creation of a non politicized bureaucracy able to enforce accountability and standards on the private or mixed sector to ensure quality and technological upgrading competing on the international markets. In the Arab countries the bureaucracy was politicized and not technocratic as with the successful case in the Asian tigers.

Blocked institutions and the diffusion of corruption erode the "capabilities" in the words of Amartya Sen as well as the trust with direct consequences on reducing efficiency and harming labour productivity. “Cash” poverty is limited by remittances of migrants and by the organization of safety nets through family solidarity, government support of basic commodity pricing and employment in public administration. But the implicit social contract that is at the basis of this solidarity encourages clientelist practices that tend to bind people to owners of political or administrative parcels of powers. Lastly, the progress towards contractual/formal rules is hampered and traditional functioning continues to prevail.

⁵ For example, Rauch and Kostyschak (2009) divide Arab MENA countries into three categories separating the fuel-endowed countries from the others. a) Arab Mediterranean (Syria, Egypt, Lebanon, Jordan, Morocco, Tunisia); b) Arab Sub-Saharan Africa (Comoros, Djibouti, Mauritania, Somalia, Sudan and Yemen); c) “ Fuel-endowed countries” (Algeria, Bahrain, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, UAE).

In countries like Algeria and Morocco, corruption had been “verticalized”. In Algeria, and to a lesser extent in Egypt, between 1970s, the period that followed the decolonization until the oil shock of 1984 (when the price of oil dropped dramatically) corruption was limited to the military-industrial state apparatus. At the time, the smaller Algerian population was all in the same boat and there was less inequality. The administration regulated the problems associated with the arrival of youth to the labor market by creating low productivity jobs in the public sectors. The imbalance between the countryside and the cities was discernible though and it resulted in flows of in-migration to cities and to France. Remittances from migrants, going through network of informal exchange served as a safety valve. The government expenditure in education had steadily increased. Corruption was organized around the state monopoly of foreign trade by major sectors (cement, sugar, consumer goods and intermediary goods). The fall in oil income in the mid-1980s saw the state revenue decline. Corruption was to proceed nonetheless, but it now needed to verticalize in the society. Young and old, were then enrolled in mafia-like practices of “*trabendism*” related to the international trade sector.

The emerging newly rich class had no link to education or skill. Qualified personnel, engineers, doctors, teachers in secondary and higher education witnessed at the time an absolute pauperization. The breaking of the social contract happened in 1988 with the riots which resulted in remarkable reforms and an abounding democracy interrupted by the 1991 elections following the Islamist victory in the first round of national elections. This verticalization of corruption created real frustrations in families and in boroughs where one could easily observe the differences between the fortunate fate of the “trabendists” integrated in the trafficking networks and the rest of the qualified graduates or skilled personnel. This was perceived as unacceptable in the eyes of the Algerian Elite. Similar processes took root in other places albeit through other mechanisms of misappropriation and trafficking or via other actors / organizers of generalized patronage (the families in power in Tunisia for example). The Egyptian corruption system is akin to the one put in place in Algeria in view of the deep involvement of the army in the economy.

In the Arab countries and those from North Africa in particular, the Tunisian revolution, and before it the Algerian rupture in the late 1980s marked the culmination of a largely eroded trust of the elites in public institutions. The internal post-colonial pact between states and elites being already undermined was then severed. The balance could still be maintained through an external pact which has long delayed the changes taking place. During the 1990s this pact had bound the nomenklatura in power in

countries of the Southern and Eastern parts of the Mediterranean to the states of the European Union, notably France.

2.5 The implosion of the regime of Euro Mediterranean relations

The Arab revolutions reflected the implosion of the internal social contract between the elites. It has also led to the implosion of the external social contract between the Arab States and the Western powers.

States in the region have all signed agreements to liberalize trade with the European Union (EU). These agreements between the EU and the MENA countries were made in a bilateral and non-cooperative fashion and they were unfavourable to the Arab States as they neither included agriculture nor trade services, and they were limited to manufactured goods for which countries in the Southern Mediterranean region had little export capacity for. The decline in export earnings, due to the lack of competitiveness of their manufactured goods in the European markets on the one hand, and the maintenance of barriers to the exporting of agricultural products on the other hand, could only be compensated by tourism, remittances of migrants and foreign direct investment, too low to matter any way.

The quest for international political legitimacy was the underlying motivation of these unfavourable free-trade asymmetrical agreements even with the risk of incurring economic losses. In exchange for political recognition by the EU, de facto permitted upon signature of the above agreements, the Southern States pledged to lead an emigration policy of repression against their citizens and those of sub-Saharan Africa transiting through their respective territories. The commitment of the signatory countries to readmit their nationals expelled from Europe and to restrict their citizens' right to expatriation in exchange for a marginal development assistance, is clearly akin to a delegation of the repressive European policy towards immigration to the southern states of the Mediterranean, the Maghreb in particular. Clearly, neither the European Commission through its EU Neighbourhood Policy, nor France through its embryonic Union for the Mediterranean project, can continue legitimizing Nomenklaturas of southern states of the Mediterranean. Meanwhile in the South, regional processes already underway are ready to give in.

