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THE ARAB AND POST-COMMUNIST TRANSITIONS: SIMILARITIES, DIFFERENCES, AND COMMON LESSONS*

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At the onset of the mass protests in 2010–2011, many politicians and experts suggested that Arab countries could learn from the experiences of the post-communist transition of the early 1990s. However, the geopolitical, historical, and socio-economic context of the Arab transition was different in many respects from that of the former Soviet bloc countries 20 years earlier. These differences became even more obvious five years later, in early 2016, when most Arab transition attempts ended either in a new wave of authoritarianism, or protracted bloody conflicts. Nonetheless, there are some common lessons to be learnt from the history of both transitions. They concern interrelations between the political and economic transition, the role of institutional checks and balances and the rule of law, the speed of reforms, the dangers of ethnic and sectarian conflicts, and the role of external support.

Keywords: post-communist transition, Arab Spring, political reform, economic reform, macroeconomic stabilisation, development issues, energy subsidies, conflict

JEL classification indices: E62, E63, F15, H24, H56, H62, H63, I25, O15, P21, P22, P51

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1. INTRODUCTION

The protest movement against the Arab authoritarian regimes, which started in Tunisia in December 2010, quickly spread to other Arab countries: Egypt, Yemen, Bahrain, Libya, and Syria. Indirectly, it affected other countries in the region. It raised big hopes for more freedom and democracy, and the speeding up of the economic and social modernisation of the region long marred by autocratic regimes, remnants of feudalism, slow growth, and extreme income and wealth inequalities.

Sadly, five years later (March 2016), these hopes failed to materialise. In most cases, the collapse of the previous dictatorships has not led to establishing viable democratic regimes able to ensure an elementary political stability and a responsible economic management. On the contrary, most of the countries directly affected by the mass protests have suffered from increasing domestic political, economic and social instability and insecurity. The originally peaceful protests gradually degenerated into bloody conflicts fuelled by sectarian, ethnic, tribal, or regional animosities. As a result, the entire region has suffered, in economic and security terms, from civil wars in Syria, Iraq, Libya, and Yemen. In 2015–2016, the consequences of these conflicts also reached Europe *via* the large-scale influx of refugees, and the terrorist attacks organised by the Islamic State of Iraq and Syria (ISIS) and other extreme organisations. Tunisia is the only tentative success story in conducting democratic reforms, although not free from terrorist threats and numerous economic and social challenges.

From the beginning of the protest movement, the question emerged on how to successfully manage a political and economic transition and the kind of experience which could be useful for Arab countries. This question remained even more important five years later when initial hopes for quick success had disappeared.

In 2011–2012, many experts pointed to potential similarities between the Arab and post-communist transitions (e.g., Basora 2011). Some advised the new Arab governments to learn directly from post-communist experience of the early 1990s. In particular, the governments and emerging aid industry in Central and Eastern Europe (CEE) believed in the relevance of their transition experience for emerging Arab democracies.[1] Others expressed more nuanced opinions, presenting both similarities and differences between the post-communist and Arab transitions (Meyersson et al. 2011; Slay 2011; Rohac 2012).

In 2016, the differences between both transition trajectories became even more evident. That is, the relevance of the post-communist experience for Arab coun-

[1] See Mikulova – Berti (2013) for an interesting overview of CEE advisory and experience-sharing effort.

tries and reform advice based on that experience can only be partial. The lessons drawn from other developing countries' paths to democracy and open market economy can perhaps be of equal or even higher value. Nevertheless, learning from the experiences (both positive and negative) of CEE and the former Soviet Union (FSU) may still be useful, especially if the differences between the regions are not forgotten.

Neither can one exclude sharing experience in the opposite direction. The dramatic five-year history of the Arab transition may serve as an instructive example for those post-communist countries which have not completed their transition to democracy yet and face difficulties in building a domestic political consensus, suffer from unresolved ethnic, sectarian and territorial conflicts, display the inability to pursue responsible economic policies.

The purpose of this paper is to conduct a comparative empirical analysis of major similarities and differences in the political and socio-economic transition in both regions, suggest areas of potential experience sharing, and common lessons. Our main argument is that despite some similarities in initial conditions, especially in the political sphere, there are enough differences – historical, institutional, cultural, and other – to justify a sceptical attitude to a direct "wholesale" transfer of the post-communist transition experience to the Arab world. Nevertheless, some experience sharing makes sense and common lessons from both transitions can be drawn for the benefit of future reform attempts.

The empirical character of our analysis means that we do not intend to contribute to the theory of political and economic transition. Nor are we going to relaunch a normative debate on an optimal transition strategy in CEE and FSU, which preoccupied many authors in the 1990s and early 2000s.[2]

The paper's structure is as follows: Section 2 discusses the process of political transition, followed by Section 3 on economic transition, and Section 4 on long-term development challenges. Section 5 presents common lessons and potentials for experience sharing between the two regions.

In geographical terms, our analysis covers 29 post-communist countries of the CEE/FSU region and 22 member countries of the Arab League. Marginally, in Section 2, it also deals with the occupied and disputed territories in both regions. The cross-regional comparative format of our analysis leaves no room for individual country stories other than the exemplification of general trends or an indication of major exceptions from those trends.

The statistical data come from the IMF, the World Bank, other international databases and rankings, and the findings of other research projects and publications.

[2] For the overview of this debate, see World Bank (2002).

2. POLITICAL TRANSITION

2.1. The legacy of dictatorship

From a historical perspective, the similarities between Arab countries before 2010 and former communist countries before 1989 seem compelling. The hegemony of one political party controlled by a dictator or ruler and his entourage meant a lack of democracy and political pluralism, 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 the organised repression of certain social, political, ethnic or sectarian groups.

However, similar characteristics have applied, to varying degrees, to authoritarian regimes outside the former communist bloc and the Arab region – in Asia, Africa, Latin America, or Europe (before the WWII). In this respect, neither the communist system nor the Arab authoritarian regimes have been unique.

Nevertheless, when the political transition started, the countries and societies in both regions had to deal with similar legacies of authoritarianism. They included a lack of tradition or only very distant memories of democratic government, the absence of the institutions of liberal democracy and effective legal guarantees of civil rights and liberties, the systemic checks and balances between individual branches of government (including an independent judiciary), the rule of law, the culture of free speech, democratic public discourse, and tolerance for ethnic, religious, sexual, and other minorities, etc. All these components of contemporary liberal democracy had to be built from the scratch, often by learning from other countries' experience and importing their institutions.

In this effort, CEE countries (including the Baltic ones) found themselves in a privileged position. They (i) possessed some memories of the rule of law, political pluralism and other democratic institutions (from the interwar or even early post-World War II period), (ii) enjoyed close geographical and cultural ties with Western Europe, and (iii) became eligible to apply for membership in the European Union (EU) and the North Atlantic Treaty Organization (NATO). Both the EU and NATO set high membership criteria in respect to civil rights and liberties, and democratic institutions.[3]

FSU countries, especially in Central Asia, were in a less advantageous position compared to the CEE. However, they could refer, at least partly, to some modern

[3] Among others, NATO accession requires prior resolution of territorial disputes with neighbours and ethnic conflicts and ensuring the effective civilian control over the armed forces (see Section 2.4).

(i.e. post-feudal) political and legal institutions of the Russian empire (before the Bolshevik revolution), contemporary democratic institutions of other European countries, and draw from institutional standards offered to them by the Council of Europe and the Organization for Security and Cooperation in Europe (OSCE).

Arab countries cannot rely on even such weak historical and external anchors. Most of them inherited a social and institutional legacy of the Ottoman Empire and, in some cases, were influenced by the institutions of colonial powers (e.g. the French cultural and, partly, institutional influence in the Maghreb region). The latter, for obvious reasons, have limited appeal to the Arab societies.

2.2. Mixed results of the political transition in CEE/FSU

Looking at the potential lessons of the post-communist political transition for the Arab region, one must start from the pessimistic observation that the former proved only partly successful. Among the 29 countries of CEE and FSU, one can distinguish three groups depending on the results of the political transition (Dabrowski 2013):

1. Countries which democratised their political systems in the early 1990s and sustained a democratic regime until now; this group includes the countries that joined the EU in 2004 and 2007.
2. Countries of the Western Balkans region, which recorded limited progress in democratisation in the 1990s, but substantially improved their performance in the next decade after resolving a large part of their ethnic and territorial conflicts and overthrowing authoritarian or semi-authoritarian regimes. Here, the prospects of joining the EU also played a mobilising role.
3. Most of the FSU countries which, after the short period of political freedom and democracy in the early 1990s, moved back towards authoritarian or semi-authoritarian regimes.

