

REVIVING ARAB REFORM

Development Challenges
and Opportunities



ISLAM ABDELBARY

Reviving Arab Reform

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Reviving Arab Reform: Development Challenges and Opportunities

BY

ISLAM ABDELBARY

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United Kingdom – North America – Japan – India – Malaysia – China

Emerald Publishing Limited
Howard House, Wagon Lane, Bingley BD16 1WA, UK

First edition 2021

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British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

ISBN: 978-1-83982-319-0 (Print)

ISBN: 978-1-83982-318-3 (Online)

ISBN: 978-1-83982-320-6 (Epub)



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Contents

List of Figures	vii
List of Tables	ix
List of Abbreviations	xi
About the Author	xiii
Preface	xv
Foreword, <i>Jeffrey B. Nugent</i>	xvii
Foreword, <i>Mahmoud Mohieldin</i>	xix
Acknowledgements	xxi
Chapter 1 Introduction	1
Chapter 2 The Theoretical Basis	5
Chapter 3 Methodology	15
Chapter 4 Insight of Arab Economics: A Reforming Outlook	39
Chapter 5 Economic Stabilisation and Arab Reform	53
Chapter 6 Business and Structural Reform	71
Chapter 7 Social Aspects of Arab Reform	81
Chapter 8 Institutions and Political Aspects of Arab Reform	99

Chapter 9	Winners and Losers of Arab Reforms	115
Chapter 10	The Impact of Reform Programmes on Economic Growth: An Econometric Analysis	127
Chapter 11	Towards an Inclusive Development Framework for Arab Reform	169
	Concluding Remarks	179
	References	181
	Index	191

List of Figures

Fig. 4.1.	Arab Potential and Actual GDP with Output Gap (1995–2018).	41
Fig. 4.2.	Arab GDP Per Capita Growth Compared to Other Developing Regions.	41
Fig. 4.3.	GDP Per Capita Growth for Sub-Arab Groups.	43
Fig. 4.4.	Arab's Chronic Low-growth Syndrome.	45
Fig. 4.5.	Actual and Expected GDP of the Arab Region.	45
Fig. 4.6.	Sources of GDP Growth in the Arab Region (1995–2018).	46
Fig. 5.1.	Macroeconomic Stability Indicator.	55
Fig. 5.2.	Consumer Price Index – Inflation Rate (Average).	56
Fig. 5.3.	Recorded Unemployment Rates (%).	58
Fig. 5.4.	Exchange Rate LCU: US\$ (Average).	59
Fig. 5.5.	The Structure of Public Revenues in the Arab Countries (1995–2018).	60
Fig. 5.6.	Percentage of Oil and Tax Revenues of Arab Countries from Total Revenues.	60
Fig. 5.7.	Budget Balance of Arab Countries as a Percentage of GDP.	61
Fig. 5.8.	Budget Balance (% of GDP).	62
Fig. 5.9.	Public Debt (% of GDP).	63
Fig. 5.10.	External Stability Indicator.	64
Fig. 5.11.	Total Arab Exports by Subregions During 1995–2018.	65
Fig. 5.12.	Total Arab Imports by Subregions During 1995–2018 (Billion \$).	65
Fig. 5.13.	Current Account Balance/GDP.	66
Fig. 5.14.	External Debt-to-Exports of Goods and Services.	68
Fig. 5.15.	Total Reserves in Months of Imports.	69
Fig. 6.1.	Aggregate Structural Reform Indicator.	73
Fig. 6.2.	Inward Foreign Direct Investment (% of GDP).	74
Fig. 6.3.	Domestic Credit to the Private Sector by Banks Growth (% of GDP).	75
Fig. 6.4.	The Arab Stock Markets Combined Index.	77
Fig. 6.5.1.	Export Diversification Index.	78
Fig. 6.5.2.	Export Concentration Index.	78
Fig. 6.5.3.	Commodity Structure of the Arab Exports.	79
Fig. 6.5.4.	Changes in the Composition of GDP, 1980–2012.	80
Fig. 7.1.	People Living on Less than the International Poverty Line.	82

