

Arab Spring Turns to Economic Winter on More Joblessness

mir Mohammed has been sleeping outside the Libyan Embassy in Cairo awaiting a visa for a week, his bed a layer of cardboard on the sidewalk. He has given up on finding a job in Egypt and is looking for a way out.

he world's highest youth jobless rate left the Middle East vulnerable to the uprisings that ousted Egypt's Hosni Mubarak and three other leaders in the past year. It has got worse since then. About 1 million Egyptians lost their jobs in 2011 as the economy shrank for the first time in decades. Unemployment in Tunisia, where the revolts began, climbed above 18 percent, the central bank said in January. It was 13 percent in 2010, International Monetary Fund data show.

Finding work for people like Mohammed will be the biggest challenge for newly elected governments, highlighting the rift between soaring expectations unleashed by the revolts and the reality of economies struggling to escape recession. Failure risks another wave of unrest in a region that holds more than half the world's oil.

'High Hopes'

"The advent of democracy brought with it high, high hopes," said Raza Agha, London-based senior economist at the Royal Bank of Scotland Group Plc. "Expectations are that new governments will bring prosperity, but when you look at the fundamentals, this does not appear to be the case."

Tunisia's gross domestic product shrank 1.8 percent last year, and the government this month lowered its growth forecast for 2012 by one percentage point to 3.5 percent. Tunisia's economy hasn't contracted since 1986, according to IMF data.

Egypt's economy shrank 0.8 percent in 2011. The government pays almost 16 percent for one-year borrowing in pounds, up from less than 11 percent at the end of 2010, after four ratings cuts by Moody's Investors Service effectively shut the country out of international debt markets. While the benchmark stock index has rebounded this year, it's still almost a third below pre-revolt levels. The EGX 30 Index declined 6.6 percent this month.

The Egyptian Co. for Mobile Services, or Mobinil, the country's second-largest and oldest mobile phone operator, posted its first loss for more than a decade last year, according to data compiled by Bloomberg, as customers cut spending. Profit at Talaat Moustafa Group Holding (TMGH), Egypt's biggest publicly traded real-estate developer, dropped 39 percent.

‘Extremely Difficult’

“Egypt needs growth, needs jobs, needs tourists and needs investment,” said Simon Williams, chief economist at HSBC Middle East. “This is an extremely difficult set of economic challenges for anyone to manage, let alone a newly-elected post- revolutionary government facing high expectations.”

Labor unions, which helped precipitate the overthrow of Mubarak and Tunisia’s Zine El Abidine Ben Ali, are pushing successor governments to improve conditions and wages. The result in both countries has been a surge in strikes as tourism and investment decline.

Egyptians and Tunisians expecting more jobs a year from now outnumber those predicting a decline by almost four to one, according to a Middle East survey released this month by YouGov Plc (YOU) and Bayt.com, a Dubai-based employment website. The only places with comparable levels of confidence were Qatar and Saudi Arabia, respectively the world’s richest country and its biggest oil exporter.

No Quick Fix

Public expectations pose “a communication challenge more than anything else,” said Ann Wyman, managing director at Tunis-based investment bank Maxula Bourse. “We know in economic terms you can’t solve unemployment that quickly.”

The task of meeting those expectations is falling to Islamist politicians. The Ennahdha party heads a coalition in Tunisia, after campaigning on promises to create 590,000 jobs by 2016 in the country of about 10 million.

Egypt’s Muslim Brotherhood dominates the first post-Mubarak parliament, where its party and allies hold almost half the seats. The group has promised to create jobs by directing more investment than the previous government toward industry, agriculture and information technology. It also proposed linking industrial subsidies to job creation.

The generals who took over from Mubarak say they’ll hand power to civilians after a presidential vote due to conclude in June.

As Egypt’s finance minister, one of four men to hold the post since unrest began, Samir Radwan was planning to create jobs through infrastructure investments backed by a \$3.2 billion IMF loan. He lost his job in a July reshuffle.