In the third group, one could notice several spontaneous social protests against authoritarian or semi-authoritarian regimes: the “Rose” Revolution in Georgia in 2003, the “Orange” Revolution in Ukraine in 2004, and the “Tulip” Revolution in Kyrgyzstan in 2005. However, the results of these revolutions became largely mismanaged by post-revolutionary political elites, perhaps with the exception of Georgia, which seemed to accomplish some sustainable, although limited progress on its way to liberal democracy. The social disappointment and renewed authoritarian trends led to the new “revolutions” in Kyrgyzstan (2011) and Ukraine (the so-called Euro-Maidan Revolution or Revolution of Dignity in 2013–2014).

Occasionally, anti-authoritarian protests have also been noted in Belarus, Russia (2011–2012), Armenia, Azerbaijan, and Uzbekistan (2005), but these never attained the sufficient "critical mass" to guarantee democratic evolution.

2.3. The Arab Uprising

The mass protest movement in the Arab world started from Tunisia in December 2010, whence it quickly spread to other Arab countries: Egypt, Yemen, Bahrain, Libya, and Syria. Most frequently, it has been called the "Arab Spring", sometimes also the "Arab Uprising", "Arab Awakening" (Khouri 2011), or "Arab Revolution". We prefer to speak about "protest movement", "Arab transition", and "Arab Uprising" rather than "Arab Spring" for two reasons: (1) The analysed events were not limited to spring 2011, to which the term "Arab Spring" originally referred to; (2) In the metaphoric sense, it suggests an optimistic scenario, a change for the better, which has failed to materialise so far.

The protest movement has mostly affected the secular republican regimes that emerged in the 1950s and 1960s, as a result of either military coups or anti-colonial resistance (Mallat – Mortimer 2016). At least in their early stages, they tried to refer to some sort of socialist ideology termed Arab socialism and enjoyed the political, economic, and military backing of the former Soviet Union. This political characteristic applied to Egypt, Libya, Yemen, Tunisia, Syria and Iraq (where the regime change followed the US-led military intervention of 2003), and Sudan and Algeria (neither of which have yet been affected by large-scale political unrest).[4]

The political protest movement has affected the Arab monarchies to a lesser extent so far. Most of them have followed conservative ideologies and policies. Among them, only Bahrain, Jordan, Morocco, and Kuwait experienced social unrest in 2011–2012. In Bahrain, the government pacified the protest movement called the "Pearl" Revolution with the support of Saudi troops. In Jordan, Morocco, and Kuwait, the protests led to changes in the government and partial political reforms (or a promise to that effect).

In early 2016, five years after the beginning of the protest movements, the situation falls short of early hopes. Although mass revolts led to the overthrow of former authoritarian rulers in Tunisia, Egypt, Yemen and Libya, only Tunisia

[4] One must remember, however, that Algeria experienced an unsuccessful attempt of democratisation in the early 1990s, followed by an almost decade-long civil war (see, e.g., Martinez – Entelis 2000). In early 2016, its political, social, and economic situation remained precarious due to external instability (Libya and Mali), uncertainty related to political succession after the aging President Abdelaziz Bouteflika, and the consequences of dramatic oil price decline in 2014–2015 (Lebovich 2015; Fakir – Ghanem-Yazbeck 2016).

continues the process of building democratic order. On January 26, 2014, its National Assembly approved a new constitution (Al Jazeera 2014), which offered a chance to complete the political transition from dictatorship to liberal democracy. Despite a series of terrorist attacks in 2015, Tunisia has managed to sustain a relative internal stability and democratic form of government. In 2013, it also started to implement the economic reform program supported by the IMF Stand-by loan, albeit with insufficient speed and consequence (IMF 2015b).

The situation in other countries looks much worse. Egypt, the second county after Tunisia where the protest movement won in February 2011, enjoyed a short period of political freedom and unstable democracy, which ended with a military coup in July 2013 and the restoration of an authoritarian regime backed by the Egyptian army.

In Libya and Yemen, the 2011 mass protests succeeded in bringing down old authoritarian regimes. However, they failed to build democracy and elementary political stability, and both countries became the failed states in 2014–2015 (see Wehrey 2016 on Libya). Due to deep splits of their societies along sectarian, regional, ideological, tribal, and cultural lines, they slipped into civil wars. In Yemen, the foreign interference has additionally fuelled an ethnic and sectarian conflict. The Saudi Arabia-led coalition of Gulf countries, which enjoys the military backing of the US, tries to reinstall the government of President Abd Rabbuh Mansour Hadi elected in 2012 against the Houthi rebels backed by Iran (ECFR 2015).

Similar general characteristics apply to Iraq, which started its political transition in 2003. But, after a period of relative political stability based on a democratic constitution between 2008 and 2012, it slipped again into a civil war with ISIS fuelled by the Sunni–Shia conflict.

Syria, another country affected by the protest events of 2011, represents the most tragic case. The reluctance of President Bashar al-Assad to accept any political change and his violent crackdown on protesters, plus the involvement of external players (Iran, Saudi Arabia, Qatar, Turkey, Russia, and others), led to a full-scale bloody civil war with no prospects of fast resolution. In early 2016, the country remains territorially divided between pro-government forces and Sunni rebels of various ethnic, ideological, and political profiles (including ISIS whose territorial holding increased in 2014–2015).

Civil wars in Syria and Iraq pose a destabilisation threat, in political and economic terms (see Section 3.3) for neighbouring Jordan, Lebanon and Turkey. The civil war in Libya can easily spread over to Egypt, Tunisia, Algeria, or the Sahel countries. In 2015–2016, the consequences of political instability and civil wars in the Arab region spread to Europe *via* the record-high number of refugees and the wave of terrorist attacks in France and Belgium organised by ISIS.

2.4. Comparison of the political systems in CEE/FSU and the Arab countries

To assess progress in political reforms in the CEE/FSU region and the Arab countries, we use the Freedom House (FH) rating "Freedom in the World (FIW)". Each country in *Table 1* is evaluated by two criteria: political rights (PR), and civil liberties (CL), both measured on a scale of 1–7, with 1 representing the highest degree of freedom and 7 the lowest.

The picture, which arises, is gloomy for the Arab region (see also Devarajan 2016) and only partly positive for the CEE/FSU region. There is only one politically free Arab country, namely Tunisia (since the 2015 ranking; before, it was rated as "partly free"). Four others are ranked as "partly free": Comoros, Kuwait, Lebanon, and Morocco. The FH FIW ranking reports several deteriorations, including countries directly affected by the Arab transition, namely Bahrain, Egypt, Libya, and Yemen. Most of their 2011–2012 freedom and democratic gains were reversed in 2013–2015. Deteriorations also affected Iraq, Lebanon, and the Gaza Strip.

In the CEE/FSU region, the situation is highly polarised, with three subgroups of countries as analysed in Section 2.2. However, the deterioration of scores in 2014–2015 affected representatives of each subgroup – Azerbaijan, Kazakhstan and Russia in the FSU, Bosnia and Herzegovina and Macedonia in the Western Balkans, and Hungary in the CEE. On the other hand, Kosovo and Ukraine were given a rating upgrade.

Two FSU countries (Turkmenistan and Uzbekistan) and four Arab countries (Saudi Arabia, Somalia, Sudan, and Syria) are rated as the "Worst of the Worst", with the lowest possible ranking (7) in both the PR and CL categories.

Interestingly, the FIW rating also includes non-sovereign, occupied, and disputed territories – five in the FSU and three in the Arab world. In three cases (Abkhazia, Nagorno-Karabakh, and Somaliland), they are rated as "partly free", while the others belong to the "non-free" category. The worst situation concerns the Gaza Strip, South Ossetia, and the Crimea (after its annexation by Russia in 2014).

An important observation relates to the form of political regime. All CEE countries, which record sustainable progress in building liberal democracy, represent either a parliamentary or a parliamentary-presidential form of government. The same holds true for those countries in the FSU region, which avoided the full-scale authoritarian trap (Moldova, Georgia, Kyrgyzstan, and Ukraine). Looking outside the FSU/CEE region, the experiences of several Latin American, Asian, and African countries confirm that a presidential form of government is prone to authoritarian degeneration, especially in the environment of weak legal institutions and civil society.

