

From Authoritarianism to People Power in the Middle East and North Africa
Implications for Economic Inclusion and Equity

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The past 14 months have constituted a period of enormous political excitement in the Middle East and North Africa. Starting in December 2010, this region, long ranked as the most persistently authoritarian in the world and characterized by years of political stasis, was seized by a tsunami of popular protest. The political repercussions have been momentous. In the course of one year, this wave of popular mobilization succeeded in jettisoning dictatorships in four Arab countries (Tunisia, Egypt, Libya, and Yemen), forced political reforms in several others (Morocco and Jordan), and placed the survival of still other authoritarian regimes (most notably that of Syria) in serious jeopardy.

The “Arab Spring” of 2011 inaugurated a process of political opening heretofore unprecedented in the Arab world. But what impact will this process have on the questions of economic inclusion and equity? Careful analysis suggests that political and economic inclusion may be less closely paired than many optimists might hope. While the institution of democratic reforms may spell popular empowerment in political terms, this process is likely to have mixed impact in terms of delivering a better distribution of economic benefits to the demos. Most importantly, political inclusion is likely to have mixed impact on

delivering growth, the hailed remedy to the most pressing development challenge in the region: unemployment.

What follows is an analysis of the relationship between political inclusion and economic inclusion in the context of the Middle East and North Africa. First, the essay will highlight the region's surprisingly strong past performance in terms of economic equity, proving that economic and political exclusion are not necessarily a "matched pair." Second, the essay will turn to the process of political opening and identify the causal mechanisms that link political opening to progress on economic inclusion as well as the mechanisms that thwart the pairing of these goals. Third, the essay will explore the major development challenges faced by the MENA region (that is, the Middle East and North Africa) and the contribution political opening may make to meeting these challenges. Fourth, and finally, the essay will reflect on some of the positive models of paired political and economic inclusion that can be found among the political and cultural referents of the region and consider how success in Turkey, Indonesia, and Malaysia may gird the Arab world with the political inspiration and will to achieve dual inclusion simultaneously.

Political and Economic Inclusion/Exclusion – A Matched Pair?

Idealists philosophically committed to the goals of both political inclusion and economic equity have long been susceptible to the persuasion that “all good things go together.” That is, they have long been inclined to believe that the extension of political rights to ever larger segments of society will result in the fairer sharing of society’s bounty. Conversely, they tend to believe that political exclusion of major segments of society will spell the economic exclusion of the latter. Although there are valid analytic grounds for the pairing of political and economic inclusion (as will be explored below), the reality on the ground is often quite different. One need only look at the case of the United States to know this is true. In terms of its formal political institutions, the United States is one of the most politically inclusive democracies in the world. And yet the US ranks as one of the least economically inclusive countries among its industrialized peers. The US’ performance on social indicators such as infant mortality and economic inequality place it in the company of countries that are much poorer and significantly less well endowed with democratic heritages (NY Times 2/12). Clearly, the provision of (formally) equal opportunities for political inclusion do not guarantee commensurate access to society’s wealth.

The fact that political and economic inclusion and exclusion are not a matched pair is nowhere more evident than in the case of the Arab world. This is a

region that has long been renowned for authoritarianism, exceptional in both its scope and endurance. Freedom House and the Polity Project (institutions that measure the performance of countries on major indicators of political freedom and inclusion such as the existence of free and fair elections and protection of civil liberties) have routinely ranked the Arab world as the region that was least free and the least politically inclusive. And yet the region's performance in terms of economic inclusion (that is, sharing society's wealth among all segments of society) has been surprisingly strong. This is evident in terms of a number of indicators.

Most impressive, is the Arab world's performance in terms of limiting levels of absolute poverty. The Arab world has long had the lowest level of absolute poverty of all developing regions in the world. That is, a smaller percentage of people live on less than \$1 a day or even \$2 a day in the Arab world than in Latin America, South Asia, Sub Saharan Africa or East Asia (World Bank, cited in Noland, 2011: 68, Table 3.5). (Reproduce Table 3.5 here) In this regard, the Arab world is "comparable to the super successful Asia countries." Only Yemen and Egypt have poverty levels that approach third world levels (Noland, 2011: 66).

The Arab world's impressive performance in terms of economic inclusion is also evident in its performance on numerous human development/social welfare indicators. The region registered considerable gains over the past thirty years in

terms of life expectancy, infant mortality, child immunization rates, child nutrition, and education rates. For example, in most Arab countries life expectancy has grown by 20 years, nearly equaling that of the United States and surpassing the performance of comparably developed countries in East Asia and South Asia . Infant mortality rates have fallen dramatically, decreasing more than any other region (Ibid, p. 62). Child immunization rates have risen dramatically, to the point that immunization is now nearly universal (Ibid, p. 64). Educational opportunities have increased dramatically with primary school education nearly universal in most Arab countries (although literacy rates for adult populations continue to lag and a gender gap in educational attainment remains significant) (Ibid). By some lights educational expansion has gone too far, with the overproduction of (some) tertiary education, if judged by limited employment opportunities for university graduates.