IMF U-Turn

Radwan still backs the policy, saying in a March 9 interview that spending should begin “immediately” and that renewed unrest is a risk if the demands for “freedom and social justice” that sparked the rebellion aren’t met soon.

Opposition to IMF loans among Egypt's ruling generals evaporated along with Egypt's foreign currency reserves, which have dropped more than half in the past year as the central bank shored up the pound. At \$15.7 billion, they now cover little more than three months of imports. Egypt needs \$11 billion in financing in two years, according to the current finance minister, Momtaz El-Saieed, who has invited an IMF delegation for talks.

Tunisia is seeking \$5 billion this year to cover a balance of payments deficit that may reach 7 percent of GDP, Central Bank Governor Mustapha Kamel Nabli said in a Jan. 27 interview in Davos, Switzerland.

Trade Curbs

To create jobs for their young populations, Arab economies need to integrate, according to an Oxford University study published in December by Adeel Malik and Bassem Awadallah, a former Jordanian finance minister. It highlights restrictions on the movement of investment, goods and people across borders.

The result, in an Arab world with a population of 350 million, is “insignificant” levels of internal trade and regional markets that are “cut off from each other and from the rest of the world,” they wrote. It can be cheaper for a Jordanian company to import from the U.K. than from nearby Lebanon, while “visa requirements for traveling within the region can sometimes be as cumbersome as the journey itself.”

Hisham Ahmed, 25, said he submitted a passport to the Libyan Embassy in Cairo on Feb. 2 and came to pick up his visa 24 days later as instructed. On March 5, he was still camped outside the building, along with dozens of others. Like Mohammed, the hairdresser, he sleeps on a piece of cardboard. Many of them have worked in Libya before.

Gulf Job Plans

Libya is struggling to recover from its own revolt, which ended in the killing of Muammar Qaddafi in October after eight months of fighting. The eastern region, which has most of the country's oil, is seeking self-rule, raising tensions with the central interim government. Even before the uprising, unemployment was 26 percent, according to the IMF.

Oil-rich Persian Gulf nations such as Saudi Arabia and the United Arab Emirates are also seeking to create jobs as a safety valve against protests.

About 27 percent of Saudis between the age of 20 and 30 were unemployed in 2009. King Abdullah announced a \$130 billion spending plan last year. The government is encouraging companies to hire locals, limiting opportunities for Arabs from poorer nations such as Egypt and Tunisia.



Not everybody in those countries is looking abroad for jobs. Mohamed Wahid, 24, co-founded a company in Egypt that runs errands for people, sparing them the clogged traffic. Wahid said in an interview that he expanded his workforce last year to 300 and plans to hire another 1,200 people by 2015.

‘Hard Time Delivering’

“People shouldn’t be afraid to jump in and to expand their business and make more profits to employ more people,” he said. “If everyone gets scared, the economy will collapse. It’s unlikely that foreign investments will flow in the way we want them to soon, so we have to have Egyptian investments.”

Tunisian investment bank Maxula Bourse has set up a fund to develop the interior region. That’s where protests against Ben Ali began when Mohamed Bouazizi, who sold fruit and vegetables on a street to support his family, set himself on fire.

More than a year since his death, and just three months after taking office, Tunisia’s Islamist-led government may already be vulnerable to rivals over the economy and jobs, Maxula’s Wyman said. Another parliamentary election is due after the current assembly writes a constitution.

“For parties trying to beat Ennahdha, that may be the playing field they aim for,” she said. “Ennahdha will have a hard time delivering.”

‘No Change’

That’s not a comforting outlook for Egypt’s Muslim Brotherhood as it prepares to take a wider role in government. Parliament is pressing for the military-appointed Cabinet of Prime Minister Kamal El-Ganzouri to be replaced by an administration led by elected politicians.

Whoever takes office will have to win back people like Mohammed, Ahmed and the others camped outside the Libyan Embassy trying to flee Egypt. Poverty and unemployment have clouded their view of the revolution they supported.

“There is no change,” said Mohammed. “We want to feel that we have rights in our own country. Who feels that way?” he asked, looking at the men gathered around him. Most replied: “No one!”

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