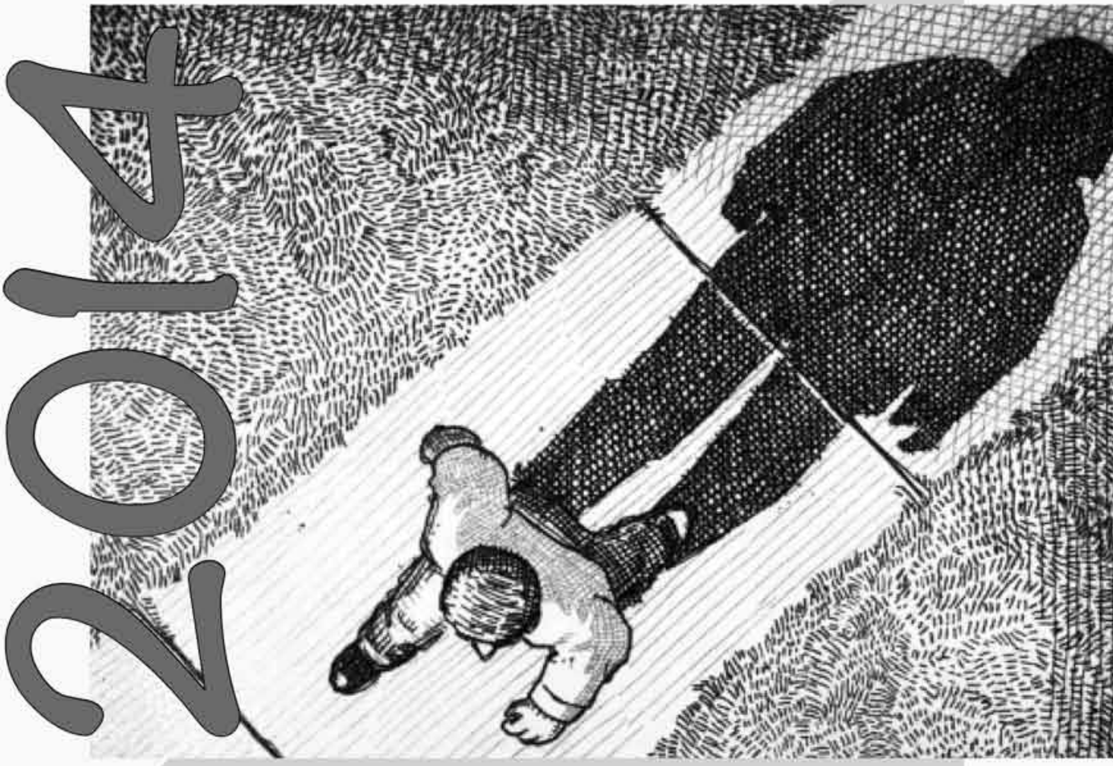
IMF's Trade and Investment Related Advice to Arab Countries:

TRENDS AND IMPLICATIONS



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6 A series of research papers: the international financial institutions (**A**)

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Arab NGO Network for Development
شبكة المنظمات العربية غير الحكومية للتنمية

The Arab NGO Network for Development (ANND) is a regional network, working in 12 Arab countries with nine national networks (with an extended membership of 250 CSOs from different backgrounds) and 23 NGO members. ANND was established in 1997 and its headquarters are located in Beirut, Lebanon since 2001. ANND work covers three main areas: Development Policies in the region, Social and economic reform agendas and the role of international and regional organizations and Economic and trade liberalization policies and their social and economic implications

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This paper is one in a series of papers published by the Arab NGO Network for development (ANND) as part of its work on monitoring IFIs' policies in the Arab region.

This work falls within ANND's aims of strengthening the analysis and research on public policies in the Arab region, in addition to supporting the process of building a strong role for civil society in developing alternatives, specifically on the economic and social fronts, based on choices that are rooted in the local and national priorities and needs.

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Introductory notes:

In light of peoples' uprisings and revolutions in multiple Arab countries, the International Monetary Fund (IMF) has refocused its attention on the region. The Fund was quick to offer its services to assist in developing "*the economic strategy of the MENA (Middle East and North Africa) countries and translating it into a costed multi-year sector by-sector development agenda, embedded in a medium-term macroeconomic framework*"(1). This move came at a time that the IMF has seen its leverage over developing countries diminish, many of which have paid their debts to the multilateral institution.

By 2012, the IMF has sealed four loan agreements in the region; two-year loan packages with Morocco(2) and Jordan(3), an emergency credit line with Yemen(4) and a precautionary financing arrangement with Tunisia(5). Meanwhile, Egypt has gone through contentious and popularly contested negotiations with the IMF on a potential loan program, which has then been temporarily halted.

Besides, the IMF has been involved in propagating its macroeconomic and structural policy advice to governments within the region through its annual staff country reports (also referred to as Article IV consultation reports). The IMF has also been actively involved in the Deauville Partnership, which is the G8 countries' initiative towards Arab countries in transition(6). The IMF, along other multilateral institutions, acts as the think tank of the Deauville Partnership; where it largely contributes towards designing economic policy advice towards the countries of concern.

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(1) International Monetary Fund (2011), "Economic Transformation in MENA: Delivering on the Promise of Shared Prosperity" (p.3). Paper presented to the G8 Summit, Deauville, France, 27 May 2011.

(2) http://www.imf.org/external/pubs/ft/survey/so/2012/car080312b.htm

(3) http://www.imf.org/external/pubs/ft/survey/so/2012/INT080312A.htm

(4) http://www.imf.org/external/pubs/ft/survey/so/2012/CAR040512A.htm

(5) http://www.imf.org/external/pubs/ft/survey/so/2013/CAR061713A.htm

(6) The Deauville initiative was founded on political and economic pillars. The initiative have focused on Arab countries considered to be undertaking political and economic transition, including Jordan, Morocco, Tunisia, Egypt, Libya, and most recently Yemen.

The following article will focus on the IMF's structural policy advice to Arab countries, which is one dimension of the policy advice presented to governments in the region along macroeconomic policy advice. The paper and the figures it presents focus on trends in middle-income non-oil exporting counties. The article gives an overview of the challenges of production, wages, poverty, and inequalities in the Arab region. It reviews the narrative of the IMF post the revolutions in the Arab countries and discusses the IMF's role in the area of trade and investment policies. The article highlights the opinion of the Independent Evaluation Office (IEO) of the IMF on the IMF's trade policy advice. It also presents a recap of trade and investment related policy advice presented by the IMF to each of Morocco, Jordan, Tunisia, and Egypt. The article concludes by discussing areas of potential tension between stated loan objectives and trade and investment policy advise advanced by the IMF.

I. The challenges of production, wages, poverty, and inequalities in the Arab region

Core to the economic and social challenges facing Arab countries is the challenge of reversing the declining trends in productive capacities and share of wages in gross domestic product (GDP), along with redesigning macroeconomic policies in support of a longer-term dynamic development project.

