What can Arab countries learn from the post-communist transition?

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More than a year has passed since the start of the political uprising against the authoritarian regimes in the Arab world. But, as demonstrated by the ongoing unrest in Syria, the process is far from over. Meanwhile, nations that have already rid themselves of their authoritarian rulers (Tunisia, Egypt, Libya and Yemen), must decide where to go now and how to manage their political and economic transitions. To a lesser extent, a similar challenge is being faced by those constitutional monarchies (such as Morocco or Jordan) that accelerated reforms in order to avoid political destabilisation.

Many politicians and experts, especially those from Central and Eastern Europe, suggest that their Arab colleagues should learn from the post-communist transition of the early 1990s. However, while learning from others' experience is always a useful exercise, the geopolitical and socio-economic context of the Arab revolution appears to be different, in many respects, from that of former Soviet bloc countries more than twenty years ago.[2]

Political legacy of dictatorship

So far the revolutionary movement in the Arab world has affected mostly the secular republican regimes that emerged in the 1950s and 1960s, as a result of either military coups or anti-colonial resistance; those that tried to refer, at least in their early stages, to some kind of socialist ideology (sometimes termed Arab socialism). This political characteristic applied to Tunisia, Egypt, Libya, Yemen and Syria, but also to Iraq (where regime change followed the US-led military intervention of 2003) and Algeria (not affected by large-scale political unrest as of yet). It does not apply to three other southern Mediterranean Arab countries: Jordan, Lebanon and Morocco. While these three countries also need to conduct political and economic reforms, their historical legacy is different from countries with a 'socialist' past.

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From a political perspective, the similarities between Arab countries affected by revolution and Central and Eastern Europe and the former USSR before 1989 seem compelling. The hegemony of one political party controlled by a dictator and his entourage meant a lack of democracy and political pluralism, manipulated election processes, the political dependence of the judiciary, 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 also been seen, to varying degrees, in many authoritarian regimes outside the former communist bloc – in Asia, Africa and Latin America. In these respects the communist system was not unique.

Comparing Arab socialism and Soviet-type socialism

The following litany of features unique to Soviet-style socialism relate 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 government level (the central planning system or command economy), the predominance of public ownership, political nominations for managerial positions, administrative pricing and wage setting (which led to chronic market shortages and rationing of both consumer goods and production supplies), currency non-convertibility and multiple exchange rates, public 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, 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 so-called Arab socialism, especially in its early stages (from the 1950s to 1970s), we may see 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 of the Soviet bloc also played an important role here). Several countries, especially those involved in regional conflicts, allocated a large share of their public expenditure to military and security programmes.

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

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 programmes. And, as in 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 was never ideologically condemned and market institutions and legal infrastructure, even if less well developed, remained largely in place, contrary to the practice in communist countries.

In spite of price controls, subsidies, and exchange and import controls, the internal price structure remained less distorted than in the former USSR, for example, and the market shortage of basic consumer goods was less acute. Similarly, despite their industrialisation being 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 Eastern Europe. The same goes for the stronger trade and cultural ties they enjoyed 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 (fall of oil prices in the mid-1980s, the collapse of the Soviet bloc, 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 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.

Differing economic agendas

Since 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 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 that involve great political and social risk. Nevertheless, their scale seems much smaller than the macroeconomic stabilisation and price liberalisation agenda in the post-communist countries of 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 turbulent.[3]

The same can be said for external economic relations. Arab economies must undoubtedly become more open, both among themselves (although they still have a long way to go) and with the wider world. However, much progress in this sphere has already been made in the last 15 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.

Privatisation policies will also differ because there is less to privatise in Arab countries compared to the post-communist countries in the early 1990s. First, as mentioned above, nationalisation in the Arab world never went as far as it did 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, seem to be quite advanced in this process. Rather, they must now avoid the revolutionary temptation to reverse some of the past privatisation deals considered flawed or unfair by the wider public. As demonstrated by Ukraine's experience after the Orange Revolution, such a reversal may be devastating for the business and investment climate.