3. NEW REGIONAL PROSPECTS

Transaction costs at the borders between countries of the MENA region are higher than between each one of them and the EU. The limited range of partners of the Maghreb countries is partly due to the lack of will to build a truly regional market, despite the implementation of the agreement on free trade between Arab countries (Greater Arab Free Trade Area, GAFTA) the effects of which are discussed below. Intra-regional trade accounts for only 10% of trade in countries of the MENA region in 2007. But the situation is quite different from one country to another as Syria, Lebanon and even Jordan send more than half of their exports to countries of the region.

But for all the others and especially for the Maghreb countries, the proportion of exports to the MENA region does not exceed 8% of their total exports. Trade volumes of countries in the MENA region are significantly lower than one might expect taking into account their economic, cultural and geographical characteristics. According to recent estimates, these countries are 86% below what would be expected based on their characteristics (Bhattacharya⁶, Wolde, 2009).

This compartmentalization of markets in countries of the MENA region explains, in large part, the weakness of the inflow of non-hydrocarbon foreign direct investment (FDI) (Dupuch and *al.*, 2004). These freezes, induced by economic policies or structural factors, curb trade and economic growth in general. Yet the free trade agreement, the GAFTA, signed by 14 Arab countries at the Arab summit in Cairo in 1996⁶ and currently comprising 18 of the 22 Arab countries, has already produced interesting effects. Over the period 1997-2009, the GAFTA resulted in a 26% (Abedini, Péridy, 2008) increase in intra-regional commerce (after deducing the effects of trade diversion). But non-tariff barriers between member countries remain significant (estimated at nearly 30% in tariff equivalents). Services, trade and free mobility of skills at the regional level should strengthen the integration agreement.

One must also consider the new geopolitical space opened by the "eviction" of Turkey from the perspective of EU integration. Since the EU governments have proposed to substitute an Association Agreement to the prospect of enlargement, Turkey has redeployed its geostrategic efforts in the region.

⁶ United Arab Emirates, Egypt, Koweït, Saudi Arabia, Syria, Tunisia, Morocco, Soudan, Oman, Qatar, Lebanon, Irak, Bahreïn, and Libya, joined by Jordan, Palestine, Yemen and Algeria. The completion was expected on 1-01-2007 at the latest, but the Arab summit in Amman in 2001 has accelerated the implementation period to achieve zero tariffs on 01/01/2005.

Turkey's economic advance, its technological level and labour productivity, which is above the average of southern European countries, could lead Turkey to play a relay-role in bringing Foreign Direct Investment and appropriate technologies to a regional area sharing common institutions, culture and religion. Finally, a regional integration led by Turkey can promote the unfreezing of a situation which has been awaiting the union of the Maghreb, a project which keeps hitting political bottlenecks when it comes to the "Algeria-Morocco couple". There is already a strong demand in the Maghreb countries for trade with Turkey even if the Turkish offer is still below potential. If Turkish trade remains anchored in Europe, direct investment in services, construction and industry quivers in the Maghreb. The entrepreneurs of these countries identify with Turkish entrepreneurship whose technological and managerial offers are seen to be more adapted to local needs.

Finally, in the current crisis in the European Monetary Union, a scenario of building a more integrated area to the north and south of the Mediterranean may result from the dual process of divergence between the countries of southern Europe, and those constituting the core of the euro zone on the one hand, and, on the other hand, the growing role that Turkey will take into the regional dynamics in the southern Mediterranean.

The current period of political change throughout the region (Tunisia, Egypt, Libya) coupled with an acceleration in terms of reforms in other countries, regardless of the institutional nature of the political regimes that will be set up, is conducive to the acceleration of the regional construction, enabling thereby, the renegotiation of the free trade agreement with the EU on new grounds.

4. COUNTERING GRADUATE UNEMPLOYMENT: DEVELOPING KNOWLEDGE BASED SERVICE ACTIVITIES

For countries in the MENA region, diversification of the economy and employment of graduates should be the priority. Past choices to promote outsourced assembly activities in sectors that are intensive in labour force (textile, leather, clothing, electrical equipment, toys...) were obvious failures: in addition to the fact that it did not allow a move up the chain towards industrial segments with more added value, the incentives to increase the level of training and qualification remained low.

The end of the Voluntary trade exports restriction from the developing countries to the Northern countries (Multifibre Arrangement) which partially protected exports from the Maghreb countries, whose production

volumes were much lower than import quotas, allowed Chinese exports benefiting from economies of scale to drive out the small producers of the South.

