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What Can Arab Countries Learn From Post-communist Transition?

By Marek Dabrowski

More than a year has passed since the beginning of the political uprising against the authoritarian regimes in the Arab world. But, as demonstrated by the recent dramatic developments in Syria, the process is far from over. Meanwhile nations which have already freed themselves from their authoritarian rulers (Tunisia, Egypt, Libya and Yemen), must decide where to go and how to manage their political and economic changes. To a lesser extent, a similar challenge is being faced by those constitutional monarchies (like Morocco or Jordan) which accelerated reforms in order to avoid political destabilization.

Many politicians and experts, especially those from Central and Eastern Europe, suggest their Arab colleagues learn from the experience of the post-communist transition of the early 1990s. However, while learning from others is always a useful exercise, the geopolitical and socio-economic context of the Arab revolution seems to be different, in many respects, from that of former Soviet bloc countries more than twenty years ago[1].

Political legacy of dictatorship

So far the revolution movement in the Arab world affected mostly secular dictatorships which emerged in the 1950s and 1960s as result of either military coups or anti-colonial resistance and which tried to refer, at least at their earlier stages, to some kind of socialist ideology (sometimes called Arab socialism). This political characteristic applied to Tunisia, Egypt, Libya, Yemen and Syria but also to Iraq (where the regime change resulted from the US-led military intervention in 2003) and Algeria (not affected by large-scale political unrest as of yet).

From a political perspective, the similarities between these countries and Central and Eastern Europe and the former USSR before 1989 seem to be compelling: a lack of democracy or political pluralism, the hegemonic position of one political party controlled by a dictator and his entourage, manipulated election processes, the political dependence of the judiciary, the excessive power of the army, security agencies and police, censorship and tight administrative control of grass-roots citizen initiatives, massive violations of human rights and organized repressions against certain social, political, ethnic or sectarian groups, etc. However, similar characteristics have been also shared, to various degrees, by many authoritarian regimes outside the former communist bloc - in Asia, Africa and Latin America. In this respect the communist system was not unique.

Similarities and differences between Arab socialism and Soviet-type socialism

The unique features of the Soviet-type socialism related mostly to its socio-economic model: the dominance of politics and ideology over economic rules, far-reaching centralization of all key business decisions at the government level (the central planning system or command economy), the dominant role of public ownership, political nominations for managerial positions, administrative pricing and wage setting (which led to chronic market shortages and the necessity to ration both consumer goods and production supplies), currency inconvertibility and multiple exchange rates, public monopoly in foreign trade, government-driven investment processes based on a country's self-sufficiency (autarky) principle, socially motivated full-employment and income-equalization policies, the high burden of military and security spending and the subordination of the economy to military and security goals.

[1] I would like to thank Ahmed Ghoneim, Luc de Wulf, and Luca Barbone for their valuable comments to the earlier version of this commentary. I accept the sole responsibility for its content and opinion expressed here.

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When we look at the experience of the so-called Arab socialism, especially in its early stages (from 1950s to 1970s), we may find analogies to the Soviet model. Some Arab countries tried to follow the Soviet experience of central planning, especially with respect to investment processes driven by political considerations and import-substitution industrialization strategies. In particular, oil-producing countries such as Algeria, Libya, Iraq, and, to a lesser extent, Syria, had the financial room to pursue such policies (political, military and economic support from the Soviet bloc also played an important role). Several countries, especially those involved in regional conflicts, allocated a large share of their public expenditures to military and security programs.

Price controls and large-scale subsidies, especially with respect to basic food and energy products, have also been a common feature. The same concerns currency inconvertibility and trade protectionism.

The role of public ownership in many Arab countries grew quite rapidly as a result of both outright nationalization (especially of foreign-owned firms) and government investment programs. And, similarly to communist countries, state-owned enterprises remained ineffective, overburdened with social employment and managed by political nominees, many of whom were recruited from among retired military and security officers. Again, the presence of oil wealth created more financial room for such policies.

Nevertheless, nationalization policies never went as far as in the countries of the former Soviet bloc. The important sectors of the Arab economies such as agriculture, trade, services, and small and medium size manufacturing remained largely in private hands, even in the most "socialist" countries. Private ownership was never ideologically condemned and market institutions and legal infrastructure, even if not so well developed, remained largely in place, contrary to communist countries.

