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Post-Arab Spring Institutional Encumbrance and Economic Development: A Preliminary Analysis

Abstract:

Since the beginning of “Arab spring”¹, scholars have been attempting to distinguish the underlying determinants of such historical events in the modern development of the Arab world. This research however aims to examine the role of institutions in the resource rich region of the world, and the impact of encumbrance of such institution on the evolution of events that led to the social unrest and the aftermath of the so called Arab Spring. The purpose of this research to examine the impact of the phenomenon in respect of macroeconomic management of the economy especially in poverty reduction, reducing the rate of unemployment, the growth of per capita income, reduction of income inequality, capital formation and growth. The findings of this research showed there are inconclusive evidences that the Arab Springs have not bring about the required results by the people. Although the time period before and after the Arab Spring is quite short but it is an indication with regard to the success and failure of the role of the public institutions.

Keywords: Encumbrances, economic development, market economy, public institution

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Introduction:

The first call that was made aloud by experts while the Arab-Spring was taking place was the call for the establishment of credible and efficient institutions. The need for effective institutions is an urgent challenges and crises that most countries in the Middle East or as commonly known the “Arab World” are facing. The existence of representative, efficient and effective institutions will help replenish the legitimacy, and involvement of the international business community, which leads to socio-economic development (Gerges, F. A., 2013; Storper, 2013). The reform process is an ongoing and interactive one and aspires to tackle corruption and reduce imbalances in the economies across the Middle East region. However, current realities are showing otherwise and far from expectation from the people.

¹ Arab Spring was a term popularized by western media in early 2011 that refers to anti-government protests and uprising that spread across the middle east in early 2011 with different ways of how the uprising came into being. The uprising started in Tunisia against Zine El Abidin Ben Ali in late 2010. By the end of 2011, the government in Egypt and Libya was swept away by popular revolts whilst Iraq was the result of US invasion in 2003 and Syria is still raging in civil war.



The lack of tangible successes and achievements is evident with the ever-growing unsatisfactory post-revolutions populations in the Arab world. Failures in both social development and economic reforms are attributed partly due to failure of post-revolutionary institutions and lack of political will. In other words, the very existence of current institutions and the lack of modern human resources with new capabilities and thinking is a fundamental reason for the perpetual failures that are being experienced. The most progressive policies and programs are doomed to failure if they are put merely for show rather than genuine intent of social and economic development. This is the case of Iraq, Syria, Libya, Egypt and Tunisia- the 5 Arab countries that have undergone changes with different level of success. While the economic gains in the context of reforms in the pre-uprising in the Middle East was limited to government officials and cronies, a limited class of society reaped most of the advantages and benefits of pre-uprising reforms. Unfortunately the vast majority of the population still remained in the low-income brackets and still harbouring the ill feelings due to the inability and failure of public institutions to make the vast majority of the population to benefit from gains and growth in output (Finger, H., and Gressani, D., 2014). Hence lies the feeling of being disfranchised amongst the majority of citizens in countries that experienced the Arab Spring.

Research Problem:

Economic and political institutions are intertwined constitute the primary sources of economic performance, as well as being the guarantor of social development through policy-making and implementation. The re-identification and formulation of the state's role through uprising and revolutions and *coup d'état* in the context of creation of modern market economy requires building institutions commensurate with the role of the state in both their recognized sovereign functions (security, justice, education, monetary and fiscal sovereignty, health care, etc.) and workable

economic mechanism. The role of public institutions is particularly pivotal as vehicles of reform process and as implementer of legislation as approved by government institutions or other authorities especially states with unclear legal institutions. Undoubtedly public institutions are considered an important pillar of the reform process (Hamalainen, T. J., and Heiskala, R. 2007). The very essence of political reform means to create substantial institutional reforms to achieve socioeconomic development (Storper, 2013).

