INTRODUCTION: POLITICAL AND ECONOMIC TRANSFORMATIONS IN THE ARAB WORLD

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The popular uprisings witnessed by the Arab world in 2010–11 reflected a revolution of the mind and joyful democratic moments when citizens came together to discover their common yearning for dignity and liberty.

The real revolutions however, still need to happen over time, in the hard work to build new rules, organizations, parties, and institutions that are the tangible substance of democratic progress. Each country has now been projected onto its own trajectory of change. Elections are bringing to the fore new political players and new constitutions are being written. New regimes are not yet consolidated, power is still contested in some countries, and experiments with change from within are ongoing in others. Yemen, Libya, and Iraq face daunting challenges of reconstruction of their polity, institutions, and infrastructure. Syria is burning with little hope for a quick resolution. The economic situation has deteriorated everywhere, at a time when popular demands for jobs and better services are higher than ever. Reality has made a comeback—it is now clear that not everything before the Uprisings was bad, or that everything that emerges will be good.

On the political side, the rise of political Islam, the initial disarray of the liberal camp, and the ensuing polarization of politics has each created a big surprise. But the middle class has become more active politically, youth groups have learned how to resort to the street in strategically smart ways, and the return of organized labor all suggest that it will be much more difficult to monopolize power in the future as easily as it had been in the past. The complex transitions that are unfolding open up a host of issues for debate. The economies of the region remain confronted with old problems of economic stability, lack of jobs, a perceived rise in inequalities, and poor quality public services. The big questions on the table are both positive and normative. A better understanding of political economy drivers is necessary *positively*, in order to imagine better policies and institutions given the new political conditions; and *normatively*, to come up with suggestions for the next phase that can improve political and developmental outcomes.

Several models of social organization have been tried in the past from socialism to state and crony capitalisms. Governance, state, markets, and even identities are in various measures in a state of crises and re-invention. What type of approaches will
work now, given the changing political landscapes? Where would old policy solutions work, and where will new solutions need to be imagined? More specifically, from the vantage point of after the uprisings, how do we, the economists and social scientists working on this region, create factual narrative about the past, its rising inequalities, cronyism and petty corruption, and indignities, in ways that enlighten the current conversations and help in the process of the constructing a better future? How do we reassess the interests of the various socio-political players and of their potential, constraints, and stakes, in ways that makes the analysis of economic reforms and institution-building more useful and constructive?

These questions suggest several implications: the importance of studying the political, social, and economic transformations in more unified ways, learning from similar transitions elsewhere in the world, understanding better the characteristics of some of the new rising players and how they interact, and appreciating the role of corruption in the past and imagining ways to contain it. In spite of many similarities, there are also important country specificities that need to be considered. The Economic Research Forum can play an important role in bringing analysis and facts to these debates, and exploring the logical relations between political and economic developments. This has been the goal of the research program on the “Political and Economic Transformation in the Arab World” which was initiated in mid-2011 and which held a conference on this theme in Cairo, in March 2012 to present and discuss a first batch of papers, some of which are in this special issue of the Middle East Development Journal.

As a result of these discussions, a new research agenda which needs to be illuminated by conceptual and empirical sound analyses, as well as lessons from elsewhere, is emerging. The agenda can be organized around three research axes:

(1) Exploring the contours of a rational framework to understand the drivers of change, what led to the ongoing revolutions, how the live forces will evolve, and whether democracy will be consolidated. Here, learning from the experiences of change in other countries with similar characteristics is important — political Islam for example is not a uniquely Middle Eastern phenomenon, nor are rising inequalities and cronyism an Arab specificity.

(2) Discussing the reasons behind the rise of crony capitalism and corruption of the past, how Arab capitalism is likely to evolve, and how it can be reformed in the future in ways that allow for the creations of the millions of good jobs demanded by an increasingly well educated population.

(3) Understanding the evolving political economy of fiscal policy and state services and imagining the welfare-improving policies of the future that would be desirable, feasible, and politically supportable by a population that is in majority middle class, urban, and more demanding on effectiveness and quality.

The articles in this special issue start tackling some of these issues and by doing so, open up a new range of questions for future research. On the issue of the genesis of the
revolts, there is a surprising convergence of views among the authors in this volume. While the approaches are different — Owen draws on the broad historical and economic path leading to the Uprisings, while Galal/Selim do so by arguing that the lack of inclusive economic and political institutions is the primary cause for the current state of under development in the region. Kaboub tells the Tunisian story based on circumstantial evidence and Diwan looks at Egypt by exploiting information contained in opinion polls and in stock market and corporate data — all these papers end up talking about the youth bulge, the rising education and aspirations, a more autonomous middle class increasingly frustrated by a perceived rise in the inequality of opportunities in the midst of an environment with rising repression, and cronyism under-delivering on the job front.