Several Arab economies experienced an average annual real economic growth above 5 percent during the last two decades, yet growth in productivity was less than half of that(7). For example in Egypt, the real economic growth ranged between 2.8 and 6.4 percent between 1996 and 2009, while productivity grew on average between 0.3 and 3.7 percent annually, the labor force stagnated at around 44 percent of the active population, and unemployment was close to 10 percent(8). This suggests that most of the growth was generated in growth sectors with a smaller contribution towards increasing real productivity and generating decent jobs(9).

The structure of manufacturing in the Arab region tilted towards low-value-added products, shares of agriculture stagnated, and low value-added services rapidly expanded. Industrialization has been lower than what would be expected at the level of regional GDP. The Arab region stands to be the least industrialized among developing regions, including sub Saharan Africa(10).

Studies by United Nations Development Program (UNDP) and the United Nations Commission for Trade and Development (UNCTAD) have tracked the significant decline in manufacturing capacities and de-industrialization trends in the structural transformation of many Arab countries. For example, Morocco and Egypt witnessed deindustrialization accompanied with decline in agriculture in favor of mining sector as opposed to services(11). Manufacturing in Egypt declined from 22% of GDP in the 1970s to 17% in 2009(12).

These trends reduced the capacity for domestic decent employment generation in productive sectors, and the capacity to support a labor force with a growing productivity.

Wage depression, reflected in regress of wages as share of national incomes, has been associated with the kind of investment and trade policies that have been followed. This was associated by labor market flexibility(13), in many instances at the expense of workers' rights. While priority was given to competitiveness of export-oriented sectors, workers bore the burden of

(7) Paper entitled "Liberalization and employment in the Arab region: a recipe for failure?" (not published, available with author). Prepared by Hamed EL Kady, Mahmoud El Khafif, and Raja Khalidi for the ILO/ UNDP publication "Rethinking Economic Growth: Towards Productive and Inclusive Arab Societies" (2013).

(8) Ibid. Based on UNCTAD-GlobStat database, and ILO database. See also: Joint Arab Economic Report.

(9) Paper entitled "Liberalization and employment in the Arab region: a recipe for failure?" (not published, available with author). Prepared by Hamed EL Kady, Mahmoud El Khafif, and Raja Khalidi for the ILO/ UNDP publication "Rethinking Economic Growth: Towards Productive and Inclusive Arab Societies" (2013).

(10) See: "Rethinking Economic Growth: Towards Productive and Inclusive Arab Societies" (2013) by ILO/ UNDP.

(11) Ibid.

(12) See: "Rethinking Economic Growth: Towards Productive and Inclusive Arab Societies" (2013) by ILO/ UNDP.

(13) Flexibility of labor markets is associated with a context where firms (or employers) are under fewer regulations regarding their responsibilities toward the labor force, and can therefore make changes to their workforce in terms of the number of employees they hire, the number of hours worked by the employees as well as setting wages (i.e. no minimum wage), and firing employees at will.

loss of competitiveness in international markets[14]. UNCTAD shows that for Egypt, Tunisia, and Morocco, the wage share averaged around 33 per cent of national income since the mid-1990s, with some short-lived improvement around 2005, after which it has declined[15].

Investment rates as percentage of GDP has been traditionally low in Arab countries, and regional investment has been stagnant at around 13% of GDP over years. FDI has also been traditionally concentrated in mining and real estate, which attracted two-thirds of total FDI between 2003 and 2010)[16].

The role of macroeconomic policies in supporting a longer-term development-oriented strategy was neglected. Macroeconomic policies were oriented towards prioritizing short-term inflation targeting, attracting foreign direct investment, and increasing openness to trade and capital flows[17]. Restrictive monetary policy maintaining high interest rates was adopted in order to attract foreign capital. It led to weakened competitiveness via real exchange rate appreciation. At the same time this policy discouraged domestic investment by raising the cost of credit to prohibitive levels for domestic investors and small and medium enterprises[18].

Consequently, we saw Arab countries achieve economic growth[19], while poverty, unemployment, and inequities were on the rise[20].

(14) Paper entitled "Liberalization and employment in the Arab region: a recipe for failure?" (not published, available with author). Prepared by Hamed EL Kady, Mahmoud El Khafif, and Raja Khalidi for the ILO/ UNDP publication "Rethinking Economic Growth: Towards Productive and Inclusive Arab Societies" (2013).

(15) UNCTAD (United Nations Commission for Trade and Development), 2011. Social Unrest Paves the Way: A Fresh Start for Economic Growth with Social Equity.

(16) "Rethinking Economic Growth: Towards Productive and Inclusive Arab Societies" (2013) by ILO/ UNDP.

(17) UNCTAD (United Nations Commission for Trade and Development), 2011. Social Unrest Paves the Way: A Fresh Start for Economic Growth with Social Equity.

(18) Paper entitled "Liberalization and employment in the Arab region: a recipe for failure?" (not published, available with author). Prepared by Hamed EL Kady, Mahmoud El Khafif, and Raja Khalidi for the ILO/ UNDP publication "Rethinking Economic Growth: Towards Productive and Inclusive Arab Societies" (2013).

(19) Growth in the Arab region remained lower than other regions, and limited when taking population growth into account.

(20) While Arab countries achieved an average gross domestic product (GDP) growth between 5% and 6% (2007/2008), poverty ranged between 8% and 30% across the Arab region, while unemployment stood around 14% in 2009 and reached 40% in countries like Sudan and Yemen (Joint Arab Economic Report, 2009 /2010). It is worth noting that unemployment is concentrated among women and young persons, whereby the International Labor Organization (ILO) have reported an average of 21.5% of unemployment among young people of the Arab countries in 2010, rising to an average of 33% among young women in the same year (ILO 2010, cited by Tzannatos, Haq, and Schmidt 2011).

Overall, economies in the Arab region have been increasingly constructed around a form of growth that neglected development objectives and prioritized alignment with the mainstream liberalization model built around integration in the global economy through trade and investment liberalization, borrowing, expansion of privatization deals, and overall economic deregulation[21].

This suggests that the investment and trade policies in Arab countries often neglected or at least did not favor production, decent employment generation, and technological advancement.

A reverse of these trends necessitates a rethinking of multiple policies including macroeconomic policies, trade, investment, and finance, and their dynamic selective interaction with industrial and wage policies and development objectives such as decent employment generation, reduction of poverty, and redress of inequalities.

An ILO report (2012) entitled "Rethinking Economic Growth: Towards Productive and Inclusive Arab Societies" have noted that Arab countries should not simply aim at the fastest economic growth and most aggressive pace towards fiscal consolidation[22]. The report highlights that alternatives should recognize and address the totality of economic policies and the nature of synergies between the public and private sector

Envisioning a contribution by the private sector to such dynamic economic growth and developmental agenda necessitates addressing and managing the dynamic interface and relation between national private enterprises and productive cycles in the national economy. As such, it entails building a dynamic interface between local private sector on one hand, and foreign direct investment and multinational private enterprises on the other.