Perhaps most surprisingly, the region's achievement in terms of economic inclusion is evidenced by its relatively strong performance in terms of income distribution. As measured by Gini coefficients (looking at the ratio of the top fifth of the population vs. the bottom fifth) , income inequality in the Arab world is comparable to that of East Asia and South Asia but well below inequality in Sub Saharan Africa and Latin America. (Ibid., 64-68). This is most surprising given

the fact that a sense of grievance over income inequality is widespread in many Arab countries.

How can this strong performance on “economic inclusion” be explained? To some degree this is the consequence of express public policy on the part of many Arab states. But to some degree it is also a consequence of serendipitous economic and socio-cultural factors in the region. Many states in the Arab world are the stewards of significant rents (oil, gas, transit, geo-strategic) and access to such rent has enabled them to carry out a variety of redistributive projects, from providing various public goods (immunization, education), to subsidizing basic consumer goods, to expanding the size of the public sector. The latter has delivered employment to a significant segment of society, providing many with a floor of subsistence. But even those states without large endowments of rent have often followed this distributive path. An ideological commitment to “Arab Socialism” characterized many countries in the region in the 1950s, 1960s, and 1970s and inspired similar projects of inclusion. While the appeal of this ideology has faded over time, its institutional legacy lives on in large public sectors and inclusive social policies. Besides these expressly redistributive policies on the part of the state, poverty in the region has also been reduced by access to employment opportunities in the oil-rich countries of the region. This has resulted in significant remittance earnings that buoy many poor families across the Arab

world. Finally, the region is endowed with strong socio-cultural networks, some religiously based, some family based. These provide important safety nets to the poor and assist in alleviating some of the worst poverty in the region.

But whatever the explanation, the fact is that the Arab world has performed better in terms of economic inclusion than most other parts of the developing world. This is not to say that all is well in terms of economic equity. Serious levels of poverty persist in several Arab countries (e.g. in Egypt 43% of the population still lives below \$2 a day ; in Yemen the level of absolute poverty is still worse (Noland, 2011,68). There are significant regional disparities in development and wealth across the region with pockets of severe regional poverty present even in the relatively developed countries such as Tunisia or the quite wealthy countries such as Saudi Arabia. Income distribution remains highly unequal in the MENA and if the region performs better than many other developing parts of the world in this regard, there is a popular perception that, *within the region*, inequality has been increasing *over time*. Finally, the problem of unemployment has clearly gotten worse, especially among young people, a consequence of the demographic “youth bulge” experienced by the region during the past decade. In short there is significant basis for economic grievance in Arab society. It is thus no surprise that “aish” – bread – was the first word of the three

term rallying cry that mobilized the crowds protesting this past year.¹ Without anger over economic grievances it is unlikely that the protests would have built up the popular steam that proved decisive in overturning dictators during the Arab spring.

Nevertheless, the relatively strong performance of the MENA region, at least compared to other developing parts of the world, provides strong evidence that a region's level of authoritarianism does not co-vary with the level of economic exclusion. In short, political and economic exclusion (and inclusion) are not a matched pair. Consequently, the move toward political opening in the region may not necessarily result in immediate gains in economic inclusion. The low hanging fruit of economic inclusion have already been picked (and to some degree over picked). The relatively strong performance of the region's authoritarian regimes in terms of social welfare creates a high bar for newly liberalizing regimes to clear and surpass. This amplifies the political challenges these new regimes face.

Analytic Linkage between Political and Economic Inclusion

There are commonsensical reasons to assume that democracies should outperform authoritarian regimes in terms of economic inclusion. The cardinal utility of bestowing people with the power of the vote is to force political regimes

¹ The slogan was "Aish, Hurriyah, Karama Insaniyya," that is, "Bread, Freedom, Human Dignity."

to be accountable to the popular will. Presumably, under these conditions, ruling elites will be obliged to direct resources toward constructive ends that benefit the commonweal rather than squandering scarce assets on vanity projects, and corruption, and endeavors that benefit only the very few. In addition, freer political systems mean more space for the fourth estate (the media) and more space for civil society organizations to act as watchdogs. These institutions force the government to be more transparent and accountable in its use of public resources. Finally, as political power is distributed more widely across society, the presumption is that the poorer strata will use this power effectively to impose a more distributive economic agenda on the state, spelling better performance on economic inclusion.

