

# The Political Economy of Transition in the Middle East

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# plan

- Transition from what to what?
- A typology of transitions
- Implications for:
  - Institutions and state services
  - Institutions and growth process
  - Macro management

# Regime typology and dynamics

		Quality of governance		
		Myopic/personalized	institutionalized	
From conflict to a political settlement that binds elites in a rent/ power sharing coalition, and society with a workable social contract	<b>dominant</b>	Dominant discretionary Oil importers in MENA after SAP (II)	Rule by law dominant - developmental state MENA states before regimes narrowed (I)	Sustainable democracy (VI)
	<b>competitive</b>	Personalized/fragmented competitive Arab "transition" countries after 2011 (III)	Rule of law competitive Goal post-AS for democratizing countries (IV)	

Inspired from Levy 2014, Khan 2010

# Regime characteristics

	Dominant party Trajectory	Democratic Trajectory
Elite bargain organization	Dominant leader/party	Competitive among at least two long lived parties/groups
Mode of decision-making	Centrally coordinated, top-down, possibility of a development state	Decentralized, the result of coalitions Success on the “edge of chaos” Islands of quality can arise if they get protected from state predation
Governance risks	All the action emanates from the state – state capacity is central No trust of the private sector - Cronyism tends to be narrow Succession risks are high	Institutional decay and clientelism Political corruption in business Electoral fiscal cycles are initially deep
Frontier challenges	As economy becomes more complex, ability to open up for more markets and competition As incomes rise, ability to respond to new aspirations of middle class	Stronger capacity of state institutions Coordination among actors to beat the tragedy of the commons

# institutions during transition

Areas	Now, in type III	Tunisia's Challenges: towards IV	Challenges, towards II and then I
<b>State capacity. general</b>	Top down accountability has broken down due to loss of central control	Develop horizontal accountability system, which takes time	Reinstate centralized authority over the public sector
<b>Civil service</b>	The extent to which the civil service is large and underpaid exacerbates the collapse in discipline	Discipline lost: Unions will push for salary rise, popular pressure for new hiring. Only horizontal accountability will help	Keep wages down – and live with petty corruption, as in the past, but improve delivery over time through strengthened discipline
<b>Inequality of opportunities (and lagging regions)</b>	Especially for subjects that were cheaper to repress but whose voice may have risen after the Uprisings	Repression cost rising, and thus need to tackle	Will rise, given that repression cost falling
<b>Higher education</b>	Large, low quality, indoctrinating	More populism can exacerbate these trends	Likely to shrink the system if reformation successful
<b>Subsidies</b>	To middle class	Same, but pressures from new interest groups increase perhaps faster?	Will cut subsidy and replace with repression as needed

# The deals space

	Disordered	Ordered
Closed (deals available only to specific individuals/organizations)	<p>Only those with political clout can make deals, even when they cannot be certain that officials will deliver</p> <p>Type II – Crony base narrows and demands higher returns in the face of rising political risk -&gt; medium- low growth</p>	<p>Only those wt political connections get to make deals, and they can be confident that officials will deliver</p> <p>Type I – patron-client relation well managed, but economy not inclusive -&gt; medium growth</p>
Open (deals depend on actions of agents but not identities)	<p>Anyone can make a deal, but no certainty that officials will deliver (petty corruption)</p> <p>Type III –generalized corruption -&gt;low growth</p>	<p>Anyone can make a deal, and they can be certain that officials will deliver</p> <p>Type IV – near-rules world -&gt;high growth</p>

Inspired by Pritchett et al 2010

# State business relations during transition

Areas	Now, in type III	Tunisia's Challenges: towards IV	Challenges, towards II and then I
<b>PSD general</b>	Closed ordered deals	Disordered deals can lead to 3 <sup>rd</sup> best; exacerbated by political competition	first best solutions needed, even if they take time – fix institutions and markets
<b>Regulatory frame and institutions</b>	Low capacity, corrupt, unpredictable	Fix rules, develop islands of quality	Re-order deals, with preferences to politically supported firms
<b>Banks</b>	Stop lending, except to SOEs..	Fix rules to democratize banking by improving investment climate in general	Get back to name lending to politically supported firms (implicit guarantees)
<b>Competition</b>	Dualistic structure with large cronies, a missing middle, and a large informal sector	Rebuild the missing middle by reducing support to the connected and formalizing the informal sector	Rebuild a large base of cronies
<b>Labor markets</b>	Rigid for formal, low efficiency in informal	Formalize the informal sector, bring unions into governance deals	Break the back of the unions
<b>FDI</b>	Deals, rent-seeking,	Into private economy	In alliance with SOEs

# Macro challenges

Areas	Before uprisings	Tunisia's Challenges: towards IV	Egypt Challenges: towards II/I
<b>Macro tendencies</b>	Top down discipline; Subsidies to MC; foreign supporters	Grabbing equilibria, electoral fiscal cycles	Reinstate macro control, but hurt by low growth; fear of street
<b>Goals</b>		Growth on the edge of chaos; Fiscal deals among social partners.	improve growth by broadening crony base; rebuild geo-strategic rents