Table 1. Freedom in the World scores, 2015, CEE/FSU and Arab countries

CEE/FSU	PR	CL	Status	Change	Arab countries	PR	CL	Status	Change
Albania	3	3	PF		Algeria	6	5	NF	
Armenia	5	4	PF		Bahrain	7	6	NF	↓
Azerbaijan	6	6	NF	↓	Comoros	3	4	PF	
Belarus	7	6	NF		Djibouti	6	5	NF	
Bosnia & Herzegovina	4	3	PF	↓	Egypt	6	5	NF	↓
Bulgaria	2	2	F		Iraq	6	6	NF	↓
Croatia	1	2	F		Jordan	6	5	NF	
Czech Republic	1	1	F		Kuwait	5	5	PF	
Estonia	1	1	F		Lebanon	5	4	PF	↓
Georgia	3	3	PF		Libya	6	6	NF	↓
Hungary	2	2	F	↓	Mauritania	6	5	NF	
Kazakhstan	6	5	NF	↓	Morocco	5	4	PF	
Kosovo	4	4	PF	↑	Oman	6	5	NF	
Kyrgyzstan	5	5	PF		Qatar	6	5	NF	
Latvia	2	2	F		Saudi Arabia	7	7	NF	
Lithuania	1	1	F		Somalia	7	7	NF	
Macedonia	4	3	PF	↓	Sudan	7	7	NF	
Moldova	3	3	PF		Syria	7	7	NF	
Montenegro	3	2	F		Tunisia	1	3	PF	↑
Poland	1	1	F		UAE	6	6	NF	
Romania	2	2	F		Yemen	6	6	NF	↓
Russia	6	6	NF	↓	*Gaza Strip*	7	6	NF	↓
Serbia	2	2	F		*West Bank*	6	5	NF	
Slovakia	1	1	F		*Somaliland*	4	5	PF	
Slovenia	1	1	F						
Tajikistan	6	6	NF						
Turkmenistan	7	7	NF						
Ukraine	3	3	PF	↑					
Uzbekistan	7	7	NF						
Abkhazia	4	5	PF						
Crimea	7	6	NF						
Nagorno-Karabakh	5	5	PF						
South Ossetia	7	6	NF						
Transnistria	6	6	NF						

Notes: PR – political rights, CL – civil liberties, NF – non-free, PF – partly free, F – free, ↓ – deterioration, ↑ – improvement (both in 2014–2015 rankings); Italics denote non-sovereign, occupied and disputed territories.

Source: Freedom in the World, http://freedomhouse.org/sites/default/files/FIW%202014%20Scores%20-%20 Countries%20and%20Territories.pdf

In this context, the choice of the parliamentary-presidential regime in the new Tunisian constitution, approved on January 26, 2014, is a promising sign (which has been confirmed by the country's upgrade in the 2015 FIW rating). Consequently, one of the basic political recommendations for both the Arab and FSU countries should be developing a parliamentary form of government based on a strong system of constitutional checks and balances.

Another conclusion concerns ensuring an effective civilian control over army and security agencies by the democratically elected government and parliament. Achieving such a goal often requires a sweeping reorganisation of both, redefining their constitutional and legal mandate, and sometimes their downsizing. The challenge of the excessive political and economic power of the military and security forces and institutions is faced by several FSU and Arab countries, for example, Russia, Egypt, Syria, Algeria, and Yemen. Besides those two regions, it remains a serious challenge in many Latin American, African, and Asian countries.

3. ECONOMIC TRANSITION

3.1. Comparing 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, the far-reaching centralisation of all key business decisions at a government level (a central planning system, also termed the command economy), the monopoly or dominance of the public ownership of productive assets, political nominations for managerial positions *(nomenklatura),* administrative pricing and wage setting (which led to chronic market shortages, rationing of both consumer goods and production supplies, and often to a shortage of labour resources), currency inconvertibility and multiple exchange rates, state monopoly in foreign trade, government-driven investment processes based on a country's self-sufficiency (autarchy) principle, socially motivated full-employment and income-equalisation policies (which did not necessarily produce actual income equality), the heavy burden of military and security spending, and the subordination of the economy to military and security goals.

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

Price controls and large-scale subsidies, especially with respect to basic food and energy products, were also a common feature. The same holds true for currency inconvertibility and trade protectionism (but not a full state monopoly in foreign trade as in communist countries).

The importance of public ownership in many Arab countries grew quite rapidly out of both outright nationalisation (especially of foreign-owned firms) and government investment programs. Similarly to communist countries, state-owned enterprises remained ineffective, overburdened by 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 leeway for such policies.

Nevertheless, nationalisation policies never went as far as they did in the countries of the former Soviet bloc. The major 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 as such was never ideologically condemned and market institutions and legal infrastructure, even if less developed, remained largely in place, contrary to the practice in communist countries.

Despite 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 was less acute. Similarly, in spite of industrialisation driven by import-substitution and trade protectionism, the Arab economies largely avoided the massive structural distortions (and artificial over-industrialisation) that characterised the Soviet Union and CEE. The same goes for the stronger trade and cultural ties with the Western world.

Furthermore, from the early 1980s (Egypt) and 1990s (Algeria and Tunisia), individual countries started, at least partially, to depart from economic dirigisme, with the active engagement of the IMF and the World Bank. This process was driven both by external factors (fall of oil prices in the mid-1980s, the collapse of the Soviet bloc, the economic reforms in China, India and other developing countries) and domestic policy needs (combating macroeconomic instability and the desire to avoid political unrest). In the first decade of the 2000s, even the most closed and statist countries such as Libya and Syria made their economic policies more flexible and started partial market reforms (Dabrowski – De Wulf 2013).

However, these reforms, due to their limited agenda and rather slow pace of implementation, failed to produce the expected results. Economic growth, in particular, in per capita terms continued to be disappointing in the 1990s and accelerated only slightly in the 2000s, on top of high commodity prices and global emerging-market boom. Unemployment, especially of youths, remained high, and the same was true of income and wealth inequalities (Ghanem 2016a, b). The lack of democratic control and government transparency was not conducive to a fair privatisation or to implementing effective measures against corruption and nepotism (Devarajan 2016). As a result, the limited economic liberalisation and privatisation agendas were captured by powerful political–military–business groups, which distorted them in their own favour (the phenomenon of "crony" capitalism). This produced a fertile ground for social frustration and disappointment, which eventually led to the social and political explosion in 2010–2011.

3.2. Differing economic agendas

Since the economic legacies of the Arab and Soviet-type socialisms are different, Arab countries cannot simply copy the experiences of the post-communist transition of the early 1990s. True, some economic problems appear to be similar, at least at first glance. For example, most Arab economies need to eliminate direct and indirect subsidies on domestic food and energy products in order to reduce excessive budget deficits (which threaten their macroeconomic stability – see Section 3.4), eliminate market distortions, and, sometimes, market shortages. They should also replace subsidies with targeted social assistance to those who really need support, as has been done in a number of post-communist countries (Clements et al. 2013).

Without a doubt, such difficult reforms involve great political and social risks. Nevertheless, their scale seems much smaller than the macroeconomic stabilisation and price liberalisation agenda implemented in the post-communist countries. The latter faced severe balance-of-payment crises and high inflation/hyperinflation, while the macroeconomic situation of the Arab countries in the late 2000s was not so turbulent.

Unfortunately, since 2011, several Arab countries experienced a deterioration, sometimes a substantial one, in the macroeconomic sphere (GDP stagnation or decline, higher unemployment, larger fiscal deficits, shrinking international reserves, etc.) as a result of either violent conflicts (Libya, Syria, Yemen, and Iraq), or domestic political instability (Egypt and, to a lesser extent, Tunisia), or instability in the neighbourhood (Jordan and Lebanon).

As far as external economic relations are concerned, Arab economies must undoubtedly become more open, both among themselves (despite the Pan-Arab Free

Trade Area, PAFTA, they still have a long way to go) and with the wider world (Ghoneim et al. 2012). However, much progress has already been made in this sphere since the beginning of the new millennium. Most of the Arab countries are WTO members; they concluded free trade agreements among themselves, with the EU, and some of them even with the US. Their currencies are already convertible for current account transaction purposes (Dabrowski – De Wulf 2013).

Privatisation policies will also differ because there is less to privatise in Arab countries as compared to the post-communist countries in the early 1990s. First, as mentioned above, nationalisation in the Arab world was never as extensive 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 privatisation for political reasons, at least not in the near future (even if opening the door to transnational corporations is critically important for developing new production capacities). Third, most Arab countries already started privatising several years ago and some of them, Egypt, Jordan and Tunisia, for example, made progress in this sphere (Woodward – Safavi 2012). Rather, they must now avoid the revolutionary temptation to reverse some of the past privatisation deals considered flawed or unfair by the broader public. As demonstrated by the experience of Ukraine after the "Orange" Revolution in 2004–2005, such a reversal may be devastating for the business and investment climate. Instead, the effort should be put to ensure the greater openness, transparency, and fair competition of future privatisation deals.

Finally, privatisation methods will also differ. Most Arab countries have functioning capital markets and enjoy access to international financial markets. Thus, they can privatise for money, to strategic investors or through initial public offerings, and they do not need to give away ownership, for example, in the form of artificially invented coupon/voucher programs or heavily leveraged employee/management buyout 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 of the burden of bureaucratic "red tape", corruption, and nepotism (see Ghanem 2016b, and Section 4.1). Poor governance and various symptoms of "crony" (or "oligarchic") capitalism is perhaps the most serious obstacle to growth in many Arab countries. This makes their problems similar to those currently experienced by some FSU and Balkan countries rather than to the early post-communist transition agenda. That is, they are like Russia or Ukraine, for instance, which managed to build the foundations of a market economy, but failed to ensure its fair and effective functioning.