But reality is often quite different from plausible analysis. In fact, democracies are routinely captured by special interests that siphon off resources for use in economically irrational ways. For the poor to push a policy agenda that is economically distributive they must be politically well organized and this is not a given in most democracies; to the contrary, privileged segments are often better positioned to dominate the political helm and its agenda. In addition, the less privileged are often effectively distracted from progressive economic agendas by countervailing appeals to identity politics. Think the failure of progressive candidates to win the working class vote in the US. Add to this the myopia and

short term horizons that the electoral cycle imposes on political leaders and it is clear why democracies fail to outperform dictatorships in any consistent way, either in terms of economic growth or in terms of the distribution of material well-being (Przeworski and Limongi, 1993; Clark, Golder, and Golder, 2009: 328; Bellin, 2005: 139-140).

This is not to say that democracy is bad for economic inclusion. Rather, democracy is neither necessary nor sufficient to deliver this outcome. Regime type is simply too blunt a variable to determine these results. Rather, political variables such as leadership, party strength, organization of special interests, the quality of the state bureaucracy, among others, often prove as important as regime type in determining economic outcomes (Nelson, 1994; Beinen and Herbst, 1996; Haggard and Kaufman, 1994).

In short, one should not be overly optimistic about the distributive payoff from the Arab world's move toward greater political inclusion, at least not in the short term. Of course, transitioning out of authoritarianism should be valued in its own right, for the potential benefit it confers on society in terms of guaranteeing basic freedoms and human rights. But its impact on economic inclusion is indeterminate and wholly subject to effective political mobilization by the disadvantaged in society, among other factors. And the hope of such mobilization does not look terribly promising in the region today. As it stands,

nowhere in the Arab world today has a party of popular consequence emerged that is devoted primarily to a progressive economic agenda. Even the leading Islamist parties, whether the Ennahda party of Tunisia or the Muslim Brothers' Justice and Development party in Egypt, have only vaguely defined economic agendas. Despite their broadly popular base, they have not made economic redistribution the centerpiece of their ambitions.

Major Development Challenges in the MENA: How to Advance Economic

Inclusion

Given the region's relatively strong starting point in terms of economic inclusion (at least by standards of the developing world), making progress in this area means focusing less on guaranteeing a subsistence floor to most and more on lifting ever larger numbers of people out of poverty. The most promising route to achieving this goal is to sop up the high levels of unemployment and underemployment that plague the region and consign so many to hopelessness. The level of unemployment in the Middle East and North Africa is one of the highest in the world; at nearly 14% it is surpassed only by one other developing region (sub Saharan Africa – 14.9%) and it is more than double that of East Asia and nearly double that of Latin America) (World Bank, World Development Indicators, 2006). But these numbers understate the incidence of unemployment borne by specific pockets of the population. For example, young people suffer

unemployment rates that are more than double the general rate (clocking in at about 30%, but reaching levels as high as 40% for university graduates in some countries). Similarly, there are regional pockets in nearly every country that suffer from much higher unemployment rates than that captured by national averages. For example, central Tunisia suffers much higher rates of unemployment than that of the country's major cities or coastal area. It is not surprising that Mohamed Bouazizi, the young fruit vendor whose self-immolation sparked the beginning of the Arab spring protests, hailed from Sidi Bouzid, a town in the central part of the country (30% unemployed). Finally, women are significantly underemployed in the region; with only 30% of Arab women employed outside the home their level of employment is lower than that found in any other developing region in the world (Arab Human Development Report, 2006) (though it is hard to parse the degree to which this is a consequence of cultural preference as opposed to limited opportunity). By any standard, however, unemployment levels in the region are intolerably high and the lack of jobs constitutes a significant obstacle to effective economic inclusion.

To tackle the problem of unemployment, the region is obliged to focus on generating economic growth. As a leading Egyptian economist has said, without economic growth, a politics of distribution simply means the distribution of poverty (Brookings Economic Forum, March 2011). In fact, the growth

performance of the MENA region has been disappointing for the past two decades. Coming in at under 2%, the region registered the weakest real per capita growth of all regions in the world (with the possible exception of sub-Saharan Africa) (Bhattacharya and Wolde, 2009: 1-3). This growth problem needs to be tackled head on and to have the most distributive impact, the region needs to focus especially on developing labor intensive industries that will create jobs.

What are the obstacles to developing such industries? Economists identify a host of relevant factors but all agree that deficiencies in two areas are especially damning: (a) deficiencies in capital investment (both Foreign Direct Investment (FDI) as well as investment by the domestic private sector); and (b) deficiencies in integration into the international economy (especially trade levels with the rest of the world). Foreign direct investment in the region is extremely low by world standards (excluding natural resource base sectors such as oil and gas) (Noland, 2011: 111). And the volume of trade (excluding fuels) is quite low as well. (Ibid., 103). These deficiencies are deleterious not only because they deny the MENA necessary start-up capital for new industrial ventures but also because lack of integration with foreign companies (i.e. low levels of intra-trade agreement) shut the region out of major sources of technology transfer and innovation as well as cost discipline (Page, 1998:153). The latter is especially crucial to developing globally competitive (and hence sustainable) export industries.