As for high technology products, barriers to entry in the markets have become extremely high. The technology content of Moroccan and Tunisian exports for example is very low. Imitating the last generation of products has become extremely difficult because of the widespread use of intellectual property rights from the TRIPS⁷ agreement signed in Marrakesh in 1994. Extending the life of the patent limits the strategies of imitation that had allowed the insertion and catching up of South-East Asia in the global economy during the 1980s.

Finally, times are also for the relocation of industrial activities in industrial countries due to the acceleration of production automation and the higher transportation costs which affect the bulkier industrial goods. In contrast the service sectors that had become easier to outsource are witnessing close to zero outsourcing cost in as much as provision of intangible services transits through the Information and communication Technologies (ICT).

The post-revolution development strategy should have as a priority the employability of qualified personnel. Service activities with high added value can catch up with industrialized countries, since the fixed costs of investment in intangible activities are low. Services influence the capacity of adaptation and innovation of industrial and tertiary/service firms. Being part of a network of activities, some services can modify the competitiveness of all economic functions of a territory.

Besides, services are not defined exclusively along industry anymore, and they enjoy increasingly high productivity gains. Indeed, many studies showed that preferred environment for innovation are now service activities, albeit still in response to demand coming from industry. Services provide key strategic information and better market knowledge for both firms and consumers. Environmental innovations also find their origins in services. Social conditions directly depend on public policy and collective services offered to the public. Service provision, its diversity, location or quality matter and do meet the needs of countries emerging from authoritarian systems.

It is not in opposition to industry that this paper recommends a focus on services in the countries of the region. In fact, service activities may promote technological catch-up and more importantly a more extensive employment of graduates, an underutilized group in the MENA region. All service activities are not equal in this respect. It is proposed to focus on

⁷ Agreement on Trade-Related Aspects of Intellectual Property Rights

activities deeply rooted geographically and conducive to the development of an economy of knowledge and the extensive use of graduates. Priorities include services related to knowledge and intangible investments (basic research and development, higher education, consulting, marketing...) (Mouhoud, 2010). Followed by intermediation services (logistics, postal sorting, railways triage centre, transport...).

Intangible services for final consumption (cultural and historical heritage, tourism, amusement parks...) are also important activities provided they are associated to knowledge services via a pro-active policy towards training and professionalization of tourism personnel for example. Collective services with high economies of scale, public or private (health, hospital, legal services...) are geographically anchored activities and they are complementary to specializations in other sectors. Public infrastructures must be funded on a clear basis using underwriting operations, banning exclusive state subsidies, source of clientelist practices and corruption on the one hand and low durability of the other.

Fragile and volatile activities are those associated to informational services related to support functions (IT maintenance, tertiary functions of execution, call centres...) where, for example, Tunisia and Morocco have tried to play a sub-contractors role for French companies in particular. This did not produce any positive effect on the employment of skilled (often downgraded) or on the development of services with higher added value such as those related to knowledge. In this connection, southern companies should move from a subcontracting agreement modality in industry and services to a co-contracting agreements modality or Original Equipment Services (OEM) which ensures the use of local managers in co-contracted subsidiaries.

CONCLUSION

This strategy for the development of knowledge services must find support in a strategy aiming to involve the diaspora in Europe and North America on an ad hoc basis in academic, research and innovation, investment programs. This would not be about bringing the diaspora back home, but rather, to respond to its emotional attachment to the home country by offering opportunities for collaboration on an individual basis and creating a favourable framework of incentives.

New prospects for regional integration between the countries of the Southern and Eastern Mediterranean including Turkey should be the foundation for a reconsideration and reassessment, on a multilateral basis,

of the association agreements with the EU in the context of European Neighbourhood Policy. The South must renegotiate with the EU the contents of the free trade agreement in a multilateral not a bilateral way. Issues such as the free movement of skills, the liberalization of trade in services and the inclusion of agricultural interests of the region must be on the negotiation table.

It is then recommended in view of the post-revolution conditions, that countries strengthen the GAFTA and collectively renegotiate the free trade agreement with the EU by requiring the opening of European markets for all agricultural products and the creation of a temporary asymmetry in favour of supporting countries in the MENA during this transition. It should include provisions that enable firms of the South of the Mediterranean to participate in European Research and Innovation Programmes (notably via tenders).

As part of agreements with foreign firms, it is necessary to negotiate contracts for co-contracting or OEM stipulating the use of local managers in co-contracted subsidiaries and the fight against the downgrading of graduates.

This would evidently have to start by a fight against corruption and against patronage and clientelism on the qualified job market by abiding to strict and transparent rules of recruitment and best practices in human resources management.

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Finally, the policy toward collective services should be articulated to address the needs of the territories and to ensure full access to infrastructures of transportation and telecommunications. Public infrastructure must be funded on a clear basis using subscription procedures and banning state subsidy source of patronage and corruption on the one hand and low durability of the other.

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