3.3. Deterioration of the economic situation since 2008

The global financial crisis of 2008–2009, followed by the European sovereign debt and financial crisis of 2010–2013, hit hard most of CEE and FSU economies *(Table 2)* because of their dependence on trade with, and capital flows from, advanced economies, especially Western and Northern Europe. Both crises had but a limited and brief impact on Arab economies because of their moderate trade and financial exposure to Europe and because of the continuous oil and commodity boom in 2010–2013. However, Arab economies have been damaged by political destabilisation and violent conflicts in the region since 2011. Business activity, investment, and incoming tourism, an important industry in Lebanon, Jordan, Egypt, Tunisia, and Syria (Languar 2011, 2012) have suffered. In addition, since 2014, oil-exporting countries, in particular the Gulf countries, Iraq, Sudan, Libya, and Algeria, have been negatively affected by the sharp decline in oil prices.

The fear of spreading popular unrest made most Arab governments reluctant to continue economic reforms such as the reduction or elimination of subsidies, public sector modernisation and restructuring, privatisation, and bringing foreign investors. Worse, reacting to mass protests in 2010–2011 in a populist way, several governments backtracked on previous reforms by increasing energy and food subsidies again, increasing public sector employment, or revising previous privatisation deals, to mention a few examples.

The adverse impact of political events on economic growth in Tunisia, Egypt, Libya, and Yemen is clearly visible in *Table 3*. The negative economic and political fallout from the civil wars in Syria (since 2011) and Iraq (since 2014) such as large numbers of refugees, blocked transit routes, declining tourism, and foreign direct investment (FDI) flows affected neighbouring Lebanon, Jordan, and Turkey (IMF 2013, Box 2.1, pp. 34–35). Similarly, conflict in Libya has negatively affected neighbouring Tunisia and Egypt.

The IMF World Economic Outlook data on Syria after 2010 are not available. However, Abu-Ismail (2016) estimates that Syria's GDP contracted by 55% between 2010 and 2015. Cumulative destruction in housing and infrastructure stock amounted to *ca*. 150% of 2010 GDP. The total cultivated area in agriculture declined by 60% and the primary school enrolment ratio fell to 60%. Neither did the situation in Syria help Jordan and Lebanon to return to higher growth rates.

Since 2011, fiscal balances deteriorated everywhere in the region, even in oil-producing Algeria, Bahrain, Saudi Arabia, and Sudan as well as in Jordan and Morocco, which were not affected directly by the mass protests resulting in civil wars (Khan 2016). Egypt recorded high fiscal deficits since at least the early 2000s, which have deteriorated further since 2010.

Table 2. Post-communist economies: real GDP, annual change, %, 2007–2015

Group	Country	2007	2008	2009	2010	2011	2012	2013	2014	2015
EU new member states	Bulgaria	6.9	5.8	–5.0	0.7	2.0	0.5	1.1	1.7	**1.7**
	Croatia	5.2	2.1	–7.4	–1.7	–0.3	–2.2	–1.1	–0.4	**0.8**
	Czech Republic	5.5	2.7	–4.8	2.3	2.0	–0.9	–0.5	2.0	**3.9**
	Estonia	7.7	–5.4	–14.7	2.5	7.6	5.2	1.6	**2.9**	**2.0**
	Hungary	0.5	0.9	–6.6	0.8	1.8	–1.5	1.5	3.6	**3.0**
	Latvia	9.8	–3.2	–14.2	–2.9	5.0	4.8	4.2	**2.4**	2.2
	Lithuania	11.1	2.6	–14.8	1.6	6.1	3.8	3.3	**3.0**	**1.8**
	Poland	7.2	3.9	2.6	3.7	4.8	1.8	1.7	3.4	**3.5**
	Romania	6.9	8.5	–7.1	–0.8	1.1	0.6	3.4	2.8	**3.4**
	Slovakia	10.7	5.4	–5.3	4.8	2.7	1.6	1.4	2.4	**3.2**
	Slovenia	6.9	3.3	–7.8	1.2	0.6	–2.7	–1.1	3.0	**2.3**
EU candidates/ potential candidates	Albania	5.9	7.5	3.4	3.7	2.5	1.6	**1.4**	**1.9**	**2.7**
	Bosnia and Herzegovina	6.0	5.6	–2.7	0.8	1.0	–1.2	2.5	1.1	**2.1**
	Kosovo	8.3	4.5	3.6	3.3	4.4	2.8	3.4	**2.7**	**3.2**
	Macedonia	6.5	5.5	–0.4	3.4	2.3	–0.5	2.7	3.8	**3.2**
	Montenegro	10.7	6.9	–5.7	2.5	3.2	–2.5	3.3	1.5	**3.2**
	Serbia	5.9	5.4	–3.1	0.6	1.4	–1.0	2.6	–1.8	**0.5**
FSU countries	Armenia	13.7	6.9	–14.2	2.2	4.7	7.1	3.5	3.4	**2.5**
	Azerbaijan	25.0	10.8	9.3	5.0	0.1	2.2	5.8	2.8	**4.0**
	Belarus	8.7	10.3	0.1	7.7	5.5	1.7	1.0	**1.6**	**–3.6**
	Georgia	12.6	2.6	–3.7	6.2	7.2	6.4	3.3	4.8	**2.0**
	Kazakhstan	8.9	3.3	1.2	7.3	7.5	5.0	6.0	4.3	**1.5**
	Kyrgyzstan	8.5	7.6	2.9	–0.5	6.0	–0.9	10.5	3.6	**2.0**
	Moldova	3.0	7.8	–6.0	7.1	6.8	–0.7	9.4	4.6	**–1.0**
	Russia	8.5	5.2	–7.8	4.5	4.3	3.4	1.3	0.6	**–3.8**
	Tajikistan	7.8	7.9	3.9	6.5	7.4	7.5	7.4	6.7	3.0
	Turkmenistan	11.1	14.7	6.1	9.2	14.7	11.1	10.2	10.3	**8.5**
	Ukraine	8.2	2.2	–15.1	0.3	5.5	0.2	0.0	–6.8	**–9.0**
	Uzbekistan	9.5	9.0	8.1	8.5	8.3	8.2	8.0	8.1	**6.8**

Note: Bold numbers indicate IMF estimate.

Source: IMF World Economic Outlook (WEO) database, October 2015.

Table 3. Basic macroeconomic indicators in selected Arab countries, 2007–2015

Country	Indicator	2007	2008	2009	2010	2011	2012	2013	2014	2015
Algeria	Annual growth of real GDP, %	3.4	2.4	1.6	3.6	2.8	2.6	2.8	**3.8**	**3.0**
	End-of-year inflation, %	4.8	4.9	5.8	2.7	5.2	9.0	1.1	5.3	**2.0**
	GG net lending/borrowing, % of GDP	6.1	9.1	–5.5	–0.4	–0.4	–4.1	–0.4	–7.3	**–13.7**
	GG gross debt, % of GDP	13.9	8.8	10.8	11.7	9.9	9.9	8.3	8.8	**10.2**
	Current account balance, % of GDP	22.7	20.1	0.3	7.5	9.9	5.9	0.4	**–4.5**	**–17.7**
Bahrain	Annual growth of real GDP, %	8.3	6.2	2.5	4.3	2.1	3.6	5.3	4.5	**3.4**
	End-of-year inflation, %	4.0	5.1	1.6	1.0	0.2	2.6	4.0	2.5	**1.6**
	GG net lending/borrowing, % of GDP	1.6	4.3	–5.6	–5.8	–1.5	–3.2	–4.3	–5.7	**–14.2**
	GG gross debt, % of GDP	16.3	12.6	21.4	29.7	32.5	36.2	43.5	43.8	66.7
	Current account balance, % of GDP	13.4	8.8	2.4	3.0	11.2	7.2	7.8	3.3	**–4.8**
Djibouti	Annual growth of real GDP, %	5.1	5.8	5.0	3.5	4.5	4.8	5.0	6.0	**6.5**
	End-of-year inflation, %	8.2	9.2	2.2	2.8	7.6	1.1	2.5	2.8	**3.0**
	GG net lending/borrowing, % of GDP	–2.6	1.2	–5.2	–1.3	–1.4	–2.7	–5.9	–10.5	**–11.5**
	GG gross debt, % of GDP	56.7	59.3	57.6	50.6	45.2	43.3	42.3	43.2	**52.4**
	Current account balance, % of GDP	–21.4	–24.3	–9.3	0.6	–13.7	–20.3	–23.3	–25.6	**–31.4**
Egypt	Annual growth of real GDP, %	7.1	7.2	4.7	5.1	1.8	2.2	2.1	2.2	**4.2**
	End-of-year inflation, %	8.6	19.9	9.9	10.6	11.8	7.3	9.8	8.2	**11.4**
	GG net lending/borrowing, % of GDP	–7.5	–8.0	–6.9	–8.3	–9.8	–10.5	–14.1	–13.6	**–11.7**
	GG gross debt, % of GDP	80.2	70.2	73.0	73.2	76.6	78.9	89.0	90.5	**90.0**
	Current account balance, % of GDP	2.1	0.5	–2.3	–2.0	–2.6	–3.9	–2.4	–0.8	**–3.7**
Iraq	Annual growth of real GDP, %	1.9	8.2	3.4	6.4	7.5	13.9	6.6	–2.1	**0.0**
	End-of-year inflation, %	4.7	6.8	–4.4	3.3	6.0	3.6	3.1	1.6	**3.0**
	GG net lending/borrowing, % of GDP	7.8	–0.9	–12.7	–4.2	4.7	4.1	–5.8	–5.3	**–23.1**
	GG gross debt, % of GDP	117.1	74.2	87.4	53.6	40.8	34.7	31.9	38.9	**75.7**
	Current account balance, % of GDP	0.8	15.9	–6.8	3.0	12.0	6.7	1.3	–2.8	**–12.7**
Jordan	Annual growth of real GDP, %	8.2	7.2	5.5	2.3	2.6	2.7	2.8	**3.1**	**2.9**
	End-of-year inflation, %	5.1	9.0	2.7	5.7	2.9	6.0	3.1	**1.7**	**1.9**
	GG net lending/borrowing, % of GDP	–5.0	–4.4	–8.9	–5.6	–6.8	–8.9	–11.5	**–10.0**	**–3.0**
	GG gross debt, % of GDP	77.4	60.2	64.8	67.1	70.7	81.8	86.7	**89.0**	90.0
	Current account balance, % of GDP	–16.8	–9.4	–5.2	–7.1	–10.3	–15.2	–10.3	**–6.8**	**–7.4**