Fig. 7.2.	Poverty Headcount Ratio at \$3.20 a Day (2011 PPP) (% of the Population).	83
Fig. 7.3.	Arab Headcount Poverty across Household Characteristics.	84
Fig. 7.4.	Top 10% Income Shares across the World.	85
Fig. 7.5.	Top 1% and Bottom 50% Income Shares Across the World.	85
Fig. 7.6.	Human Capital Indicator (H).	87
Fig. 7.7.	Infant Mortality Rate (Per 1,000 Live Births).	89
Fig. 7.8.	Life Expectancy at Birth, Total (Years).	90
Fig. 7.9.	Health Expenditure, Public (% of GDP).	90
Fig. 7.10.	School Enrolment, Primary (% Gross).	91
Fig. 7.11.	Scientific and Technical Journal Articles.	92
Fig. 7.12.	Physical Infrastructure Indicator.	94
Fig. 7.13.	The Relation Between Physical Infrastructure Indicator and the GDP Per Capita from 1995 to 2018.	95
Fig. 7.14.	Improved Water Source (% of the Population with Access).	95
Fig. 7.15.	Improved Sanitation (% of the Population with Access).	96
Fig. 7.16.	Access to Electricity (% of the Population with Access).	96
Fig. 7.17.	Fixed Telephone Subscriptions (Per 100 People).	97
Fig. 8.1.	Governance Indicator.	100
Fig. 8.2.	Voice and Accountability (VA) Indicator.	103
Fig. 8.3.	Political Stability and Absence of Violence/Terrorism (PV).	104
Fig. 8.4.	Government Effectiveness (GE) (1995–2018).	106
Fig. 8.5.	The Relationship Between Government Effectiveness and Public Services Provision (1995–2018).	106
Fig. 8.6.	Regulatory Quality (RQ).	109
Fig. 8.7.	Rule of Law (RL).	110
Fig. 8.8.	Control of Corruption (CC).	112
Fig. 9.1.	Relationship Between Structural Reform and Macroeconomic Stability in Arab Countries From 1995 to 2018.	117
Fig. 9.2.	Relationship Between Concentration Index and Natural Resource Abundance on Average (1995–2018).	119
Fig. 9.3.	Relationship Between Natural Resource Abundance and Governance (1995–2018).	120
Fig. 9.4.	The Relationship Between Internal and External Stabilisation.	121
Fig. 9.5.	The Relationship Between Unemployment and Inflation During 1995–2018.	122
Fig. 9.6.	The Relationship Between Governance Scores and Other Aggregate Developmental Indicators (1995–2018).	123
Fig. 9.7.	The Reform Indicators Among ACs Highlighting Violent Conflict (1995–2018).	124
Fig. 11.1.	The General Framework for Arab Reform.	171

List of Tables

Table 10.1.1.	Estimated Models of Reform and its Components on Economic Growth for Advanced Economies.	130
Table 10.2.1.	Estimated Models of Reform with Including Governance Components on Economic Growth for Advanced Economies.	135
Table 10.1.2.	Estimated Models of Reform and its Components on Economic Growth for Developing Countries.	138
Table 10.2.2.	Estimated Models of Reform with Including Governance Components on Economic Growth for Developing Countries Sample.	143
Table 10.1.3.	Estimated Models of Reform and its Components on Economic Growth for Arab Countries.	147
Table 10.2.3.	Estimated Models of Reform with Including Governance Components on Economic Growth for whole Arab States Sample.	151

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List of Abbreviations

ACs	Arab Countries
ALO	Arab Labour Organisation
BOP	Balance of Payments
CA	The Current Account
CPI	Consumer Price Index
CPI	Corruption Perceptions Index
CSA	Central & South Asian countries
DPD	Dynamic Panel Data
DER	Distribution of Economic Power
DW	Durbin-Watson
EAS	East Asian Countries
EC	European Commission
ECS	European countries
EFA	Education for All
EIU	Economist Intelligence Unit
EU	European Union
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
FE	Fixed Effect
FH	Freedom House
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GMM	Generalised Method of moments
GNI	Gross National Income
GNP	Gross National Product
HIPIC	Heavily Indebted Poor Countries
ICRG	International Country Risk Guide
ICT	Information and Communication Technology
ILO	International Labour Organization
IMF	International Monetary Fund
IPS	Im-Pesaran-Shin
IV	Instrumental Variables
LCN	Latin America countries
LDCs	Least developed countries
LICs	Low-Income Countries
LM	Lagrange Multiplier
LSDV	Least Squares Dummy Variables
M & E	Monitoring and Evaluation

xii List of Abbreviations

MDG	Millennium Development Goal
NAC	North American Countries
NGOs	Non-Governmental Organisations
NIE	New Institutional Economics Theory
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Square
OPEC	Organisation of Petroleum Exporting Countries
POLS	Pooled OLS
PP	Phillips-Perron
PPP	Purchasing Power Parity
R&D	Research and Development
RE	Random Effect
RPLA	Resource-Poor, Labour-Abundant
RRLA	Resource-Rich, Labour-Abundant
RRLI	Resource-Rich, Labour-Importing
SSF	Sub-Saharan Africa Countries
SUR	Seemingly Unrelated Regression
SWFs	Sovereign Wealth Funds
TFP	Total Factor Productivity
UAE	United Arab Emirates
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organisation
WDI	World Development Indicators
WGI	Worldwide Governance Indicators
WHO	World Health Organization

About the Author

Islam Abdelbary is an Egyptian economist and an assistant professor of Economics at the Arab Academy for Science and Technology. Currently, he is an economic consultant at the United Nations and Alumni research fellow at the University of Plymouth. Abdelbary's research focuses on Institutional Economics, Sustainability and economic development. He has published several research papers on development reform policy in developing countries and particularly in the MENA region. His research has awarded several international prizes, such as the Ibn Khaldun Prize 2019. Abdelbary also works as an independent researcher in several multi-disciplinary research projects for national and international organisations.