As a result, the contours of a rational, coherent, and empirically verifiable account, which can explain both the persistence of the autocratic past and its ultimate demise, are emerging. But many components of this account require further research. This includes the need for a better understanding of what drove the rise in the perception of inequality, the evolving ‘ethos’ of a much more opinionated middle class and an assertive ‘street’, and the dynamics of change within the ‘elites’, including the role of armies.

A connected theme that emerges in several of the papers is that of the enormous difficulties being encountered during the ongoing transitions, and the question of the consolidation of democracy. Freund and Jaud look at the historical regularities around the world and find that not all transitions succeed, that socio-economic structure matters, and that regional contagion typically matters too. Schwedler looks into the dynamics of political Islam — she argues that participation leads to moderation, but also suggests that the liberal camp will need to move too towards more centrist and popular aspirations. Ersel and Shidiq/Vermonte study the transitions to democracy in Turkey and Indonesia respectively, and by doing so, offer important lessons for the Arab region. Ersel shows how the consolidation of a multi-party system and of a private sector dominated economy emerged as interplay between politics and economics, and took half a century to get Turkey where it is now — a still imperfect democracy. In the process, political parties that could not adapt to the changing demands of the public were wiped out, and others emerged. Shidiq and Vermonte show how Political Islamic parties largely “dissolved” into the polity in Indonesia after their positions became more moderate and less distinct from other parties across the political spectrum, and how decentralization was used to regenerate the political class.

While all papers refer to the phenomena of cronyism and discuss how fiscal policy became more regressive over time, the papers in this volume also suggest that these two sets of issues remain heavily under-researched. The ubiquitous nature of grand corruption in the Arab world, and the underlying exclusion mechanisms are discussed in several of the papers and are seen as a major stumbling block to progress on the job creation front. There are global best practices on the type of rules and institutions needed to control corruption. However, this begs the question: Under
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what political conditions would such regulations work? The discussions in the volume on the nature of state-business relations thus raise two sets of issues — the impact of the system of governance on business performance, and the impact (and role) of cronyism on governance.

Owen argues that cronies were a major driving force to bring sons of presidents to succeed presidents for life. Kaboub’s discussion of the evolution of the state and of capitalism in Tunisia offers many rich hypotheses grounded in his intimate knowledge the country’s circumstances for more in depth study. Diwan uses an event study methodology to shed some light on the magnitude and mechanisms of Egyptian cronyism. Ersel debunks the myth of the Anatolians Tigers driving growth in Turkey, but shows how economic liberalization allowed these new players to become more active politically. The papers however, only scratch the surface, and more work is needed in this area, both to understand why the cronyism has failed in the past, and to envision the kind of political configurations that can provide better incentives for performance and job creation in the future.

On the fiscal side, a topic discussed in some of the papers relates to the necessity of macro-economic stabilization. The revolutions themselves have weakened the macro environment, with capital flight accelerating, and FDI and tourism collapsing. It is well know that the macro-economy and growth always deteriorate during transitions — the challenge is to recover quickly. There is a broad recognition that improving politics will be essential for recovery. But it is also possible, unfortunately, that economics will have to deteriorate further before politics improve. In Turkey, Ersel reminds us that it took a major financial crisis (in 2001) for the emergence of more discipline macro policy (by the AKP). In Indonesia, the political crisis of 1998 was caused by the Asian financial crisis that had engulfed the country. In the uprising countries, no clear constituency for macro-economic stability has emerged yet, and new regimes are pushed by high aspirations towards populist and short-sighted policies, rather than in-depth reforms. In the end, the relevant political economy questions in several of the countries that will not be able to avoid a financial crisis may well be how to exploit the coming financial crises in order to establish a constituency for more stable economic order in the future.

The important issue of the state and fiscal policy received the least attention in the volume, a reflection of the poor state of the current literature, which is to a large extent a reflection of the lack of access to data and information in the past. The papers by Kaboub and by Diwan on Tunisia and Egypt respectively, suggest that the patterns of public expenditures and taxation had changed gradually in the past two decades to reflect the increased dominance of elite capital in the governing coalitions and the roll-back of the state. Besides outlining the issues of petty corruption in the provision of social services, and the deterioration in the quality of services which has led to their quasi privatization, several of the papers highlight the underlying political reasons for the rise in subsidies for goods that go predominantly to the richer parts of society. Clearly, more work is needed to understand the current incidence of public finance in order to suggest reforms that can
accommodate, in the short term, the change in preference of the new governments. These new governments will likely represent the interests of the middle classes and the poor more than in the past, which in turn can increase the effectiveness of the state over time.

The walls of intellectual fears have been broken, and the unfolding events have lifted the veil from a complex social, political, and economic inheritance. Much of what is in this volume could not have been written in the Arab world just two years ago. Since then, a new regional space has been opened for more honest and enlightened discussions, dialogue, and learning. In many ways, the future will be shaped by the ongoing conversations and by their effect on collective action.

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