Despite the fact that reform process is an integrative one between various governmental and social components, the new experience of the Arab world deserves and examination of causation of successes or failures. North (1990) attributes such failures to institutional weaknesses. Namely; the limited capacity of institutions to design and implement comprehensive reforms, failure of the institutions in the application of laws and new legislations in an efficient and transparent manner of existing institutions, public and private to cope with the international and regional developments and changes and failing to cope with the associated changes resulting from the reforms that are intended to be made.

Methodology:

This research cross-examines key economic performance indices and indicators of countries that went through revolutions, coup d'état or uprising. Public data obtained from the IMF, World Bank and other governmental sources that provides credible and reliable macroeconomic variables such as unemployment, the growth of per capita income, inflow of foreign direct investments, reduction of inequality in the distribution of income, growth rates, rates of inflation, the fight against corruption. Current data are compared to economic data of pre-uprising to determine the levels of progress if any, such as improvements in the business environment, reduction in the level of corruption and transparency of governmental institutions.



Literature Review:

Numerous studies have examined the economic development and failures and attributed such failures due to lack of institutional development, lack of adequate resources management, policy formulation and implementation, education, and other geo-political causations (Acemoglu and Robinson, 2013; Trimberger, 1978; Storper, 2013; Hamalainen and Heiskala, 2007). Studies by Acemoglu and Robinson (2009) and others (Fukuyama, 2014; Munk, 2013; North, 1990; Lucas, 2004; Sachs, 2006) has confirmed that socioeconomic failures are the direct result of institutional failures more than it is the result of a lack of resources or policies, and that there is a direct correlation between institutions and socioeconomic and political development.

The World Bank for instance puts special emphases on institutions and organizations as pillar of socioeconomic drivers that shapes internal and external challenges of development (World Development Report Aug 31, 2002; Aug 1, 2001).

Acemoglu and Robinson (2013) particularly make the argument that public and private institutions has a significant impact on economic performance and ultimately social development, while geography has at best weak direct effects on income. Weddady, Ahmari, and

Steinem (2012) asserts that institutions in the Middle East play an important role in the integration of various developmental determinants of geography, policies and Foreign Trade among other elements. Watenpaugh (2012) further affirm that public and private institutions are good motivators of increased investment and promoter of technological progress and thus achieving higher income levels within nation state.

Analyses:

Real GDP Growth:

Despite of some gaps in data availability Syria and Egypt) as shown in Table 1, prior to 2011, most countries have shown an improvement in Real GDP. Tunisia registered a steady increase of real GDP of USD 31.18 bil in 2005 to USD 45.7 bil in 2012. The same trend also applied to Iraq whereby Real GDP experienced an increase from USD 0.9384 bil to USD 210.3 bil in 2012. A conclusive evidence is quite difficult to make for Syria and Egypt due to data gap. Libya on the other hand experienced an increase of her real GDP from USD 44 bil in 2005 to USD 54.96 bil in 2010 but experienced a decline to USD 20.84 and USD 42.62 in 2011 and 2012 respectively.

Table 1: Arab 6 Real GDP, 2005-2012(USD bil)

Country	2005	2006	2007	2008	2009	2010	2011	2012
Tunisia	31.18	32.28	34.48	38.92	44.86	43.45	44.05	45.7
Iraq	0.9384	0.1034	0.1048	0.1117	118.21	125.14	135.88	210.3
Syria	28.86	30.30	32.03				73.7	
Egypt					115.11	121.04	123.17	257.3
Libya	44.00	46.60	49.39	51.27	52.35	54.96	20.84	42.62

Source: UN Conference on Trade and Development, World Bank, IMF

Per Capita GDP:

The Arab 5 also shown quite mix results of per capita GDP from 2005-2012 as shown in Table 2. Tunisia, despite some domestic economic problems has registered a steady increase in her

GDP per capita although the figure is quite low based on world standard. Iraq also has shown significant increase in her per capita GDP from 2005- 2011 although it is lower than Tunisia. This is quite a mind boggling considering Iraq is a one of the big oil producing country in Middle