Table 3. continued

Country	Indicator	2007	2008	2009	2010	2011	2012	2013	2014	2015
Kuwait	Annual growth of real GDP, %	6.0	2.5	–7.1	–2.4	10.6	7.7	0.8	0.1	**1.2**
	End-of-year inflation, %	7.5	9.0	2.1	6.0	3.1	4.4	2.7	2.9	**3.3**
	GG net lending/borrowing, % of GDP	37.4	20.2	27.2	25.9	33.0	34.7	34.0	26.3	**1.3**
	GG gross debt, % of GDP	11.8	9.6	11.0	11.3	8.5	6.8	6.4	6.9	**9.9**
	Current account balance, % of GDP	36.8	40.9	26.7	31.8	42.7	45.2	41.2	31.0	**9.3**
Lebanon	Annual growth of real GDP, %	9.4	9.1	10.3	8.0	0.9	**2.8**	**2.5**	**2.0**	**2.0**
	End-of-year inflation, %	6.0	6.4	3.4	4.6	3.1	10.1	1.1	**–0.7**	**1.0**
	GG net lending/borrowing, % of GDP	–11.0	–10.0	–8.2	–7.6	–5.9	–8.4	–8.7	**–6.0**	**–10.0**
	GG gross debt, % of GDP	171.0	163.1	145.6	138.4	133.9	130.8	133.4	**133.1**	**132.4**
	Current account balance, % of GDP	–7.2	–11.1	–12.5	–20.7	–15.1	–24.3	–26.7	–24.9	**–21.0**
Libya	Annual growth of real GDP, %	6.4	2.7	–0.8	5.0	–62.1	104.5	–13.6	–24.0	**–6.1**
	End-of-year inflation, %	7.6	9.7	0.3	3.3	26.6	–3.7	1.7	3.7	**11.7**
	GG net lending/borrowing, % of GDP	28.6	27.5	–5.3	11.6	–15.9	27.8	–4.0	–43.5	**–79.1**
	GG gross debt, % of GDP	4.1	1.0	1.9	1.6	10.9	2.3	3.3	39.3	**50.5**
	Current account balance, % of GDP	44.1	42.5	14.9	19.5	9.1	29.1	13.6	–30.1	**–62.2**
Mauritania	Annual growth of real GDP, %	2.8	1.1	–1.0	4.8	4.4	6.0	5.5	6.9	**4.1**
	End-of-year inflation, %	7.4	3.9	4.9	6.1	5.5	3.4	4.5	4.7	**3.6**
	GG net lending/borrowing, % of GDP	–1.8	–4.3	–3.1	–0.6	0.0	2.5	–0.9	–3.6	**–1.0**
	GG gross debt, % of GDP	76.4	78.8	90.9	80.3	73.3	73.2	76.4	76.6	84.3
	Current account balance, % of GDP	–14.5	–13.2	–13.4	–7.6	–6.0	–26.6	–24.4	**–28.9**	**–18.3**
Morocco	Annual growth of real GDP, %	3.5	5.9	4.2	3.8	5.2	3.0	4.7	2.4	**4.9**
	End-of-year inflation, %	2.0	4.2	–1.6	2.2	0.9	2.6	0.4	1.6	**1.6**
	GG net lending/borrowing, % of GDP	–0.1	0.7	–1.8	–4.3	–6.6	–7.3	–5.2	–4.9	**–4.3**
	GG gross debt, % of GDP	52.0	45.4	46.1	49.0	52.5	58.3	61.5	63.4	**63.9**
	Current account balance, % of GDP	–2.5	–7.1	–5.3	–4.4	–7.9	–9.5	–7.9	–5.5	**–2.3**
Oman	Annual growth of real GDP, %	4.5	8.2	6.1	4.8	4.1	5.8	**4.7**	**2.9**	**4.4**
	End-of-year inflation, %	8.3	11.8	0.9	4.2	3.3	2.9	0.3	1.0	**0.4**
	GG net lending/borrowing, % of GDP	12.4	17.3	–0.3	5.7	9.4	4.7	3.2	**–1.5**	**–17.7**
	GG gross debt, % of GDP	7.1	4.8	6.9	5.9	5.2	4.9	5.1	**5.1**	**9.3**
	Current account balance, % of GDP	6.0	8.5	–1.1	8.9	13.2	**10.3**	**6.6**	**2.0**	**–16.9**

Table 3. continued

Country	Indicator	2007	2008	2009	2010	2011	2012	2013	2014	2015
Qatar	Annual growth of real GDP, %	18.0	17.7	12.0	19.6	13.4	4.9	4.6	4.0	**4.7**
	End-of-year inflation, %	13.6	15.2	–4.9	0.4	2.1	2.6	2.5	2.9	**1.6**
	GG net lending/borrowing, % of GDP	10.4	10.8	15.5	6.1	10.2	14.2	20.7	14.7	**4.5**
	GG gross debt, % of GDP	8.0	11.5	33.6	38.4	34.5	36.0	32.3	31.7	**29.9**
	Current account balance, % of GDP	14.4	23.1	6.5	19.1	30.7	32.6	30.9	26.1	**5.0**
Saudi Arabia	Annual growth of real GDP, %	6.0	8.4	1.8	4.8	10.0	5.4	2.7	3.5	**3.4**
	End-of-year inflation, %	6.0	9.5	4.0	5.8	2.7	3.6	3.0	2.4	**2.1**
	GG net lending/borrowing, % of GDP	11.8	29.8	–5.4	3.6	11.2	12.0	5.8	–3.4	**–21.6**
	GG gross debt, % of GDP	17.1	12.1	14.0	8.4	5.4	3.6	2.2	1.6	6.7
	Current account balance, % of GDP	22.5	25.5	4.9	12.7	23.7	22.4	18.2	10.3	**–3.5**
Sudan	Annual growth of real GDP, %	8.5	3.0	4.7	3.0	–1.3	–3.4	3.9	**3.6**	**3.5**
	End-of-year inflation, %	8.8	14.9	15.5	15.4	18.9	44.4	41.9	**25.7**	**15.5**
	GG net lending/borrowing, % of GDP	–3.5	0.6	–5.1	0.3	0.1	–3.3	–2.3	**–1.1**	**–1.8**
	GG gross debt, % of GDP	70.7	68.8	72.1	73.1	70.6	94.8	89.9	**74.0**	**71.5**
	Current account balance, % of GDP	–6.0	–1.6	–9.6	–2.1	–0.4	–9.3	–8.9	**–7.7**	**–5.8**
Syria	Annual growth of real GDP, %	5.7	4.5	5.9	3.4	n/a	n/a	n/a	n/a	n/a
	End-of-year inflation, %	4.8	15.4	1.7	6.3	n/a	n/a	n/a	n/a	n/a
	GG net lending/borrowing, % of GDP	–3.0	–2.9	–2.9	**–7.8**	n/a	n/a	n/a	n/a	n/a
	GG gross debt, % of GDP	42.7	37.3	31.2	**30.0**	n/a	n/a	n/a	n/a	n/a
	Current account balance, % of GDP	–0.2	–1.3	–2.9	**–2.8**	n/a	n/a	n/a	n/a	n/a
Tunisia	Annual growth of real GDP, %	6.3	4.5	3.1	2.6	–1.9	3.7	2.3	2.3	**1.0**
	End-of-year inflation, %	3.9	4.4	3.3	3.3	3.9	5.9	5.7	4.8	**4.4**
	GG net lending/borrowing, % of GDP	–2.6	–0.7	–2.4	–0.5	–3.2	–4.8	–6.0	–3.7	**–5.7**
	GG gross debt, % of GDP	45.9	43.3	42.8	40.7	44.5	44.5	44.3	50.0	**54.0**
	Current account balance, % of GDP	–2.4	–3.8	–2.8	–4.8	–7.5	–8.2	–8.3	–8.8	**–8.5**
UAE	Annual growth of real GDP, %	3.2	3.2	–5.2	1.6	4.9	7.2	4.3	4.6	**3.0**
	End-of-year inflation, %	11.7	6.6	1.2	0.9	0.8	0.9	1.7	3.0	**3.3**
	GG net lending/borrowing, % of GDP	21.8	20.1	–4.3	2.0	6.3	10.9	10.4	5.0	**–5.5**
	GG gross debt, % of GDP	7.9	12.5	24.1	22.2	17.6	17.0	15.9	15.7	18.9
	Current account balance, % of GDP	12.5	7.1	3.1	2.5	14.7	21.3	18.4	13.7	**2.9**