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Preface

The Arab region has numerous natural resources and great human capital wealth, perhaps the largest in the world. A long history of civilisation, supported by a geographical location that mediates the whole world, granted it the largest business centre.

Nevertheless, the countries of the region suffer from chronic low-economic growth rates, weak production structures and a decrease in the competitiveness of their products, along with poverty, inequality and corruption rates that are the highest in the world. Despite the success of the development experiences of some countries during the past five decades, they were not sustainable or inclusively planned.

As a result of this situation, many uprisings have taken place in most Arab countries, supported by the middle class, especially youth, asking for a change in the status quo and broad reform that includes the economic, social and political aspects of society.

For the same reason, I have embarked on this study as my doctoral research project for over 4 years to contribute to the ongoing debate on ways to revive Arab reform from a holistic approach. The study proposed development frameworks (based on some key economic, political and social variables, taking into consideration the distinctive features of each region group) that may lead to more comprehensive and integrated development in the region. These frameworks are a vital strategy for enhancing the effectiveness of reform programmes in the region and achieving targeted inclusive growth outcomes.

During these years, five working papers from the thesis have been presented in several international conferences; three of them published as book chapters in the book entitled *Impacts of political instability on economics in the MENA region*. The outcomes also have awarded several international prizes, such as the Ibn Khaldun Prize, during the ASSA meeting in Atlanta, 2019.

In many conferences and meetings, I have received frequent suggestions from experts and discussants to turn the study into a monograph book in order to disseminate the results of the study on a larger scale to target not only academic researchers but also policy-makers, especially in the Arab region. I became eager about the idea to deliver my message to all stakeholders. Thanks to Emerald, this transformation has become possible.

Finally, I hope this book represents a good contribution to sustainable development research in the Arab world and inspires the leaders and decision-makers in the region towards achieving the expectations and aspirations of their people.

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Foreword

Jeffrey B. Nugent*

This is a rare and much-needed book on the challenges of development, but with special reference to the Arab countries of the Middle East. Despite the remarkable success of a number of these countries historically and, thanks to the oil resources of some of them even in recent decades, Professor Abdelbary correctly detects a general lack of sustainable economic development in the region. Along with that, he finds decreasing competitiveness and weak institutions throughout the Arab region at the present time. He is quite convincing in demonstrating that major economic reforms are needed and that these reforms need to be appropriately designed so as to be more inclusive, carefully coordinated and administered, and complemented by vastly improved institutions including good governance.

Rather than either a historical account or a descriptive one as is typical of other books on the region, his analysis is founded on a comprehensive analysis of Development Theory, including not only classical and neoclassical development theory but also the New Institutional Economics and distributional considerations. Unlike textbooks on the Arab region or more generally on Development Economics, it focuses on how the economies of the region have responded to shocks like the global financial crisis and the Arab Spring crisis, and features a careful econometric analysis of 17 Arab countries and 61 other countries from all over the world. In his empirical analysis, he goes to great lengths, both (1) to make use of variables deemed especially relevant to the Arab countries and to their problems, such as export concentration, the relative importance of oil rents, and a number of different governance indexes, and (2) to utilize estimation techniques designed to overcome the usual problems of (a) the relatively short time series of some of the key variables relevant to the analysis, and (b) potential endogeneity of many of the explanatory variables.

His straight-forward growth comparisons across regions early in the book shows clearly that Arab countries have fallen far behind the growth of all other regions, especially since 2009, i.e., a period including both the financial and Arab

* *Nugent is Professor of Economics at the University of Southern California since 1976. He is also a senior researcher in this field he has worked on a wide variety of issues, problems and analytical techniques and in and on a variety of countries from Latin America, Africa, South and East Asia and especially the Middle East and North Africa. He has written over one hundred articles in refereed journals, numerous chapters in edited volumes and edited or co-edited four books. He serves on the Board of Directors of several economic associations, and editorial boards of several journals.*

Spring crises. He traces this back to the general failure of Arab economies to maintain internal economic stability, but in this respect pointing to the greater success of some of the Gulf countries in using Sovereign Wealth Funds to smooth out some of these instabilities. The economic instabilities have in some cases contributed to extremely high-income inequality, armed conflict, violence, civil war and refugee problems. While Abdelbary points to a number of areas in which a number of countries have made significant policy reforms, such as in moving away from the rigidities of central planning, encouraging the development of private banks and credit, and in improving health and education, there have been major shortcomings in all of these respects. For example, the private sectors of these economies have remained weak, without sufficient competitiveness and distorted with inefficient regulations and all too much corruption. Similarly, although education has expanded, it has been of low quality, especially at high levels. Moreover, the constraints put on so many of the favorable developments by the failure of some of these same economies to balance their fiscal budgets and their balance of payments, have greatly limited the full extension of these services and the realization of their benefits.