II. The IMF's narrative post the revolutions in the Arab countries

International financial institutions (IFIs) have played a major role in shaping economic and social policies in various Arab countries, and were at the forefront of shaping the structural adjustment programs that Arab countries

(21) These are part of the package of neo-liberal policy reforms that came to be known as the Washington Consensus, see: http://www.cid.harvard.edu/cidtrade/issues/washington.html.

(22) "Rethinking Economic Growth: Towards Productive and Inclusive Arab Societies" (2013) by ILO/ UNDP, p.103.

adopted in the 1980s.[23] These programs have promoted the orientation of macroeconomic policies to focus on combating inflation, attracting foreign direct investment, and greater openness to trade and capital flows, while marginalizing employment and equitable income distribution. Advice from the International Monetary Fund (IMF) and the World Bank (WB) was readily received by authoritarian regimes in the region.

As late as September 2010, the IMF was still lauding Tunisia's "*sound macroeconomic management and structural reforms over the last decade*" and even called for more of the same by "*contain(ing) public spending on wages and food and fuel subsidies*"[24]. Such recommendations came in the same document that took note of the rising food prices in the country due to global pricing fluctuations.

Similarly, an IMF country report issued in April 2010 offered a positive input on the Egyptian economy stating that "*five years of reforms and prudent macroeconomic policies created the space needed to respond to the global financial crisis, and the supportive fiscal and monetary policies of the past year have been in line with staff's advice. The authorities (Egyptian authorities) remain committed to resuming fiscal consolidation broadly in keeping with past advice to address fiscal vulnerabilities . . . Such adjustments will be crucial to maintain investor confidence, preserve macroeconomic stability, and create scope for future countercyclical fiscal policy".*[25]

According to IMF officials, the difference between that era and the basis on which the IMF is operating in the Arab countries in light of the peoples' revolutions is that they pay specific attention to the poor, and recognize

(23) Consecutive governments under Ben Ali's regime had faithfully abided by IMF and WB conditions, including the firing of public sector workers, the elimination of price controls over essential consumer goods and the implementation of a sweeping privatization program (Source: Michel Chossudovsky (2011), "Tunisia and the IMF's Diktats: How Macro-Economic Policy Triggers Worldwide Poverty and Unemployment" www.globalresearch.ca/index.php?context=va&aid=22867). In Egypt, workers and farmers have been especially hurt by the increasing prices and cuts in agricultural subsidies that were part of enforced conditions by the IMF (Source: Gaye B. Muderrisoglu and Jonathan K. Hanson (2008), "Authoritarian States and IMF Conditionalities", see page 21).

(24) IMF Public Information Notice (PIN) No. 10/121, September 1 2010, available at: http://www.imf.org/external/np/sec/pn/2010/pn10121.htm

(25) International Monetary Fund (2010), Arab Republic of Egypt: 2010 Article IV consultation, country report no. 10/94, Washington, April 2010. For more discussion of this report see: Bond, Patrick (2011), "Neo-Liberal Threats to North Africa", published by Review of African Political Economy, Vol. 38, No. 129, September 2011.

that numbers do not tell the whole story[26]. The IMF claims to "examine who benefits from growth and how fruits of growth are allocated in the country"[27].

Much skepticism exists among national stakeholders, experts and analysts following the IMF programs and operations in past years. Many perceive that while the IMF's assistance is associated by declaratory stands in regard to laudable objectives such as inclusive growth and employment generation, it is still premised upon the classic adjustment policies of privatization, deregulation, and greater openness to foreign investment and trade[28].

It is worth noting that on trade and investment issues, the IMF works in close cooperation with other international and financial institutions. Many of the trade and investment related changes are directly implemented through World Bank interventions, within the policy framework designed by the IMF[29]. In regard to Arab countries, the IMF Chief on MENA region noted that "the economic challenges in the Arab countries in transition extend well beyond the IMF's expertise. Development agencies such as the World Bank and other international and regional financial institutions, as well as bilateral partners, are also contributing and must continue to do so in the period ahead"[30].

III. Discussing the IMF's role in advancing trade and investment policies

(a) Trade related IMF recommendations

The IMF has often advised Arab countries on further liberalization of trade policy. During the end of the 1990s, the IMF perceived "policies toward foreign trade are (were) among the more important factors promoting

(26) Interview; Update on the Middle East with IMF Managing Director, Christine Lagarde August 3, 2012.

(27) Ibid.

(28) Adam Hanieh (2011), "Egypt's Orderly Economic Transition: Accelerated Structural Adjustment under a Democratic Veneer?", Center for Development Policy and Research SOAS.

(29) See comments by the IMF chief on MENA region Mr. Masood Ahmed noted in March 2013 (Toward Prosperity for All- Finance & Development, March 2013, Vol. 50, No. 1)

(30) The chief on MENA region Mr. Masood Ahmed noted in March 2013 (Toward Prosperity for All-Finance & Development, March 2013, Vol. 50, No. 1).

economic growth and convergence among developing countries"[31].

Lead analysts have indicated that the Fund as a monetary institution was not to be involved in trade issues[32]. Yet, the Fund had increasingly put pressure on developing countries with budget deficit, and promoted trade liberalization as part of a structural adjustment to trade imbalances.

Indeed, developing countries under Fund programs have been "encouraged and even compelled" to undertake unilateral liberalization, putting them at a disadvantage in multilateral trade negotiations[33]. The liberalization these countries undertook sometimes went beyond the positions advanced by major developed countries under the multilateral negotiations on industrial tariffs.

Liberalization without improved productive capacities and market access raises the risk of deterioration in trade balance, leading either to tighter external constraints and income losses or to increased external debt[34].

In 2004, the IMF introduced *the Trade Integration Mechanism (TIM) to assist member countries in meeting balance of payments' shortfalls that might result from trade liberalization measures implemented by other countries. The TIM was* a response to the growing concerns among developing countries about financing balance of payments shortfalls resulting from multilateral liberalization.

The IMF Group of Independent Experts (1999) noted in their evaluation of IMF surveillance that the IMF surveillance has expanded into trade liberalization, partly as a result of pressure from the United States[35].

(b) The Opinion of the IMF's Independent Evaluation Office on the Fund's trade policy advice

In 2009, the Independent Evaluation Office (IEO)[36] of the IMF published

(31) IMF 1997, World Economic Outlook; referenced by Francisco Rodriguez and Dani Rodrick "Trade Policy and Economic Growth: A Skeptic's Guide to the Cross – National Evidence" (May 2000), University of Maryland and Harvard University.

(32) See Akyuz, Yilmaz "Reforming the IMF: Back to the Drawing Board"- G 24 Discussion Paper Series, p. 7, referencing Dam, Kenneth W. (1982) The Rules of the Game. Reform and Evolution in the International Monetary system. University of Chicago Press.