Table 3. continued

Country	Indicator	2007	2008	2009	2010	2011	2012	2013	2014	2015
Yemen	Annual growth of real GDP, %	3.3	3.6	**3.9**	**7.7**	**-12.7**	**2.4**	**4.8**	**–0.2**	**–28.1**
	End-of-year inflation, %	11.2	10.8	8.8	**12.5**	**23.2**	**5.8**	**8.1**	**10.0**	**20.0**
	GG net lending/borrowing, % of GDP	–7.2	–4.5	–10.2	–4.1	–4.5	–6.3	–6.9	**–4.1**	**–8.5**
	GG gross debt, % of GDP	40.4	36.4	49.8	42.4	45.7	47.3	48.2	**48.7**	**67.0**
	Current account balance, % of GDP	–7.0	–4.7	**–10.1**	**-3.4**	**–3.0**	**–1.7**	**–3.1**	**–1.7**	**–5.3**

Notes: GG – General government. Bold numbers indicate IMF estimate.

Source: IMF WEO database, October 2015.

Since 2014, the government revenues of Arab oil exporters suffered from a sharp decline in oil prices, similarly to oil producers in other regions (including Azerbaijan, Kazakhstan, Russia, Turkmenistan, and Uzbekistan in the FSU). On the contrary, the budgets of oil importers should benefit from lower oil prices due to lower energy subsidies and lower government expenditures. However, the net lending/borrowing statistics in *Table 3* do not confirm such fiscal gains yet.

The combination of slower growth and higher fiscal deficits led to an increase in gross general government (GG) debt-to-GDP ratio in Bahrain, Egypt, Jordan, Morocco, Tunisia, and Yemen. Until 2013, net oil exporters, except Bahrain and Sudan, were able to either decrease this ratio or stabilise it on a low level. However, since 2014, it started to grow in Algeria, Iraq, and Libya as a result of lower oil prices and military conflicts (Iraq and Libya).

Gross public debt reached a high level in some Arab countries as compared to other emerging market economies. In 2014, it amounted to 133.1% of GDP in Lebanon, 90.5% of GDP in Egypt, 89.0% in Jordan, 76.6% in Mauritania, 74.0% in Sudan, and 63.4% in Morocco.

Fiscal imbalances and consumption-related subsidies put pressure on external accounts. The data in *Table 3* point to two waves of deterioration of current account balances: since 2011 in Tunisia, Jordan, and Morocco (in Jordan and Morocco they improved somewhat after 2013) and since 2014, as a result of the oil-price shock (in Algeria, Bahrain, Iraq, Oman, Saudi Arabia, and the UAE). Djibouti, Lebanon, and Mauritania recorded extremely high current account deficits (between 20 and 30% of GDP) for several years.

Capital accounts also deteriorated due to decreasing inflows of FDI and, in some cases, to capital outflows in countries affected directly (Egypt, Iraq, Libya, Syria, Tunisia, and Yemen) or indirectly (Jordan and Lebanon) by the negative consequences of the Arab Uprising.

Table 4. Total international reserves, without gold, in selected Arab countries, USD bn, end of period, 2009–2015

Country	2009	2010	2011	2012	2013	2014	2015Q2
Algeria	149.04	162.61	182.82	191.30	194.71	179.62	159.58
Bahrain	3.85	5.09	4.54	5.20	5.35	6.05	5.76
Comoros	0.15	0.15	0.16	0.19	0.17	0.17	n/a
Djibouti	0.24	0.25	0.24	0.25	0.42	0.39	0.38
Egypt	32.25	33.61	14.92	11.63	13.61	12.00	16.70
Iraq	44.13	50.36	60.74	68.73	76.11	62.89	n/a
Jordan	11.69	13.06	11.47	8.09	13.22	15.30	15.05
Kuwait	20.27	21.24	25.80	28.89	29.35	32.11	32.55
Lebanon	29.10	31.51	33.74	37.19	36.75	39.55	40.55
Libya	98.73	99.65	104.80	118.41	115.20	89.09	81.42
Mauritania	0.23	0.27	0.48	0.95	n/a	n/a	n/a
Morocco	22.80	22.61	19.53	16.36	18.40	19.67	19.76
Oman	12.20	13.02	14.37	14.40	15.95	16.32	19.21
Palestine	0.50	0.53	0.50	0.66	0.69	0.67	0.63
Qatar	18.37	30.62	16.20	32.52	41.60	42.73	n/a
Saudi Arabia	409.69	444.72	540.68	656.46	725.29	731.92	671.67
Sudan	1.09	1.04	0.19	0.19	0.19	0.18	n/a
Syria	17.40	19.47	n/a	n/a	n/a	n/a	n/a
Tunisia	11.06	9.46	7.45	8.36	7.29	7.24	n/a
UAE	26.10	32.79	37.27	47.04	68.20	78.42	75.75
Yemen	6.94	5.87	4.45	6.07	5.28	n/a	n/a

Source: IMF International Financial Statistics.

The negative balance-of-payment trends had their impact on gross international reserves *(Table 4)*. Since 2011, they decreased in Egypt (despite support provided by the Gulf countries) and Tunisia (despite the IMF program) and, albeit temporarily (2012), in Jordan and Morocco. In turn, the oil-price decline in 2014–2015 led to a decrease in the gross international reserves of Algeria, Iraq, Libya, and Saudi Arabia.

Overall, the importance of fiscal and macroeconomic adjustment is increasing over time and, if further postponed, it may become even more painful. Nonetheless, the expected scale of adjustment remains incomparably smaller than in the former communist economies of the 1990s. Likewise, several CEE and FSU economies, for example Slovenia, Hungary, Serbia, Poland, Croatia, Ukraine, and FSU oil producers, must also tighten their fiscal policies to eliminate excessive deficits and constrain growing public debt-to-GDP ratios.

3.4. The subsidy challenge

The biggest macroeconomic and structural policy challenge in the Arab region relates to generalised price subsidies on food and energy (Bergasse et al. 2013), which continue to absorb, directly or indirectly, large public resources, especially in Iraq, Algeria, Egypt, Saudi Arabia, Libya, Bahrain, Kuwait, Yemen, Oman, Jordan, and the UAE. Most of this burden relates to energy subsidies, i.e. subsidies on petroleum, electricity, natural gas, and coal. The cost of food subsidies is relatively smaller: it amounted to 0.7% of GDP in the Middle East and North Africa (MENA) region according to IMF estimates (2013, Box 2.4, p. 42). However, in some countries (Libya, Tunisia, and Egypt), it was higher, i.e. in the range of between 1 and 2% of GDP.

Consumer subsidies can be measured in two ways: as pre-tax subsidies and post-tax subsidies (see Clement et al. 2013 for details). Pre-tax subsidies are defined as the difference between the value of the supplied products and services at either international prices (tradable goods) or cost-recovery prices (non-tradable goods) and the domestic prices paid by their consumers, both final and intermediate. Post-tax subsidies are the sum of pre-tax and tax subsidies. The latter are measured as the difference between the efficient taxation that takes sufficient account of externalities (in the case of energy, for example, this is the environmental impact of its production and consumption) and actual one.

The IMF (2013, Box 2.4, p. 42) estimated the total cost of pre-tax energy subsidies in MENA at the level of USD 236.7 billion, i.e. 8.6% of their GDP and 22% of GG revenue in 2011. About half of this amount was absorbed by subsidies on diesel and gasoline. In global comparison, MENA appeared as the region with the highest energy subsidies, which constituted almost half of the total pre-tax world energy subsidies in 2011. If one added implicit tax subsidies, the total post-tax energy subsidies in MENA would approach 15% of GDP.