From his very impressive panel regressions for overall economic growth across three different regions (developed, developing and Arab economies) within his 78 country sample, Abdelbary draws some interesting contrasts. For example, he shows especially large positive effects on growth of improvements in technology in Arab countries, suggesting that through improvements in the quality of education (especially at high levels), and improved governance, it could be possible for Arab countries to raise their growth rates significantly through the technology mechanism, in part by inducing more FDI. Similarly, from the especially large coefficient of the freedom from corruption component of governance for the Arab region, and the extremely low values of this index in most Arab countries (which indeed were responsible for the costs to development Arab Spring instabilities), he points to the potential for boosting growth in Arab countries by improving control of corruption.

He concludes this highly analytical book with a brief outline of a comprehensive set of political, institutional, economic and social reforms designed to mitigate the existing problems detected in his econometric and other analyses and to promote more inclusive growth in the years ahead. Hopefully, the proposed reforms will be given serious consideration by the people and their leaders throughout the Arab region, so that we may see a brighter path to the development being realized in the coming decades.

Foreword

Mahmoud Mohieldin*

The Arab region is in trouble. Some of the world's worst humanitarian crises have devastated societies, destroyed economies, and displaced millions of people, turning many of them into refugees. The continued marginalization of women and girls and inadequate investment in education and health services hold back social and human development. Water is scarcer than anywhere else in the world, jeopardizing food security and threatening urban and rural development, and climate change have ominous implications for the region, today and in the future. The Arab region is also the only region in the world in which extreme poverty has increased; inequality has also widened. It requires massive efforts and a paradigm shift to be put in track for achieving the Sustainable Development Goals (SDGs).

To address these challenges, this rich and ambitious study argues that a bold new approach—based on comprehensive institutional, economic, and social reforms in the region—is needed that dismantles the barriers to good governance and leads to dynamic transformation. Transformative change requires more than just resources, according to the author; it requires a shift in orientation toward a new developmental policy framework in which institutional, political, social, and economic reforms are crafted and implemented simultaneously.

Abdelbary's book is using advanced technical methods in assessing development opportunities and challenges in the Arab region, these tools outcomes were fascinating, especially the recommended framework that has been adequately analyzed in detail across the book. Moreover, the book has very strong policy implications useful for decision makers, which will make it a very useful tool for the assessment and monitoring of reforms.

This book fills a critical knowledge gap by presenting a new framework and examining the effects of three exogenous factors resource abundance, conflicts, and demographic change on development. It provokes thinking about alternative scenarios of reforms in the Arab world and raises fundamental questions about

** Dr. Mohieldin, is an economist with more than 30 years of experience in international finance and development. He is the United Nations Special Envoy on Financing the 2030 Agenda. He was the former Minister of Investment of Egypt, and most recently, served as the World Bank Group Senior Vice President for the 2030 Development Agenda. He is also Professor of Economics at Cairo University and a Visiting Professor at several renowned Universities worldwide. He holds leading positions in international research centers and economic associations.*

the region's prospects. The framework developed in this book could be used to analyze other endogenous and exogenous factors and their impact on the Arab region such as climate change, pandemics, technological change, and the shifts in the center of the global economic gravity towards the east.

Acknowledgements

First and foremost, all praises be to Allah for His blessings for giving me the courage, strength and enthusiasm to complete this work.

Sincere thanks and gratitude to those who provided constructive intellect and continued assistance, especially Dr James Benhin for his sincere support and tremendous guidance, I was fortunate to work and learn from him.

Thanks to all readers, discussants, fellow panellists and audience members at all conferences and workshops to whom I have presented my work for their insight, comments and suggestions as this project has been reconstructed over the last few years.

I owe my deepest gratitude to my wife, who has been steadfastly by my side. My little kids Ahmed and Farida, for being a source of happiness and unconditional love. My great mum and supportive sister; most of what I have achieved in my life is because of their prayers and endless support.

Deep thanks to Nick Wolterman and Emerald Publishing team for being enthusiastic to the book idea. Without their support, the project could not have been satisfactorily completed.

Finally, I hope this book will bring a lasting impact providing a vision for making our region as we dream.

Islam Abdelbary
July 2020