(33) See: Akyuz, Yilmaz 2005 G-24 paper.

(34) See: Akyuz, Yilmaz 2005 G-24 paper, page 8.

(35) See: IMF Group of Independent Experts (1999). External Evaluation of IMF Surveillance. Report by a Group of Independent Experts. Washington, D.C. referenced in Akyuz (2005) G-24 paper.

(36) The IEO was established in 2001 with the task of undertaking independent evaluations on issues related to the IMF. According to its self-presentation: the "IEO operates independently of IMF management and at arm's length from the IMF Executive Board". See page iii of the report (2009) on IMF involvement in international trade policy issues produced by the IEO.

an evaluation report on the IMF's involvement in international trade policy issues.

The report underlined the "interventionist approach of the late 1990s, when the IMF played an uneven but at times aggressive role in trade policies through conditionality"[37]. According to the report, the IMF's involvement in this area in low income countries have taken place through "surveillance, conditionality, and other advice in the context of lending programs under the Enhanced Structural Adjustment Facility, and its successor, the Poverty Reduction and Growth Facility, and through technical assistance"[38]. Trade reform, according to the report, was a feature of programs with medium term objectives, rather than short-term lending objectives. These programs were designed in cooperation with the World Bank.

The report importantly noted that "on some issues- particularly PTAs (preferential trade agreement) and trade in services- the objectives and approach for IMF involvement were not made clear (by the IMF Board). Nor were the criteria for macro-criticality that were to guide staff decisions on when to become involved in trade policy issues"[39]. Without such clarity, staffs are unlikely to be effective in looking out for trade policy-related threats to macroeconomic and financial stability, according to the report[40].

The evaluation adds that "*particularly early in the evaluation period (end of 1990s beginning of 2000s), trade conditionality exceeded a reasonable definition of macro-critical, went beyond staff's technical competence, and fell prey to political interference from large shareholders of the IMF*"[41]. The report specifically highlighted the IMF's role and recommendations in regard to trade in financial services, and noted that IMF bilateral surveillance in this area "*was less thorough, tending indiscriminately to urge greater openness to foreign financial service providers with little direct assessment of risks*"[42].

The report noted that "*surveillance of trade policies had a mixed result… and that messages from Article IV reports were at times tough both on advanced countries and on developing countries*"[43]. Yet, it is important

(37) IEO report, chapter seven on "Findings and Recommendation", page one of the chapter.

(38) IEO report, page 101.

(39) IEO report, chapter seven on "Findings and Recommendation", page one of the chapter.

(40) IEO report, chapter seven on "Findings and Recommendation", page one of the chapter.

(41) Ibid.

(42) IEO report, chapter seven on "Findings and Recommendation", page two of the chapter.

(43) IEO report, chapter seven on "Findings and Recommendation", page two of the chapter.

to question the extent of influence of these policy recommendations in developing countries seeking or implementing loan programs from the Fund, versus its influence on advanced countries that can always choose to disregard the recommendations advanced by the Fund.

It remains under discussion whether the fund actually scaled back its involvement in the area of trade policy in light of the release of the 2009 IEO report. This question applies to the role of the IMF in Arab countries as well.

(c) Investment-related IMF recommendations

Research of structural adjustment programs have shown that the IMF and World Bank have been able to promote a number of market-oriented reforms through conditionalities attached to these programs[(44)].

These included investment regimes that overlap with obligations countries undertake through bilateral investment treaties, which cover liberalization of capital flows, promotion of liberalization of state-owned enterprises, and privatization of public services[(45)].

While the IMF's legal obligations[(46)] relate only to transactions on current accounts, the IMF promoted capital account liberalization. Its expansive view of its mission led the Fund to increasingly advance advice related to investment policy and foreign direct investment[(47)].

The IMF strongly encouraged developing countries to promote FDI throughout the 1990s. FDI liberalization was promoted as first stage of an approach towards full-scale liberalization of capital flows[(48)]. In statistical terms, it was shown that developing countries' propensity to sign bilateral investment treaties (BITs) has occasionally been related to whether they

(44) Lauge Skovgaard Paulsen, page 19; "Sacrificing sovereignty by chance: investment treaties, development countries, and bounded rationality"; London School of Economics, Thesis submitted for degree of Doctor of Philosophy (June 2011).

(45) Lauge Skovgaard Paulsen, page 19; "Sacrificing sovereignty by chance: investment treaties, development countries, and bounded rationality"; London School of Economics, Thesis submitted for degree of Doctor of Philosophy (June 2011).

(46) See IMF Articles of Agreement.

(47) See. D. Kalderimis "IMF Conditionality as Investment Regulation: A Theoretical Analysis", 13 Social and Legal Studies 103 (2004), referenced by Paulsen, See also IMF's IEO Report "The IMF's Approach to Capital Account Liberalization" (2005).

(48) See Paulsen page 78, referencing B. Eichengreen and M. Mussa "Capital Account Liberalization: Theoretical and Practical Aspects", IMF Occassional Paper 172, 1998.

have received IMF programs[(49)].

It could be noted that Arab countries have often accelerated the pace of signing international investment treaties during the period of exposure to IMF programs. Egypt is amongst the Arab countries that have signed the highest number of BITs, which as of 2013 exceeds 100 treaties[(50)]. Tunisia has signed more than 50 BITs, Morocco around 40 BITs, and similar is the case of Jordan[(51)]. The majority of these treaties have been signed during the end of the 1980s and throughout the 1990s. During this period, these Arab countries were undergoing structural adjustment programs led by the IMF.

IV. The IMF's trade and investment policy advice to Arab Countries

The IMF has often put facilitation of trade, improving the "business environment", and increasing labor market flexibilities at the core to its recommendations to Arab countries.

In its reports, the IMF continuously promoted phasing out subsidies, dismantling tariffs, broadening the value-added taxes, resuming privatization, and increasing public–private partnerships as means for increasing infrastructure investments.

In the wake of peoples' uprisings and revolutions in the Arab countries, the IMF, along with the WB, focused on presenting the shortcomings of the economic model they promoted with previous regimes as stemming from its application within undemocratic and oppressive contexts, and not, as a failing of the economic model itself[(52)].

For those purposes, the IMF notes "*one reason for the recent uprisings was discontent with political and economic systems that were perceived to be rigged to benefit a privileged few…*"[(53)]. The WB stated that "*economic*

(49) See: Z. Elkins and A. Guzman, and B. Simmons, "Competing for Capital: the diffusion of Bilateral Investment Treaties1960-2000", 60 International Organization (2006); referenced by Paulsen.

(50) See: UNCTAD website http://unctad.org/en/Pages/DIAE/International%20Investment%20Agreements%20%28IIA%29/Country-specific-Lists-of-BITs.aspx; and ICSID statistic https://icsid.worldbank.org/ICSID/FrontServlet?requestType=ICSIDPublicationsRH&actionVal=ViewBilateral&reqFrom=Main.