Generalised consumer subsidies are usually the consequence of government price controls. If the government controls prices on either energy products or food, they become almost automatically "politicised"; their upward adjustment may provoke social and political tensions. When necessity for such adjustments comes as a result, for example, of higher international prices, the depreciation of national currency, domestic inflation, etc., the government usually tries to delay setting new higher prices and, consequently, creates a gap between the administratively fixed price and the international or cost-recovery price. When such a gap becomes large, there is even less political readiness to close it. Eventually it must happen and, in case of a delay, adjustment becomes more painful socially, politically, and economically.

This was exactly the experience of the former communist economies, which led to their severe macroeconomic crises at the onset of the transition (late 1980s and early 1990s). This historical lesson was taken seriously in the next two decades: CEE and FSU countries deregulated most of the prices, eliminated subsidies, and replaced them by targeted social assistance where needed. There are few exceptions: Turkmenistan, Uzbekistan and, to a lesser extent, Kyrgyzstan (electricity), Ukraine (natural gas and municipal utilities), and Belarus (electricity, natural gas and municipal utilities – IMF 2015a).

Universal price subsidies are both costly and inefficient as tools to fight poverty (their main social policy justification). In reality, higher- and middle-income groups are the main beneficiaries of these subsidies (Bergasse et al. 2013; Clement at al. 2013). In addition, the subsidies have a devastating microeconomic and structural impact. They discourage producers of the subsidised energy and food products from increasing their output and quality parameters. They stimulate excessive and wasteful consumption, damage the environment, and hamper the development of renewable energy, etc.

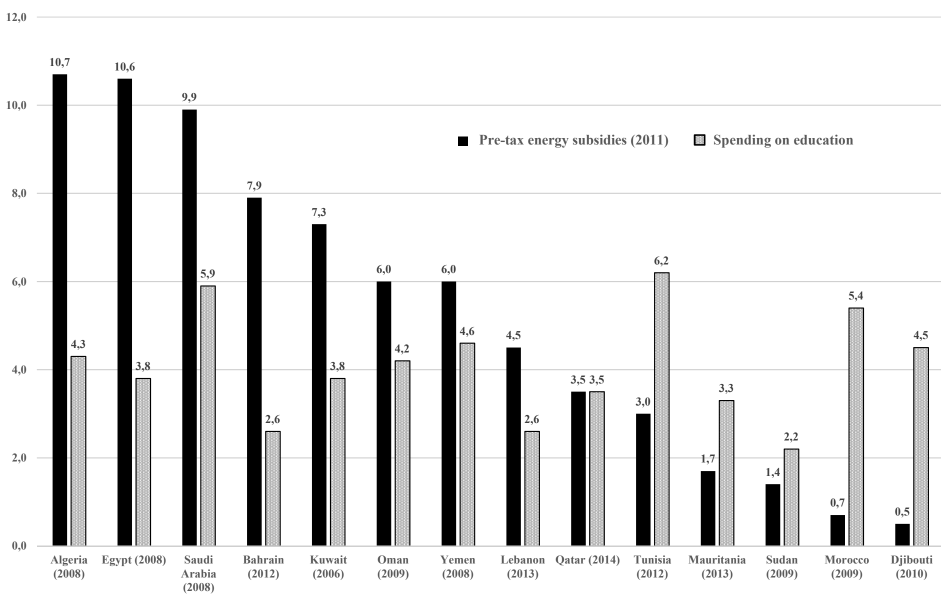

Figure 1. Pre-tax energy subsidies and spending on education in MENA countries, in % of GDP

Notes: Energy subsidies refer to 2011; education refers to the latest available data (in brackets).

Source: Clement et al. (2013), Appendix Table 2, p. 50; World Bank's World Development Indicators.

By absorbing a substantial share of fiscal resources (half of its GG revenue in the case of Egypt, and between 20 and 30% in the case of Algeria, Jordan, Lebanon, and Libya), energy and food subsidies crowd out other important expenditures, for example, for education which creates an important development bottleneck in the region. *Figure 1* shows that public spending on education is much lower than energy subsidies in most MENA countries except for Tunisia, Mauritania, Sudan, Morocco, and Djibouti. The decrease in international prices of oil and other energy resources in 2014–2015 created a unique opportunity to eliminate subsidies with less dramatic price adjustments.

4. LONG-TERM DEVELOPMENTAL CHALLENGES

4.1. Common challenges

Looking at the long-term social and economic challenges, one can also find both similarities and differences between the two regions (CEE/FSU and Arab countries).

For example, both the resource-rich FSU economies and Arab hydrocarbon producers must decrease their dependence on world commodity prices (and their impact on fiscal accounts and real exchange rate), make progress in the structural diversification of their economies, and decrease income and wealth inequalities. They should also use huge resource rents for the long-term benefit of the entire population rather than for consolidating authoritarian power and conducting populist policies. On the other hand, low- and lower-middle-income countries in both regions face challenges of continuous poverty, poor infrastructure and social services, the underdevelopment of the financial sector, large outgoing migration, etc.

Several Arab, FSU, and Western Balkanic countries suffer from the deficit of economic freedom and poor business climate as illustrated by *Table 5,* which presents the Heritage Foundation Index of Economic Freedom (HFIEF) 2014. This is one of the global synthetic indexes, which measures simultaneously property rights, corruption, size of government and taxation, business regulations, labour market flexibility, monetary stability, trade and investment regulations, and financial freedom.

There is no economically "free" country in either of the two regions, i.e. having a score of at least 80 or more.[5] The next category, called "mostly free" (MF, scores between 70.0 and 79.9), was represented by two Baltic countries (Estonia and Lithuania), the Czech Republic and Georgia in the CEE/FSU region, and

[5] There were only six such countries in the world: Hong Kong, Singapore, Australia, New Zealand, Switzerland, and Canada.

Table 5. HF Index of Economic Freedom 2014 in CEE/FSU and Arab countries

Region	Country	World Rank	2014 Score	Category
CEE/FSU	Albania	54	66.9	ModF
	Armenia	41	68.9	ModF
	Azerbaijan	81	61.3	ModF
	Belarus	150	50.1	MU
	Bosnia & Herzegovina	101	58.4	MU
	Bulgaria	61	65.7	ModF
	Croatia	87	60.4	ModF
	Czech Republic	26	72.2	MF
	Estonia	11	75.9	MF
	Georgia	22	72.6	MF
	Hungary	51	67.0	ModF
	Kazakhstan	67	63.7	ModF
	Kyrgyzstan	85	61.1	ModF
	Latvia	42	68.7	ModF
	Lithuania	21	73.0	MF
	Macedonia	43	68.6	ModF
	Moldova	110	57.3	MU
	Montenegro	68	63.6	ModF
	Poland	50	67.0	ModF
	Romania	62	65.5	ModF
	Russia	140	51.9	MU
	Serbia	95	59.4	MU
	Slovakia	57	66.4	ModF
	Slovenia	74	62.7	ModF
	Tajikistan	139	52.0	MU
	Turkmenistan	171	42.2	R
	Ukraine	155	49.3	R
	Uzbekistan	163	46.5	R
Arab countries	Algeria	146	50.8	MU
	Bahrain	13	75.1	MF
	Comoros	142	51.4	MU
	Djibouti	118	55.9	MU
	Egypt	135	52.9	MU
	Jordan	39	69.2	ModF
	Kuwait	76	62.3	ModF
	Lebanon	96	59.4	MU
	Mauritania	134	53.2	MU
	Morocco	103	58.3	MU
	Oman	48	67.4	ModF

Table 5. continued

Region	Country	World Rank	2014 Score	Category
Arab countries	Qatar	30	71.2	MF
	Saudi Arabia	77	62.2	ModF
	Tunisia	109	57.3	MU
	UAE	28	71.4	MF
	Yemen	123	55.5	MU

Notes: MF – mostly free, ModF – moderately free, MU – mostly unfree, R – repressed.

Source: http://www.heritage.org/index/excel/2014/index2014_data.xls

three small Gulf countries (Bahrain, Qatar, and UAE) in the Arab region. There were 15 "moderately free" (ModF, scores between 60.0 and 69.9) economies in the CEE/FSU region and four such Arab economies. Six CEE/FSU economies and 9 Arab economies belonged to the "mostly unfree" category (MU, scores between 50.0 and 50.9). Finally, three FSU countries (Turkmenistan, Uzbekistan, and Ukraine) were classified as "repressed" (R, scores below 50).

Six countries – Iraq, Kosovo, Libya, Somalia, Sudan, and Syria – were not ranked, but most of them represented an extremely poor business environment due to security problems.

4.2. Challenges specific to Arab countries

Arab countries face some specific development challenges, which make them more similar to other developing countries rather than to post-communist economies.

Part of these specific challenges originates from a lower level of economic development of the Arab world as compared to CEE and FSU countries. As seen in *Figure 2,* the average gross domestic product (GDP) per capita measured in purchasing power parity (PPP) terms in the MENA region (which includes all high-income Gulf economies) was lower than in CEE (without high-income Slovenia, Czech Republic, Slovakia and Estonia) and FSU in 2010[6].