The MENA region has been unable to make progress in attracting FDI, local capital, and intra-trade agreements due to structural weaknesses such as inadequate infrastructure (especially underdeveloped transport and telecommunications) and the low level of labor skills and human capital (compared to other countries with similar levels of per capita income) (Bhattacharya and Wolde, 2009). But another major reason the MENA fails to attract investment and intra-trade agreement is that the region's business environment is made unattractive by political factors. These include political instability ("capital is a coward"), dodgy political institutions (are property rights upheld in timely fashion by the judiciary?), bureaucratic constraints (how difficult is it to get permits to start a business?) and corruption (how many officials must one pay off to get licenses and permits?). The World Bank's Business Enterprise survey found that more than a quarter of all businesses polled identified licensing and customs as a major constraint on doing business in the MENA region and 54% identified corruption as a major constraint (Battarcharya and Wolde, 2009:20). Governance issues such as these constitute a major obstacle to economic progress in the region.

Of course other regions, notably China, have proven weak in some of these areas as well and yet these weaknesses have not proved a deterrent to investment. But unlike China, MENA countries do not offer the compensating benefits of a

huge consumer market and extremely low wages. If anything, wage levels in the region are relatively high (in comparison to other developing areas) due to the impact of “Dutch disease” and the legacy of “Arab socialism.” Consequently, FDI and international integration of the Arab economies remains relatively low.

Political Inclusion the Remedy?

The question is whether progress on the political front, and specifically, progress toward political opening, is likely to improve the prospects for economic growth in the region. In the most optimistic of scenarios it is plausible to see a link. Political liberalization could mean unseating the old political machines that fueled corruption and maintained rent-creating distortions in the economy. Political opening might also mean an empowered fourth estate and civil society that might sustain a watchdog function, impose more political transparency and reduce governmental corruption. Both factors would make the region a more attractive investment environment. In addition, greater freedom and reform might unleash new energy and optimism, reverse brain drain, and attract foreign investment and technology (el-Erian, 2011:xiii).²

But just as political opening creates growth enhancing opportunities, it also creates potential hazards. Perhaps the biggest hazard lies in the region’s

² In fact, the region witnessed just such a surge of investment and reverse brain drain in the case of the Palestine Authority when a brief moment of optimism reigned in the late 90s at the start of the “new regime” there. But as that case showed clearly, the window of opportunity is very short and such optimism can quickly be snuffed out.

susceptibility to demagogues and populists. After years of political exclusion and pent up demand for economic advance, the newly empowered demos may be ill-prepared for the material restraint necessary to truly spur growth. The temptation among inexperienced voters to elect politicians who promise them the moon may set off spending sprees that would only worsen the region's macro-economic condition, not to mention its exchange rates. This prospect, along with the possibility of political instability, would only further discourage investment, growth, and job creation. Clearly this would not advance the cause of economic inclusion in any sustainable way.

Ray of Hope

There are, however, some reasons to be hopeful. And this is because there are a number of countries that, for reasons of cultural proximity, constitute important referents for the Arab world. And among those countries are several that have embraced both political opening as well as "globalization" and integration into the international economy, with significant success. Here I am referring to countries such as Turkey, Indonesia, and Malaysia. Each is a Muslim-majority country. Each has Islamist parties that have been central to political life. (In Turkey, the Islamist inspired AKP has led the government for over a decade). And each has pursued a strategy of export-oriented manufacturing as a crucial component of its growth plan. These countries constitute an important model for

the Arab world of a possible way forward. The importance of the demonstration effect should not be underestimated as it is one of the most important factors shaping a country's likelihood to embrace protest, democracy, or any number of other trends. Already, leaders of the Muslim Brothers in Egypt have conducted consultations with colleagues in these three countries to learn the "secrets" of their success. With the proven successes of these countries as a lure, the newly opening regimes of the Arab world may find the inspiration necessary to embrace the discipline required to fuel real growth.

Conclusion

Parts of the Arab world are on the threshold of a new era of political openness and inclusion. Whether this will spark greater equity and economic inclusion remains much more tentative. To advance this agenda requires, first and foremost, the creation of jobs. This, in turn, requires an increase in FDI, local capital mobilization, and greater integration of the region into the international economy. Political opening may create some of the conditions necessary to improve the attractiveness of the business environment in the Arab world. But this will require important self-discipline among both voters and politicians. With luck the positive model of other Muslim majority countries like Turkey and Indonesia will prove sufficiently compelling to direct the newly opening Arab countries on this track to growth, and ultimately, economic inclusion.

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