Finally, privatisation methods will also differ. Most Arab countries have functioning capital markets and enjoy access to international financial markets. They can thus privatise for money, to strategic investors or through initial public offerings (IPOs), and they do not need to give away ownership in the form of artificially invented coupon/voucher programmes or heavily leveraged employee/management buyout schemes, for example, as happened 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. Poor governance is perhaps the most serious obstacle to growth in many Arab countries. This makes their problems

[3] However, in 2011 and early 2012 some countries experienced a sharp deterioration in the macroeconomic sphere (GDP stagnation or decline, higher unemployment, larger fiscal deficits, shrinking international reserves, etc.) as a result of either violent internal conflicts (Libya, Syria, Yemen) or post-revolution political instability (Egypt and, to lesser extent, Tunisia).

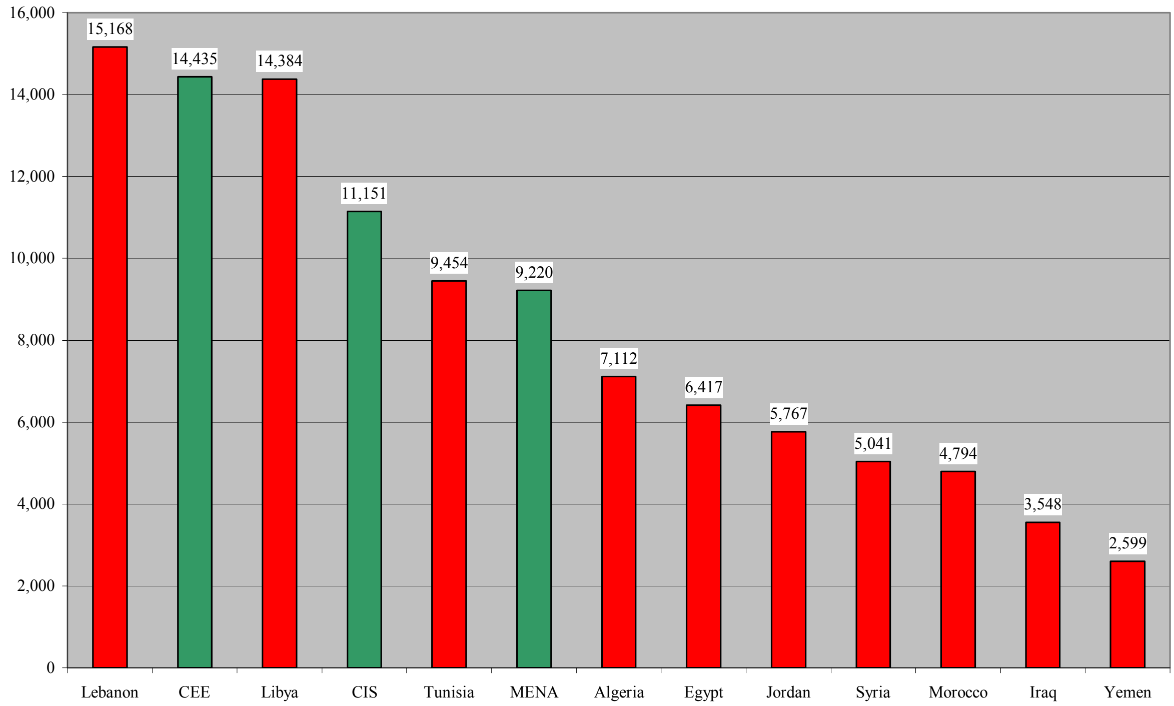
similar to those currently experienced by some CIS and Balkan countries rather than to the early post-communist transition agenda. They are more like Russia or Ukraine, for instance, which managed to build the foundations of a market economy but failed to ensure its fair and effective functioning.

Long-term social and developmental challenges

There are yet 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 that help to consolidate authoritarian power and continue populist policies.