East with a relatively low population. Only in 2012 it registered a significant increase in its figure to USD 6,625- almost 90% increase. Syria although registered an increase in GDP per capita from USD 1,589 in to USD 3,256 in 2012 but the figures are relatively small and it should be noted that The Arab Spring supposed to be experienced in Syria has been transformed to civil war and this will make the tasks of public institutions even more difficult. Egypt

also despite a continuous increase in her per capita GDP of USD 1,249 in 2005 to USD 3,256 in 2012 still the number is relatively small. Libya, despite still yet to be recovered from her domestic problems after the fall of Muammar Ghadafi, still reeling from domestic turmoil but experiences a quite encouraging increase in her per capita GDP from USD 7,865 in 2005 to 13,303 in 2012.

Table 2: Arab 5 Per Capita GDP, 2005-2012(USD)

Country	2005	2006	2007	2008	2009	2010	2011	2012
Tunisia	3,130	3,219	3,367	3,543	3,674	3,766	3,925	4,237
Iraq	1,135	1,586	1,946	2,677	2,066	2,532	3,501	6,625
Syria	1,589	1,773	2,066	2,678	2,692	2,893		3,256
Egypt	1,249	1,473	1,758	2,157	2,462	2,804	2,973	3,256
Libya	7,865	9,933	12,418	15,853	10,456	12,375	5,685	13,303

Source: UN Conference on Trade and Development, World Bank and IMF

Foreign Direct Investment:

The Arab 5 countries represent a quite volatile region and it is very difficult to convince foreign investors how they should pour money in an unsafe region that does not guarantee good return to their investment. Thus in all Arab 5 countries as shown in Table 3 the flow of foreign direct investment is insignificant except

in Egypt which registered quite significant amount of FDI especially from 2006-2008 but the Arab spring had taken its toll that resulted significant decline to its FDI in 2011 and 2012. Meanwhile FDI flow to Libya also shown the trend as not important venue of FDI in middle east especially with regard to attitude to foreign investment.

Table 3: Arab 6 Foreign Direct Investment, 2005-2012(USD bil)

Country	2005	2006	2007	2008	2009	2010	2011	2012
Tunisia	0.712	3.239	1.5153	2.6007	1.5252	1.3350	0.4327	1.5543
Iraq	0.5153	0.3830	0.9718	1.8557	1.5983	1.3962	2.082	3.4000
Syria	0.5000	0.6590	1.2420	1.4656	2.5695			
Egypt	5.3756	10.0428	11.5781	9.4946	6.7116	6.3856	0.4827	2.7977
Libya	1.0830	2.0640	4.6890	4.1113	1.3710	1.7840	1.6000	

Source: UN Conference on Trade and Development, World Bank, IMF

Unemployment:

High unemployment is one of the main characteristics of Arab region that explain the need for political change in all the autocratic

and dictator states. Tunisia as the first country that started the spring had shown the trend with the double digit unemployment rate as far as 2005 with 14.2%(Table4). The continuous double-digit inflation rate attained its highest



peak at 18% in 2011 that justified the incidence of the spring. Other countries as Iraq and Syria also experienced double-digit inflation. Although figures in Libya is not complete but in 2010 and 2011, Libya had also shown the

symptom of sick economy with double digit inflation whilst Egypt inflation rate have also shown high degree of unemployment that reached its peak at 12.2% in 2011.

Table 4: Arab 6 Unemployment Rate, 2005-2012(%)

Country	2005	2006	2007	2008	2009	2010	2011	2012
Tunisia	14.2	13.9	14.1	14.1	13.3	14.0	18.0	
Iraq	25.0	18.0		15.2	15.3	15.0	15.2	15.1
Syria	12.5		9	8.6	8.5	8.3	14.9	14.9
Egypt	9.5	10.3	9.1	8.4	9.4	9.7	12.2	
Libya						20.0	20.0	

Source: UN Conference on Trade and Development

Inflation:

Inflation for Tunisia was considered to be low from 2005- 2011(Table 5). The high poverty rate in Tunisia contributed towards the low inflation. Iraq had a very high inflation in 2005 at 33% and increased significantly to 64.8% in

2006 and then tended to be lowered to acceptable level in 2007 and maintained it till 2011. Syria had different scenario of inflation of low rate in 2005, 2009 2011 but had a high rate in 2008 at 15.4%. Libya from 2005- 2007 had a relatively low inflation but increase highly to 10.4% in 2008.