(51) See: Ibid.

(52) World Bank (May 2011), "Towards A New Partnership for Inclusive Growth in the Middle East and North Africa (MENA) Region" (p.1).

(53) International Monetary Fund (2011), "Economic Transformation in MENA: Delivering on the Promise of Shared Prosperity" (p.8). Paper presented to the G8 Summit, Deauville, France, 27 May 2011.

reforms had started in several countries during the last decade. But in the context of declining state legitimacy, low levels of political participation, nepotism, perceptions of corruption and predation, and little accountability, reforms were too partial to take real hold or to transform sclerotic intuitions. Often they were perceived to increase inequality, and benefit the politically-connected elite".

Accordingly, their recommendations revolve around points that re-enforce the economic choices promoted with previous regimes, while neglecting the proven inadequacy of such choices in addressing development challenges that Arab countries have been facing.

At the forefront of its report entitled "Economic Transformation in MENA: Delivering on the Promise of Shared Prosperity," presented to the G8 Summit (May 2011), the Fund focused on the need for "*substantial increase in the pace of economic growth*" followed by a direct call for "*policies that support an enabling environment for the private sector*" and focus on "*macroeconomic stability needs*"[(54)]. The IMF's report[(55)] continued to underline the need for revisiting the role of the public sector and providing space for a vibrant private sector, including a more commercial approach to public activities such as competitive tendering and contracting out services to the private sector[(56)].

The Report's recommendations included as well calls for further improving the "business climate", which focus on promoting more investment zones where investors are credited with lower regulation and taxation, as well as strengthening investors' rights[(57)]. This explains the content of the reference to improving the "business climate" recommendations extensively repeated in IMF country reports produced for Arab countries.

The Report recommended as well developing financial systems with a wider reach, through liberalization of entry and reassessing role of state banks[(58)]. It also advanced recommendations towards further liberalization of trade in services, liberalization of capital flows, investment, and public procurement, as well as freedom of labor movement, and freedom of establishment[(59)]. Along that, the IMF's report called for relaxing labor regulations. The IMF continued on to caution against additional spending for social purposes[(60)] and recommended that governments focus on "*better-targeted social protection mechanisms*"[(61)] such as cash transfers and other forms of income support.

Later in 2013, Masood Ahmed- director of the Middle East and Central Asia department- noted that "to unlock the region's vast potential, many factors come into play, and the recipe for reform will naturally vary across countries. But there are some common priorities"[(62)].

According to Masood, among these common priorities is greater trade integration, both within the region and in the world economy. Business regulation and governance reforms are needed to ensure simple, transparent,

(54) International Monetary Fund (2011), "Economic Transformation in MENA: Delivering on the Promise of Shared Prosperity" (Executive Summary). Paper presented to the G8 Summit, Deauville, France, 27 May 2011.

(55) International Monetary Fund (2011), "Economic Transformation in MENA: Delivering on the Promise of Shared Prosperity" (p.8). Paper presented to the G8 Summit, Deauville, France, 27 May 2011.

(56) International Monetary Fund (2011), "Economic Transformation in MENA: Delivering on the Promise of Shared Prosperity" (p.11). Paper presented to the G8 Summit, Deauville, France, 27 May 2011.

(57) Ibid. (IMF 2011)

(58) International Monetary Fund (2011), "Economic Transformation in MENA: Delivering on the Promise of Shared Prosperity" (p.12). The report states: "Areas of action include strengthening the financial infrastructure (e.g., credit information and creditor rights); enhancing competition by removing barriers to entry and reducing regulatory tolerance toward large exposures and connected lending, reassessing the role of state banks; developing the nonbank financial system; and deepening local debt and equity markets to provide alternative sources of finance".

(59) International Monetary Fund (2011), "Economic Transformation in MENA: Delivering on the Promise of Shared Prosperity" (p.12 and 13). Paper presented to the G8 Summit, Deauville, France, 27 May 2011.

(60) IMF (2011); "Economic Transformation in MENA: Delivering on the Promise of Shared Prosperity" (p. 7); The report states: "With mostly limited fiscal space, MENA oil importers confront the immediate challenge of preserving macroeconomic stability while building social cohesion. Additional spending in the short term is understandable and necessary to ensure social cohesion. Nonetheless, oil importers cannot afford to strain public finances, in order not to derail—over the medium-term—the pursuit of the new inclusive growth agenda. To this end, they will need to partially offset some of the additional cost of higher subsidies and other support measures through cuts elsewhere. In the same vein, they will also need to avoid introducing measures that would raise spending on a permanent basis. To preserve market confidence and prevent further escalation of the cost of funding, governments should detail credible plans for unwinding emergency measures", and "Until reforms start to bear fruit that are broadly shared, popular demands for additional spending together with investment needs associated with reform agendas will add to fiscal pressures. Oil exporters have enough resources to undertake investment and respond to such pressures. However, oil importers are more constrained by the need to safeguard external and fiscal sustainability that are the precondition for their longer-term job-creating growth agenda".

(61) Ibid. IMF 2011 (p. 13).

(62) The chief on MENA region Mr. Masood Ahmed noted in March 2013 (Toward Prosperity for All- Finance & Development, March 2013, Vol. 50, No. 1); http://www.imf.org/external/pubs/ft/fandd/2013/03/ahmed.htm

and evenhanded treatment for companies, Masood adds.[63]

On trade policy, Masood advanced recommendations for further dismantling tariffs and widening the scope of liberalization by noting that for the Arab countries in transition, trade integration will first and foremost require better access to advanced economy markets. Masood noted that "current agreements with the EU do not provide for liberalization in trade in services". He advised that in order "*to fully reap the benefits of integrating into global trade, the Arab countries in transition should also further liberalize their own tariffs and nontariff barriers and diversify trade toward fast-growing emerging markets*". "*Increased regional integration, by addressing nontariff barriers and harmonizing policies, would also help the Arab countries in transition integrate into the global supply chain*", he added[64].

On investment policy, Masood advanced de-regulatory recommendations, including removing the barriers to starting or closing a business, relaxation of entry requirements, as well as minimum capital requirements and restrictions on foreign ownership, along with removing exit regulations and decriminalizing business failure[65].

Country Cases

The following section presents a closer look into the structural policy recommendations that appear in IMF country reports (i.e. IMF Article IV Consultation reports) for each of Morocco, Jordan, Tunisia, and Egypt. It also reviews the available loan documents for each of Morocco and Jordan.

(i) Morocco

In August 2012, the IMF approved a two-year precautionary and liquidity line (PLL) to Morocco, amounting to USD6.2 billion. The aim of the program, according to the IMF, is to operate as a financing buffer or a sort of insurance against potential external shocks.

The credit line for Morocco is precautionary in nature since Morocco did not face a balance of payments problem at the time of the loan agreement[66].