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

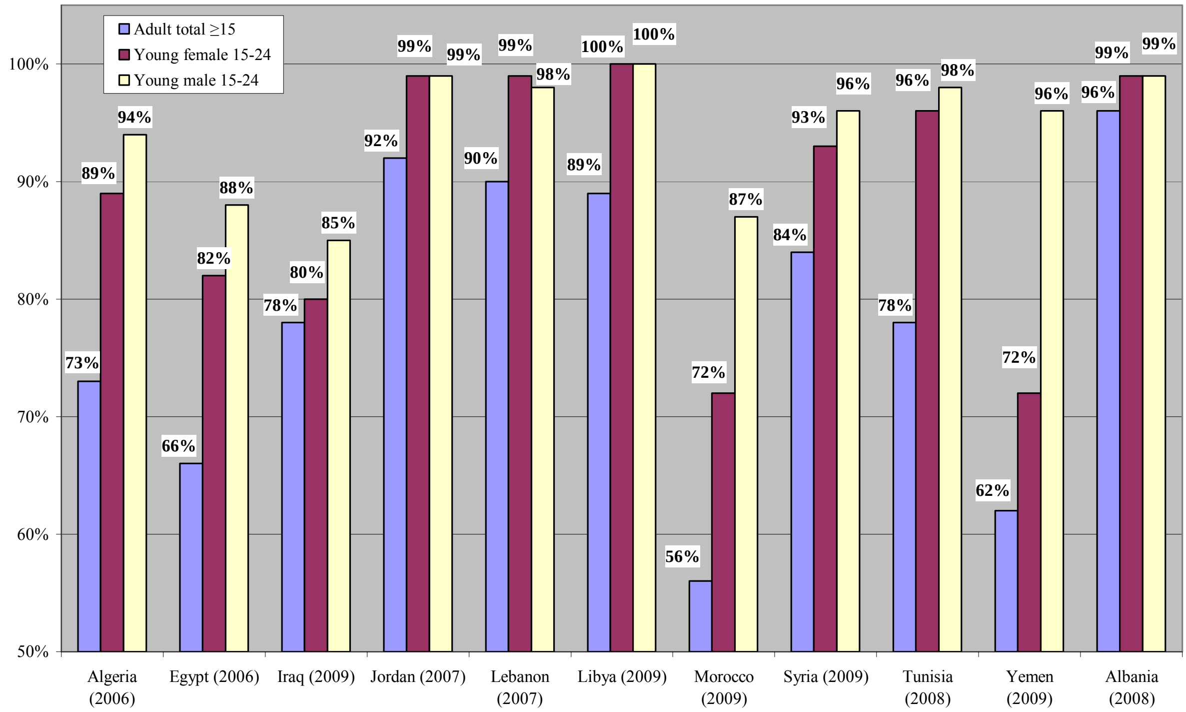
Figure 1. GDP per capita in PPP terms, current international dollars, 2010



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, April 2012.

Figure 2. Literacy rates in selected Arab countries, compared to worst-performing post-communist country (Albania)



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

Lessons to be learned

With all the reservations about the mechanical copying of post-communist transition agendas as expressed above, there are still some valuable lessons to be learned from this history. 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, but there is no automatic guarantee of this. 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 and decision-making chaos and/or populist policies, not only will economic stability come under threat but so too will political freedom itself. There are numerous examples of fledgling democracy failures all over the world, which ultimately led to a new wave of authoritarianism, including the so-called colour revolutions in the former USSR in the mid-2000s. And this is the real risk faced by all young Arab democracies now.

This leads us to the second lesson on the timing and speed of reforms: these countries must use the political window of opportunity while it is still open and not shelve difficult decisions for the future. Unfortunately, time works against reformers and recent history is full of missed opportunities that led to economic and political disaster, in one form or another. Furthermore, reforms should be fully comprehensive to avoid producing intermediate winners with the power to block further changes.

The third lesson is about the dangers of smouldering ethnic and sectarian conflicts; they can readily derail both political and economic transition and trap a country in long-standing stalemate. This kind of risk is particularly strong in Libya and Syria, whose political developments may well follow the tragic conflicts of the former Yugoslavia, Caucasus or Iraq.

The fourth 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: i) 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 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) CIS countries that never received such offers for geopolitical reasons and which, on average, have recorded 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 CIS countries than to Central Europe: they have no prospect of EU membership. Nevertheless, both the EU and the US can support the democratisation process in the Arab world by using various tools, among which 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 Mediterranean is far from being exploited.