Among other challenges, several Arab countries continue to suffer from high levels of illiteracy *(Table 6),* especially in Mauritania, Yemen, Sudan, Morocco, Algeria, Egypt, Comoros, Iraq, and Tunisia. The continuous illiteracy among youth (15–24-year-olds) means that large groups of girls and, to a lesser extent, boys remain excluded even from primary education.

[6] We chose the year 2010 for comparison to illustrate the situation before the Arab Uprising.

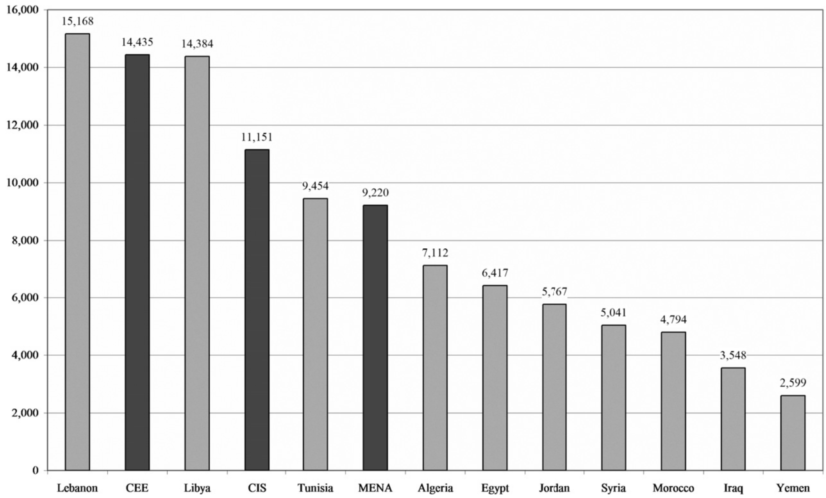

Figure 2. GDP per capita in PPP terms, current international dollars, 2010

Notes: The CEE subregion includes Turkey, but does not include Slovenia, the Czech Republic, Estonia, and Slovakia that are considered as "advanced" economies in the IMF WEO country grouping; FSU includes Georgia and Mongolia; MENA includes Iran, but does not include Comoros, Somalia, and Palestine.

Source: IMF WEO database, April 2012.

Table 6. Literacy rates in Arab countries, compared to the worst-performing post-communist country (Albania), in % of respective population age group

Country	Adult total >15	Young female 15–24	Young male 15–24
Algeria (2006)	72.6	89.1	94.4
Bahrain (2010)	94.6	97.6	98.6
Comoros (2011)	75.5	85.9	86.1
Egypt (2012)	73.9	86.1	92.4
Iraq (2011)	78.5	80.5	84.1
Jordan (2011)	95.9	99.3	99.1
Kuwait (2008)	93.9	98.7	98.6
Lebanon (2007)	89.6	99.1	98.4
Libya (2011)	89.5	99.9	99.9
Mauritania (2011)	58.6	66.2	71.6
Morocco (2011)	67.1	74.0	88.8
Oman (2010)	86.9	98.2	97.4
Palestine (2011)	95.3	99.4	99.3
Qatar (2010)	96.3	98.3	96.3
Saudi Arabia (2011)	87.2	97.0	99.0
Sudan (2011)	71.9	84.5	89.9
Syria (2011)	84.1	94.1	96.4

Table 6. continued

Country	Adult total >15	Young female 15–24	Young male 15–24
Tunisia (2010)	79.1	96.1	98.2
UAE (2005)	90.0	97.0	93.6
Yemen (2011)	65.3	76.0	96.4
Arab World (2011)	75.2	84.5	91.4
Albania (2011)	96.8	98.9	98.7

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

Furthermore, most of those who have access to schools complete only a primary education or less. Moroccan and Syrian children are particularly disadvantaged with the average schooling period of *ca*. five years (Arbak 2012). The quality of education, apart from a very small number of elite schools and universities, is rather low (AHDR 2003), which is documented, among others, by outdated curricula and teaching methods (Ghanem 2016b), high level of teacher absenteeism (Devarajan 2016), and poor results in international student tests (El Mahdi et al. 2011). Consequently, the quality of human capital in the region is below its potential, with negative consequences for economic development.

The shortcomings of the education system have a negative impact on the labour market situation in the region, in particular, the exceptionally high level of youth unemployment (Devarajan 2016) and the low participation rate of female labour force *(Table 7)*.

Table 7. Indicators of gender inequality in selected Arab countries

Country	Population with at least secondary education, age 25+ (%), 2010		Labour force participation rate (%), 2008	
	Female	Male	Female	Male
Algeria	36.3	49.3	38.2	83.1
Egypt	43.4	61.1	24.4	76.4
Jordan	57.6	73.8	24.7	78.3
Lebanon	..	..	24.1	74.8
Libya	55.6	44.0	25.1	81.1
Morocco	20.1	36.4	28.7	83.6
Palestine	..	..	16.7	72.4
Syria	24.7	24.1	22.0	82.1
Tunisia	33.5	48.0	27.7	74.2

Source: El Laithy (2012).

Discrimination against women in the socio-economic and political spheres poses another serious challenge (El Laithy 2012). These strongly interlinked problems (poor education, low labour force participation rate, and gender inequality) must remain at the top of reform agendas in Arab countries. The ability to resolve them will determine the future paths of social, economic, and political development in the region.

5. LESSONS TO BE LEARNT

Even if the starting conditions, agendas, and the course of the transition in the former Soviet bloc and the Arab world have differed, there are some common lessons to be learnt from both regions. In many instances, they can also be reinforced by the experiences of political and economic transitions in other regions.

The first lesson tells us that democratisation may prompt economic reform and growth (Devarajan 2016), but this is not automatically guaranteed. Much depends on the ability of young democracies to generate a stable government, backed by a solid parliamentary majority, and their ability to address the country's economic and social challenges swiftly, even if it means taking unpopular measures. If, instead, democratisation produces political instability, decision-making chaos, and populist policies, not only economic stability, but political freedom itself will come under threat. There are many examples of democracy failures all over the world, which ultimately lead to a new wave of authoritarianism, including the so-called "colour revolutions" in the former USSR in the mid-2000s and Egypt in 2011–2013. This is the real risk faced by all emerging Arab democracies now and in the future.

Second, democratisation must be backed by building institutional checks and balances, the rule of law, and an independent but professionally competent and impartial judiciary as early as possible. Optimally, it should be done by adopting respective constitutional provisions and effective mechanisms of their enforcement. Countries that fail to do so face the risk of an authoritarian backlash, as demonstrated by the experience of several FSU and Arab countries.

This leads us to the third lesson on the timing and speed of reforms: transition countries should use the political window of opportunity while it is still open and not shelve difficult decisions for the future (Balcerowicz 1994). A broader transition experience confirms the importance of reforms speed (Åslund 2002: 441–456). In both regions, there were cases of missed transition opportunities, which led to economic and political failures (for example, Ukraine in 2005–2009, Egypt in 2011–2013). Reforms should also be comprehensive to avoid producing intermediate winners with the power to block further changes (Krueger 1993; Hellman 1998), which contributes to the phenomenon of "crony" or "oligarchic" capitalism.

The fourth lesson is about the dangers of ethnic and sectarian conflicts; they can derail both political and economic transition and trap a country in long-standing, often bloody, stalemate. This risk already materialised in Syria, Iraq, Libya, and Yemen, whose political developments recall the tragic conflicts in the former Yugoslavia, Caucasus, and Lebanon. Successful conflict resolution could offer a substantial peace dividend (Abu-Ismail 2016).

The fifth lesson refers to the role of external support in consolidating economic and political reforms, and making them irreversible. The external leverage may provide political and economic incentives, security guarantees, financial and technical aid (for the role of EU accession, see Mrak – Rojec 2013). In this respect, the history of the post-communist transition is very telling. One can distinguish between three groups of countries: (i) CEE countries that, due to early offers of EU and NATO membership, now enjoy not only membership in both blocks, but are also relatively stable and well-functioning democracies; (ii) countries of the former Yugoslavia that underwent a tragic period of ethnic conflict in the 1990s, but received EU and NATO membership offers afterwards that helped them to consolidate both democratic regimes and market reforms; (iii) FSU countries that never received such offers for geopolitical reasons and which, on average, have shown the least 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 rather more akin to that of the FSU countries than to Central Europe: they have no prospect of EU and NATO membership. Nevertheless, the EU, the US, and other developing countries can support the democratisation process in the Arab world using various tools, including deep trade and economic integration and more freedom in people-to-people contacts – both of which can play a powerful role. In the case of the EU, the potential of such cooperation frameworks as the Barcelona Process, the European Neighbourhood Policy, and the Union for the Mediterranean is far from being exploited (European Commission 2015).

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