Table 5: Arab 6 Inflation Rate, 2005-2012(%)

Country	2005	2006	2007	2008	2009	2010	2011	2012
Tunisia	2.1	4.6	3.1	5	3.5	4.5	3.5	
Iraq	33	64.8	4.7	6.8	6.8	4.2	5.6	
Syria	5	8	12.2	15.4	2.6	5.9	4.8	10.2
Egypt	4.9	6.5	9.5	18.3	11.9	12.8	10.2	
Libya	3.4	3.1	6.3	10.4	2.4	3	15.9	

Source: UN Conference on Trade and Development, World Bank, IMF

Incidence of Poverty:

Both IMF, World Bank and government data shows that both public and private institutions have failed in the area of poverty reduction though it is readily recognized that poverty reduction objective could not be attained in a

short period. Although data on poverty in most Arab countries as shown in Table 6 is sparse, the available data shown that poverty is high in most countries. Apart from low economic activities and low educational level contributed to this situation.



Table 6: Arab 6 Poverty Rate, 2005-2012(%)

Country	2005	2006	2007	2008	2009	2010	2011	2012
Tunisia	3.8						15.5	
Iraq				25				19.8
Syria		11.9						
Egypt	20							
Libya	7.4							

Source: UN Conference on Trade and Development, World Bank and IMF

Good Governance and Corruption Incidences:

Reduced budgets, combined with political instability lead incidence of higher corruption and waste of public money in all countries under examination. Even before Arab Spring phenomenon came into being, the 5 Arab countries already known for their high incidence of corruption and lack of good governance. As can be shown from Corruption Perception Index in Table 7, Iraq and Libya in 2006 recorded more than 100 on the Perception Index. In the case of Iraq, given the continuing political instability among the fractious population,

higher budget spending led to an increase in the level of corruption given the lack of systematic framework for dealing with various forms of corruption. All countries have experienced some degree of deterioration in the Corruption Perception Index between 2006-2012 as shown in Table 7. The table also shows that Egypt, Libya and Syria represent countries with high degree of corruption whilst surprisingly Iraq and Tunisia had a relatively low level of index. Iraq although experienced slight increase in the index but at 160 is already very high and an increase to 169 just reflect the severity of the incidence and did not any much difference.

Table 7: Corruption Perceptions Index Rating

COUNTRY	2006	2012	CHANGES
Egypt	70	118	48
Libya	105	160	55
Tunisia	51	75	24
Syria	93	144	51
Iraq	160	169	9

Source: Transparency International

Conclusion:

The Arab Spring has not able to realize the high expectation of their population towards a better quality of life after years of living in autocratic and dictatorial regimes and devoid of political freedom of making their decisions for their live. Paramount to this hope is improved standard of living albeit incrementally. One of the biggest

problems faced in the study is the lack of credible data in the countries concerned in order to make solid analysis. Apart from the lack of culture in data collection, the political instability also contributes to the problem. This result in some gaps in the data. Nevertheless high hope is shouldered on socio-economic public institutions to unleash the necessary changes to change the socio-economic landscape of the



countries towards a better scenario for the nation. Nevertheless the severity of economic conditions made the efforts to make the changes a herculean tasks to the institutions themselves. Thus it is not surprising that the developments that have been made are far from the expectation. It is recognized that apart from serious undertaking from the public servants to undertake the changes, what is paramount importance is the presence of political stability elements. Without political will and solid support from the government, any efforts towards economic improvement will not go far.



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