In spite of price controls, subsidies, and exchange and import controls, the internal price structure remained less distorted than, for example, in the former USSR, and the market shortage of basic consumer goods – less acute. Similarly, in spite of import-substitution driven industrialization and trade protectionism, the Arab economies largely avoided the massive structural distortions (and artificial over-industrialization) that happened in the Soviet Union and Eastern Europe. The same relates to stronger trade and cultural ties with the Western world.

Furthermore, since the early 1980s (Egypt) and 1990s (Algeria and Tunisia), individual countries started, at least partially, to depart from administrative dirigisme in the economic sphere, usually with the active engagement of the IMF and World Bank. This process was driven both by external factors (decline of oil prices in mid-1980s, collapse of the Soviet bloc, economic reforms in China, India and other developing countries) and domestic policy needs (fighting macroeconomic instability and the desire to avoid political unrest). In the decade of the 2000s, even the most closed and statist countries, such as Libya and Syria, started to conduct more flexible economic policies and limited market reforms.

Differences in economic agendas

As the economic legacies of the Arab and Soviet-type socialisms are different, Arab countries cannot simply copy the experience of the post-communist transition of the early 1990s. True, some economic problems appear similar, at least at first glance. For example, most of the Arab economies need to eliminate direct and indirect subsidies to domestic food and energy products in order to reduce excessive budget deficits (which threaten their macroeconomic stability), eliminate market distortions and, sometimes, market shortages. And they must replace subsidies with targeted social assistance to those who really need support. Without a doubt, these are difficult reforms which involve great political and social risks. Nevertheless their scale seems much smaller compared to the macroeconomic stabilization and price liberalization agenda in post-communist countries in the early 1990s. The latter faced balance-of-payment crises and high inflation/ hyperinflation, while the macroeconomic situation of Arab countries in the aftermath the Arab Spring was not so dramatic.

The same concerns external economic relations. Arab economies must definitely become more open both among themselves (though they still have a long way to go) and with the external world. However, a lot of progress in this sphere has already been accomplished in the last fifteen years. Most of the Arab countries are WTO members; they concluded free trade agreements among themselves, with the EU and some of them also with the US. Their currencies are already convertible for current account transaction purposes.

Privatization policies will also differ because there is less to privatize in Arab countries compared to the

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post-communist countries in early 1990s. First, as previously mentioned, nationalization in the Arab world never went so far as in the Soviet bloc countries. Second, a substantial part of public ownership involves the oil and gas industries assets which, most likely, will not be the subject of outright privatization, at least not in the near future, for political reasons (even if opening the door to transnational corporations is critically important for developing new production capacities). Third, most Arab countries have already started privatizing several years ago and some of them, for example, Egypt, Jordan and Tunisia, seem to be quite advanced in this process. Rather they must now avoid the revolutionary temptation to reverse some of the past privatization deals considered flawed or unfair by the broader public. As demonstrated by Ukraine's experience after the Orange Revolution, such a reversal may be devastating for the business and investment climate.

Finally, privatization methods will also differ. Most Arab countries have functioning capital markets and enjoy access to international financial markets. Thus they can privatize for money, to strategic investors or through IPOs, and they do not need to give away ownership, for example, in the form of artificially invented coupon or voucher schemes as was done in several post-communist countries.