(63) The chief on MENA region Mr. Masood Ahmed noted in March 2013 (Toward Prosperity for All-Finance & Development, March 2013, Vol. 50, No. 1)

(64) The chief on MENA region Mr. Masood Ahmed noted in March 2013 (Toward Prosperity for All-Finance & Development, March 2013, Vol. 50, No. 1)

(65) Ibid.

(66) IMF, Morocco country report Number 12/239 (August 2012), p.11 and 12.

According to the IMF's staff, Morocco faces external risks which are mainly linked to uncertainties emanating from its trading with Europe, as well as from oil prices[67].

While Morocco did not need external financing, it undertook a commitment to a range of macroeconomic and structural changes to the economy as a result of this arrangement. The conditionality under the PLL program includes targets on fiscal deficit and net international reserves[68].

The 2012 IMF staff report on Morocco notes that its potential growth is expected to increase one percentage point on the medium terms as a result of implementing a set of policies among which are "*removing barriers to entry"* (of business), "*simplifying the regulatory environment for doing business*", and "*strengthening the ongoing trade policy reform…and tariff rationalization*". It also talks about "development of highly productive economic sectors such as aeronautics, car manufacturing, and electronics". While the IMF takes active positions on promoting certain trade and investment policy directions, it stops short of discussing the potential implications of these policy directions on sustainable growth and productive trajectories in Morocco. When the IMF report addresses building productive sectors such as mentioned before, it does not unpack the pillars of growth of these sectors, whether it involves national private and public investment, technology development or transfer, or the potential for sustainable job creating capacities.

In 2011, the IMF Article IV report for Morocco highlighted that "spillovers from sluggish growth in European partners and/or further regional instability could affect economic activity and balance of payments through lower tourism, foreign direct investment, and trade". Concurrently, one of the main recommendations put forward by staff under the same report was that "trade liberalization under the EU-Mediterranean Association Agreements needs to be strengthened as it remains incomplete, with many barriers still hampering market access, particularly in agricultural and services sectors"[69]. In 2013, Morocco has already launched negotiations with the EU on expanding the standing EU-Morocco FTA to cover services, investment

(67) Masood in transcript of call on Jordan and Morocco 2012; Masood notes: He added "In the case of Morocco, the effect has been more from the euro zone because Morocco has a much closer trading relationship with Europe than Jordan does. Similarly, Tunisia has a trading relationship with Europe. So, for countries in the Maghreb, what happens in Europe has a bigger impact than what happens in the countries affecting the Mashreq."

(68) IMF, Morocco country report Number 12/239 (August 2012), p. 24.

(69) IMF, Morocco country report Number 11/341 (December 2011), p.11.

protection, competition policy, and government procurement, along with extended intellectual property rules.

Furthermore in 2011, the IMF staff report highlighted the need for improving the "business climate" in order to enhance the role of the private sector, including in public sector projects[(70)]. Along that, the staff continued to advice that "*reforms aimed at reducing minimum wages and hiring costs*", which are considered by the staff critical to reducing youth unemployment[(71)].

In the 2009 Article IV consultation report, staff recommended against a strategy for growth that builds on domestic demand[(72)]. On trade liberalization, this report advised further reduction in top tariff rates, along with improving the "business climate". The report noted that the average tariff fell from 33 percent in 2002 to 20 percent in 2008 and the average effective tariff rate[(73)] fell to 5 percent. Yet, the IMF staff continued to advice "*further lowering of top rates and more consolidation of rates to reduce complexity and improve administration*"[(74)].

It is worth noting that the trend of tariff dismantling in Morocco overlaps with a trend of decline in the contribution of manufacturing to GDP, which declined from around 16% in the year 2000 to less than 14% in 2008[(75)]. The decline in manufacturing cannot be explained only by the impact of tariff policy. However, it is important to underline that dynamic and effective design of tariff policy is central to building and sustaining manufacturing capacity and moving up the industrialization chain, which evidently undertook a significant decline in Morocco.

Previous advice by the IMF to the Moroccan government had focused on medium-term fiscal consolidation, reform of the subsidy system, and moving to a more flexible monetary and exchange rate regime, while focusing monetary policy on inflation targeting. The trend for recommending trade liberalization and reducing import tax rates have been consistently re-iterated and advanced by IMF reports, in 2007 and 2008[(76)].

The IMF reports have often realized that the main shocks to the Moroccan

(70) Ibid.

(71) IMF, Morocco country report Number 11/341 (December 2011), see p. 13.

(72) IMF, Morocco country report Number 10/58 (March 2010), see p. 3.

(73) Effective tariff rate is customs revenue divided by total imports.

(74) IMF, Morocco country report Number 10/58 (March 2010), see p. 16.

(75) IMF, Morocco country report Number 10/58 (March 2010), p. 9.

(76) IMF, Morocco country report Number 304 (September 2008)

economy come from exports, tourism receipts, remittances, FDI, as well as spillover from the European economies. Yet, the reports continued to advance recommendations that would deepen the dependency of the Moroccan economy on these factors, thus increasing the vulnerabilities to external shocks.

Within this context, the design of macroeconomic and structural policies that the IMF advances in Morocco holds the potential of locking the economy into a state of deepening dependency on external factors such as export markets and FDI, while not being able to revive the productive and employment generating capacities.

(ii) Jordan

The IMF loan agreement with Jordan is a "Stand-by arrangement" addressing external and fiscal challenges stemming largely from exogenous shocks. The loan, approved on August 3, 2012, comes as a response to balance of payments problems (external current account deficit) stemming from stress in the energy sector, mainly due to high oil prices and repeated and extensive disruptions to the flow of natural gas from Egypt.

The objectives of the program include providing liquidity over three years, helping correct fiscal and external imbalances, and fostering high and inclusive growth, according to the IMF staff[(77)]. The program focuses on short- and medium-term fiscal consolidation underpinned by expenditure and tax reforms, set of reforms in the electricity sector in collaboration with the World Bank, and structural reforms aimed at improving the "business environment", enhancing transparency, and fostering trade[(78)].

The IMF 2012 report discussing Jordan noted that an effective inclusive growth strategy should be centered around creating jobs, reducing inequality, and providing equal opportunities[(79)]. In its report[(80)], IMF staff noted that Jordan has negotiated several free trade agreements in recent years, and

(77) Transcript of a Conference Call on Jordan's Stand-By Arrangement, Morocco's Precautionary and Liquidity Line and the IMF's Engagement in the Middle East and North Africa (Friday, August 3, 2012), available at: http://www.imf.org/external/np/tr/2012/tr080312.htm; See IMF Jordan country report, Number 12/343 (December 2012).

(78) Transcript of a Conference Call on Jordan's Stand-By Arrangement, Morocco's Precautionary and Liquidity Line and the IMF's Engagement in the Middle East and North Africa (Friday, August 3, 2012), available at: http://www.imf.org/external/np/tr/2012/tr080312.htm

(79) IMF, Jordan selected issues report Number 12/120, (March 2012).