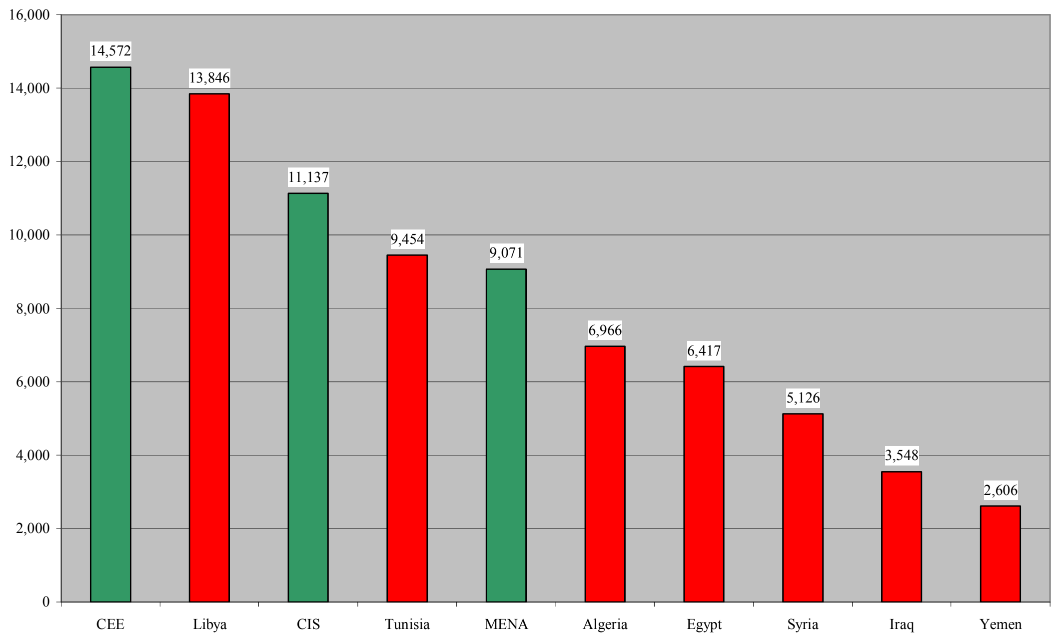
On the other hand, the already existing private sector and new prospective entrepreneurs should be relieved from the burden of bureaucratic "red tape" and corruption. Poor governance is perhaps the most serious obstacle to growth in many Arab countries. This makes their problems similar to those currently experienced by some CIS and Balkan countries rather than to the early post-communist transition agenda. I.e., they are similar to countries such as Russia or Ukraine which managed to build the foundations of a market economy but failed to ensure its effective and fair functioning.

Long-term social and development challenges

There are even more similarities between the resource-rich CIS economies and the oil producers in the Middle East and North African region: real appreciation of currencies and difficulties in the structural diversification of their economies, dependence on world commodity prices, income and wealth inequalities, the presence of huge resource rents which help to consolidate authoritarian power and continue populist policies.

However, some development challenges faced by Arab countries make them similar to other developing countries rather than to post-communist economies which have, on average, higher GDP per capita (Figure 1).