(80) IMF Jordan country report, Number 12/343 (December 2012), p. 22.

underlined that "negotiations with European Union and MERCUSOR countries...hold potential for further enhancing trade and economic integration". These steps are presented as policies focused on growth and employment. Furthermore, implementation of structural policies aimed at "improving business climate, leveling the playing field for all firms, and fostering trade and competitiveness"[81] were advanced as steps to help facilitate external adjustment and address current account deficit.

The report avoids discussing the macroeconomic implications of an expedited trade liberalization agenda, and avoids discussing the importance of sequencing trade openness and linking it to the capacities of the Jordanian export sectors.

The IMF staff report in May 2012 focused on reducing fiscal and external vulnerabilities and improving the "business environment", which is central for economic growth and generating employment, according to the report[82]. The report advised on "enhancing trade openness, accelerating labor market reforms to reduce rigidities, and improving regulatory and administrative environment for business through streamlining procedures to obtain licenses and register business"[83].

Back in 2010, the IMF staff report advanced liberalization of water and energy sectors and the structure of the civil service, which involved the World Bank and the United States Agency for International Development (USAID)[84]. The report focused on lowering the tax burden and widening public–private partnerships, as a solution to address infrastructure needs in a tight fiscal environment.

The fluctuations of FDI, remittances and tourism noted by the diagnosis of the Jordanian authorities and IMF are linked to regional and global crisis. These trends do not directly stem from the areas addressed under the macroeconomic and structural reforms stipulated in the arrangement designed for Jordan. Moreover, there is lack of clarity on the linkages between the structural reforms stipulated in the loan program and the short-term objectives set for the program. Furthermore, there is no discussion or projection of the longer-term implications that could arise from the recommended structural changes on the macro-economic stabilization objectives that the loan program aims at achieving. The trade liberalization and investment policy advice, if implemented, could lead to additional stress on the current account of Jordan, thus deepening its challenges.

It is important to note that the IMF loan is closely linked to finances from other donors, such as the World Bank, European Bank for Reconstruction and Development, among others. The interventions of these institutions are also associated with significant structural changes that complement and take the interventions of the IMF a step further.

(iii) Tunisia

In June 2013, the IMF approved a 24-month "Stand-By Arrangement" (SBA) of USD1.74 billion for Tunisia. According to the IMF's diagnosis, key challenges that Tunisia faces include controlling the wage bill, reducing subsidies and replacing that with spending on targeted social safety nets, and promoting private sector development, including through corporate tax reform and a new investment code[85]. Among the areas that the fund is offering technical assistance to Tunisia is tax policy and revenue administration.

Post the people's revolution, under the 2012 Article IV consultations, the executive board of the IMF[86] focused on recommending improvements to the "business environment", reform of the labor market, and strengthening of the financial sector. The report anchored the achievement of growth with the necessity to open up to "*large external financing including FDI inflows and borrowing by the government and corporate sector*"[87].

In its 2010 report, the IMF staff supported the Tunisian authorities' steps towards deepening trade liberalization and considered it as a driver to achieving sustained high growth. Signing more free trade agreements and extending the liberalization between Tunisia and the European Union (EU) into the services and agricultural sectors were considered means for reducing Tunisia's economic dependency on the EU for achieving sustained growth[88]. Along that, the report hailed the improvement of the "business climate" and the programs implemented then by the World Bank, African

(81) IMF Jordan country report, Number 12/343 (December 2012), p. 21.
(82) IMF Jordan country report, Number 12/ 119 (May 2012), p.15.
(83) IMF Jordan country report, Number 12/ 119 (May 2012), p. 15-16.
(84) IMF Jordan country report, Number 10/297 (September 2010), p. 13.

(85) See: http://www.imf.org/external/np/country/notes/tunisia.htm
(86) IMF, public information notice No. 12/96.
(87) IMF, Tunisia country report Number 12/255 (September 2012), p. 65.
(88) IMF, Tunisia country report Number 10/282 (September 2010), p. 16 and 18.

Development Bank, and European Commission[89]. It further advanced the liberalization of the capital account[90].

Similar reforms were promoted in the 2009 staff Article IV report, which had also noted that "*the association agreement with the European Union was instrumental in raising trade openness and inducing productivity gains by exposing the industrial sector to global competition*"[91].

This line of recommendations extends back to 2001. The IMF staff report on Tunisia back then promoted the acceleration of economic liberalization and private sector-led development, including "*tariff dismantling on imports from the EU*" and "*accelerated pace of MFN trade liberalization*"[92]. While Tunisian authorities had already taken steps in that direction, the IMF mission noted "privatization and liberalization had proceeded at too slow a pace relative to the existing potential"[93].

Along that, the mission questioned the adequacy of the labor code existent at that time and perceived firing provisions as restrictions hindering employment growth and reallocation[94]. Such rushing of economic liberalization have been the bedrock of corrupt practices and mismanagement of economic resources, due to lack of adequate assessment of economic and social implications and lack of institutional capacities.

(iv) Egypt

Shortly after toppling the Mubarak regime, the Egyptian authorities and the IMF started series of negotiations towards a loan under a "stand-by-arrangement", for the amount of USD 4.8 billion[95]. The potential IMF loan has been presented to the public as support to a national economic program, a contribution towards unplugging additional sources of external financial

(89) It is worth noting that World Bank flagship report 2009 "From Privilege to Competition: Unlocking Private – Led Growth in the Middle East and North Africa, prescribed the essential economic steps undertaken by all governments in the region: opening protected sectors such as retail and real estate, which have barriers to foreign investors, reducing tariff bands and nontariff barriers, removing protection of state owned enterprises, and eliminating anti-export biases (See: Hanieh, Adam "Egypt's Orderly Economic Transition: Accelerated Structural Adjustment under a Democratic Veneer?, July 2011, published in Development Viewpoint, SOAS)

(90) IMF, Tunisia country report Number 10/282 (September 2010), p. 18.

(91) IMF, Tunisia country report Number 09/329 (December2009), p. 4.

(92) IMF, Tunisia country report Number 01/36 (February 2001), p. 25 and 32.

(93) Ibid.

(94) IMF, Tunisia country report Number 01/36 (February 2001), p. 30.

(95) For more information, see: http://www.imf.org/external/country/egy/ .

support, and a step towards the re-stabilization of the Egyptian economy. These discussions were undertaken while Egypt has been witnessing significant widening of its budget deficit, as well as decline in foreign currency reserves, foreign investments, and returns from tourism, and consequently a severe slow in growth rates[96].

Yet, it is important to note that Egypt's economic and developmental ills did not start post the revolution, but were accumulated decades before, and contributed towards the formation of the revolution and its demands.

In April 2010, the IMF report[97] recommended enhancing austerity measures to contain public spending on wages and food and fuel subsidies at a time the country was facing rising food prices due to global pricing fluctuations. Just few months before the peoples' revolution in 2011, the IMF was lauding Egypt's economic performance, as well as sound macroeconomic management and structural reforms.

In 2009, the IMF was hailing the economic performance achieved by Egypt since 2004, highlighting the "structural reform program that has included liberalization of foreign trade, investment, and exchange market"[98].

Back in 2006/ 2007, IMF staff reports propagated liberalization of the trade regime in Egypt and privatization of financial and non-financial enterprises[99]. The reports had noted that liberalization of trade led to dramatic increase in non-oil merchandise imports from USD 13 billion in 2003 to USD 34 billion in 2007. According to the 2007 staff report, one of the factors to reduce high unemployment and sustain high growth is facilitating contract enforcement and creditor protection[100].

The IMF marginalized discussing the regress in Egypt's productive and manufacturing capacities and the regress in employment generation in Egypt. For the IMF's staff, contract enforcement was of higher relevance

(96) See: World Development Indicators at: http://data.worldbank.org/country/egypt-arab-republic

(97) International Monetary Fund (2010), Arab Republic of Egypt: 2010 Article IV consultation, country report no. 10/94, Washington, April 2010. For more discussion of this report see: Bond, Patrick (2011), "Neo-Liberal Threats to North Africa", published by Review of African Political Economy, Vol. 38, No. 129, September 2011.

(98) IMF, Egypt Country Report number 09/25 (January 2009), p. 4. The IMF noted that an average of real GDP growth of around 7 percent in 2005/2006 and 2007/2008, official unemployment remained high at 8 and half percent (See: IMF, Public information notice No. 09/04 (January 2009) "IMF Executive Board Concludes 2008 Article IV Consultation with the Arab Republic of Egypt").

(99) IMF, Egypt Country Report number 07/380 (December 2007), p. 4.

(100) Ibid.

when discussing employment and sustained growth. In the same token, IMF staff actively pushed back on the idea of building state-owned "national champions" in the insurance sector and advocated for privatization(101).

Furthermore, the IMF's staffs often tend to dissociate themselves and the institution from the influence they have on shaping national policy direction as a result of the advice presented in their country reports or the 'preconditions' associated with loan agreements. For example, they claim that loan agreements are designed to finance economic plans that are fully nationally designed with no 'preconditions'. However, groups monitoring the IMF's intervention and policy advice to Egypt indicate that the plan presented by the Egyptian government as part of its negotiations with the Fund in November 2011(102) was nothing but a replication of the IMF's recommendations presented to the Mubarak government(103).

V. Areas of potential tension between stated loan objectives and the IMF's trade and investment policy advise

The vision presented to the region is one of deeper liberalization and deregulation, without serious assessment of the implications that previous experiences in liberalizing trade and investment policy have reaped for the region.

Trade liberalization is not of neutral impact when it comes to balance of payments. Rapid liberalization adopted by Arab countries often led to rise of imports in a disproportionate manner to the rise of exports, which was especially the case given the decline in the productive and manufacturing capacities these countries witnessed. Consequently, rapid liberalization often led to payments' constraints, and growth was associated with larger trade deficits. A higher dependence on capital inflows often resulted(104).

Accordingly, weakly designed trade related policy advice could often fall in contradiction to balance of payments–related objectives, which are often set by the IMF loan programs.

(101) IMF, Egypt Country Report number 07/380 (December 2007), p. 19.

(102) See: The National Plan for Economic and Social Reform in the Context of the Egyptian Government Plan 2012- 2014.

(103) See: Mahinour El Badrawi (2013); "Reading into the Economic Policy of the Current Egyptian Government"; prepared for the Egyptian Center for Economic and Social Rights.

(104) Akyuz, Yilmaz, Trade and Development series # 24, Third World Network.

Yet, trade policy recommendations advanced by the IMF have been detached from an assessment of the implications on productive and industrial capacities, employment, and macroeconomic conditions.

Furthermore, investment policy advice advanced by the IMF, with a focus on deregulatory trends and privatization, could fall in contradiction with the emerging need in Arab countries to redesign FDI policies in support of development objectives. Indeed, what is needed is building dynamic interface between FDI, capital formation, development of national private enterprises, and industrial policies.

Achieving technological spillover from FDI requires considerable active policy direction from recipient countries. For example, actively engaging FDI with national development and industrialization necessitates active role of host countries in maximizing local content of multinational corporations, inducing them to be involved in high-value added activity, and enhancing local linkages. Such dynamic policies run in contradiction with what the IMF have been consistently advising countries in the Arab region.

Moreover, longer-term impact of FDI that is concentrated in non-tradable sectors, such as the case in Arab countries where FDI has often been concentrated in real estate, carries negative longer-term impacts on balance of payments. Similar is the case with FDI concentrated in export-oriented sectors with significant imported content, such as the case is with special investment zones that have been established in many Arab countries to attract FDI (ex: qualified industrial zones in Jordan and Egypt, among others).

VI. Concluding notes

The IMF's financing to Arab countries, after the people's uprisings in the region, has been associated with the objective of re-stabilizing the economies of the region; yet it is important to question the type of stabilization that countries of the Arab region are in need for. Clearly, the peoples of the region do not need stabilization of the same economic model set in place in previous decades and under ousted dictatorship regimes. They need to see a deep revision and redefinition of priorities and ways of using various policy tools available to the national governments in order to address developmental challenges.

Much of what these countries need is a longer-term vision for reversing the regress in productive capacities and depression of wage, and empowering locals economically. Arab countries need to focus on nurturing industrialization capacities and enhancing their dynamic comparative advantage. For those purposes, they need to selectively use and adjust the tariff policy and investment approaches in support of productivity and industrialization.

Contractionary loan conditions and policy advice attached to financing and assessment reports from the IMF hold significant structural constraints to development-oriented economic policies, which Arab countries need at this stage of their transitions. Furthermore, longer-term structural change- especially further trade liberalization and investment deregulation- restricts the policy space governments need to design a dynamic longer-term plan that serves transformation based on production, industrialization, decent employment, and social justice.

Yet, it is evident that the IMF was quick to repackage its discourse after the revolutions in Tunisia and Egypt with additional reference to social policies, pro-poor development, and inclusivity. The IMF did not go far beyond this declaratory rhetoric. Research shows that there is very little difference between what is being advocated to Arab governments and peoples of the region today, and what was advocated to Arab dictators yesterday(105). This kind of "discourse repackaging" is not new to the international institution. Similarly, in the aftermath of the crisis, the IMF reinvented itself as an institution that can address the crisis, and has adopted over the years pro-poor gender and environmental language as a package for the same orthodox policy advice it promotes.

Such continuous pursuit of completely inadequate policies over the years and the disregard of the pressing priorities facing the peoples of Arab countries raise fundamental questions over the role of the IMF and other financial institutions holding similar agendas in the economic and developmental transition needed in the Arab countries.

(105) Bond, Patrick (2011), "Neo-Liberal Threats to North Africa", published by Review of African Political Economy, Vol. 38, No. 129, September 2011.