Figure 1: GDP per capita in PPP terms, current international dollars, 2010

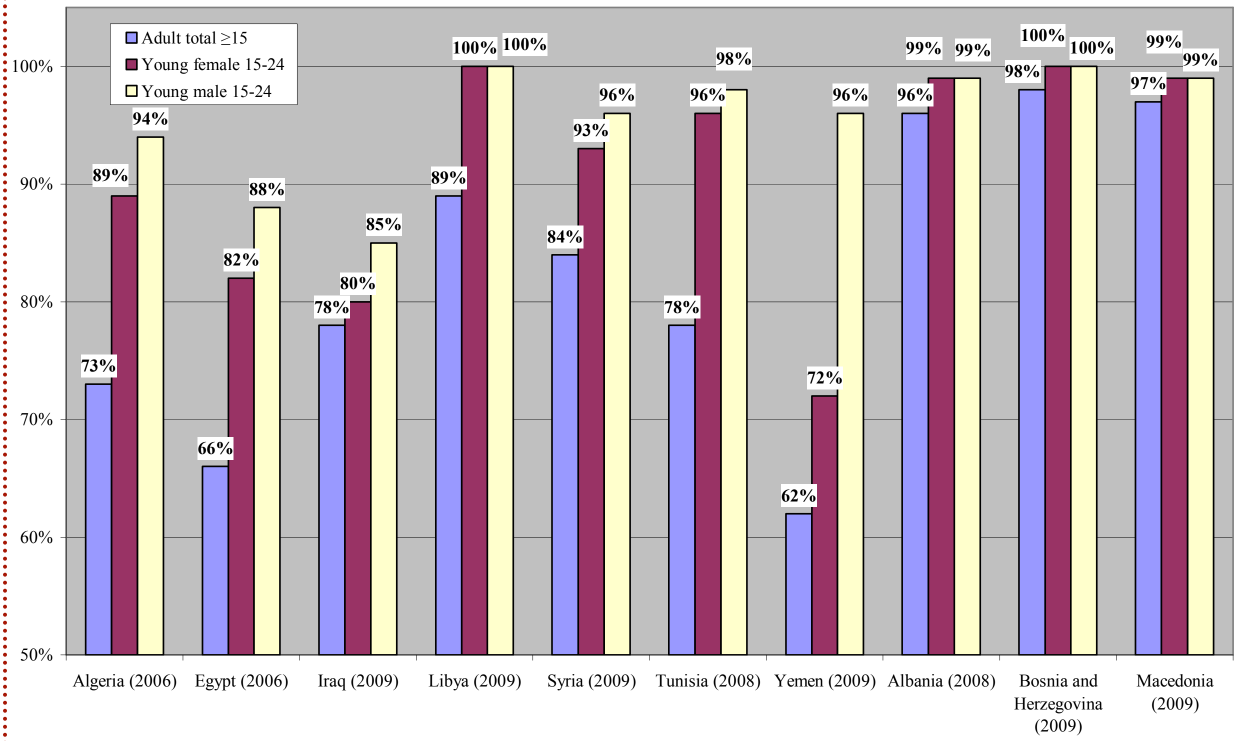


Abbreviations: GDP – gross domestic product, PPP – purchasing-power parity, CEE – Central and Eastern Europe (including Turkey but without Slovenia, Czech Republic, Estonia and Slovakia), CIS (Commonwealth of Independent States, including Georgia and Mongolia).

Source: IMF World Economic Outlook database, September 2011

Among other challenges, several Arab countries have low education standards and high levels of illiteracy among substantial groups of the population (Figure 2) and continue to discriminate against women in socio-economic and political spheres. These two (strongly interconnected) problems must remain at the top of reform agendas in Arab countries and the ability to resolve them will determine the future paths of social, economic and political development in the region.

Figure 2: Literacy rates in selected Arab countries, compared to worst-performing post-communist countries



Source: World Development Indicators database, http://data.worldbank.org/indicator

Lessons to be learned

With all the reservations against mechanical copying of post-communist transition agendas expressed above, there are still some valuable lessons from this experience which should not be ignored. In many instances, they can be also reinforced by the experiences of political and economic transitions in other regions.

The first lesson tells us that democratization may help in economic reforms, but this is not automatically guaranteed. Much depends on the ability of young democratic regimes to generate a stable government backed by a solid parliamentary majority and their ability to promptly address the country's economic and social challenges even if it involves unpopular measures. If instead democratization produces political instability and decision-making chaos and/or populist policies, not only will economic stability come under threat but also political freedom itself. There are numerous examples of democracy failures all over the world which eventually led to a new wave of authoritarianism, including the so-called color revolutions in the former USSR in the mid-2000s. And this is the real risk faced by all young Arab democracies.

This leads us to the second lesson on the timing and speed of re-forms: these countries must use the political window of op-portunity when it is open and not leave dif-ficult decisions for the future. Unfortunately, time works a-gainst re-formers and recent history is full of episodes of missed op-portunities which led to economic and political disas-ters, in one form or another. Furthermore, reforms should be maximally comprehensive to avoid producing intermediate winners with the power to block further changes.

The third lesson refers to the role of external support in consolidating economic and political reforms and making them irreversible. The right external leverage may provide political and economic incentives, security guarantees, financial and technical aid. In this respect the history of the post-communist transition is very telling. One can distinguish three groups of countries: (1) countries of Central Europe and Baltic region which, due to early offers of EU and NATO membership, now enjoy not only membership in both blocks but also relatively stable and well functioning democracies; (2) countries of the former Yugoslavia which underwent a tragic period of ethnic conflicts in the 1990s but received EU and NATO membership offers afterwards which helped them to consolidate both democratic regimes and market reforms; (3) CIS countries which never got such offers for geopolitical reasons and which, on average, have recorded the smallest progress in economic reforms; in the political sphere the situation is even worse because most of them returned to autocratic or semi-autocratic regimes.

Unfortunately, the geopolitical status of Arab countries appears similar to that of the CIS countries rather than to Central Europe: they do not have a chance for EU membership. Nevertheless, both the EU and the US can support the democratization process in the Arab world using various tools, amongst which deep trade and economic integration and more freedom in people-to-people contacts can play a powerful role. In the case of the EU, the potential of such cooperation frameworks as the Barcelona Process, European Neighborhood Policy and Union for Mediterranean is far from being exploited.

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For further information on the project or related publications please see: http://www.case-research.eu/en/node/52590

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