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## Book Review

Diwan, Ishac and Ahmed Galal, eds. *The Middle East economies in times of transition*, An International Economics Association Conference Volume, Palgrave Macmillan, 2016.

In 2011, when the organizers of the International Economics Association decided to hold their 2014 World Congress in Jordan, they did not anticipate that the Middle East would be the center of one of the most important economic, political and social transitions of our time. The Arab Spring caught much of the world by surprise. Its aftermath has led to political unrest, violent conflict and deteriorating economic performance in the Middle East and North Africa (MENA) region. The organizers therefore asked Ishac Diwan and Ahmed Galal, two leading economists and experts on the region, to put together an edited volume from the papers at the World Congress relevant to the transition in the Middle East. This volume collects some of those papers, as well as a few others, to explain the factors that led to the Arab Spring and to anticipate some of its consequences. It provides a multidisciplinary “snapshot” of research on the transitions in MENA. I say “snapshot” because, having been completed in 2014, the papers in the volume do not mention two major developments in the Middle East today—the spread of violent extremism (especially Daesh), and the fall in oil prices. Nevertheless, there are elements of some of the papers that shed light on these issues too.

In their overview chapter, Diwan and Galal answer the question, “Why does the world need yet another book on the political economy of the Middle East?” with four observations: (i) while the old social contract or “authoritarian bargain” is broken, it is not clear what the new contract will look like, and how it will differ across countries as diverse as Tunisia, Kuwait and Yemen; (ii) the quality of economic growth has not been satisfactory in the region; (iii) despite some data to the contrary, there is a perception that inequality in MENA is a serious problem; and (iv) the prevalence of natural resources in many countries and the role of rentier states has been insufficiently studied in the context of the Arab Spring. The volume is organized around these four observations, with sections on growth, inequality, rentier states, and political transitions. I am not sure why political transitions, which was the first observation to justify the volume, comes last, but this may just be economists’ diffidence in opening a volume with politics.

The individual papers, written by distinguished scholars in the field, are of uniformly high quality. My only complaint is that there are many more synergies across the chapters than are reflected in the editors’ overview (which is otherwise a faithful summary of the individual chapters). For instance, in the first section, the opening paper by Dorte Doemeland and Marc Schiffbauer is a careful decomposition of growth in MENA to gauge whether there has been much structural transformation—resources flowing from low-productivity activities to higher ones. The short answer is “No.” The following chapter by Melani Cammett and Diwan explains why, by tracing the history of initially relying on the state for effecting structural transformation which, when it was not sustainable, was followed by a “roll-back” of the state that was, in turn, accompanied by a rise in crony capitalism in order to preserve some of the monopoly rents enjoyed by the private sector. The result was little structural transformation and an antipathy to liberalization and market forces. The material in this chapter is also relevant for understanding the root causes of radicalization, a theme that has emerged since 2014. Unemployment, the result of crony capitalism, can also drive some young people to support and eventually join violent extremists (Ianchovichina and Kindrebeogo (2016)).

The Cammett-Diwan chapter would have been an ideal backdrop to chapter 11, also by Cammett, on the lessons from political transitions. Based on global experience, she argues that the nature of the transition depends critically on how elites behave—whether they maintain their patronage networks or leave the ruling coalition. These somewhat abstract ideas become concrete when considering the differences in the transition between, say, Egypt (where the elites split with the democratically elected Morsi government) and Tunisia, where many of the old networks seem to be intact.

Unlike much of the economics literature, this book gives considerable weight to external factors in contributing to the Arab Spring and its aftermath. The chapter by Diwan and El Mouhoub Mouhoud, innocently titled “Regional and Global Integration,” makes the point that not only were global economic conditions unfavorable during the time MENA countries were liberalizing (making political support for reform more difficult), but the free-trade agreements signed with their nearest trading giant, the European Union, emphasized manufactured goods, where MENA had little comparative advantage, and excluded agriculture and labor, where it did. The role of external factors is picked up in Hazem El Beblawi’s chapter in the section on natural resources where he argues that the rise of savings from oil rents in low-population countries is matched by a rise in financial instruments issued by rich countries to absorb these savings. The latter in turn can be destabilizing to the global financial system and once again contribute to the feeling that the rest of the world is not helping Arab countries make a smooth transition. To add more grist to the mill, recent work by Abu Bader and Ianchovichina (2016) shows that foreign military intervention helps explain the link between religious polarization and civil conflict, especially in the MENA region.

The second section, on inequality, is perhaps the most disappointing—not because of the quality of the papers, which is high, but because the findings do not help in explaining the Arab Spring. Two papers by Ragui Assaad and Caroline Krafft look at “inequality of opportunity”—the portion of inequality that is due to circumstances rather than effort—and find that it is significant in some countries. While these results are important in their own right, it is hard to imagine that it was inequality of opportunity that caused the widespread protests in the streets and led to several governments’ being overthrown. People observe actual inequality, and when it is high, they tend to attribute most of it to inequality of opportunity. Put another way, if inequality of opportunity were low, it would not have stopped the protests. The third paper in this section, by Djavad Salehi-Esfahani, is a nice case study on the experience with Iran’s energy subsidy reform. Again, there are valuable insights here, but they neither explain the Arab Spring nor do they help in dealing with the aftermath, especially since Iran has not experienced the political turmoil of the other countries.

By contrast, the third section of the book, on natural resources, is almost a model collection of papers for such an exercise. The paper by Ibrahim Elbadawi distinguishes between countries with high and those with low rents per capita and shows how the former can withstand the pressure to democratize through patronage. His estimates help explain why Iraq, Syria, Libya and Yemen—all low rent per capita states—have had civil conflict and political unrest—whereas most of the GCC have not. Since the paper was written, oil prices have fallen to \$30 a barrel and are expected to remain in the \$50-\$60 a barrel range in the near term (Devarajan and Mottaghi, 2016). It would be interesting to revisit Elbadawi’s analysis in light of these developments. The paper by El Beblawi, mentioned earlier, traces the history of the concept of a “rentier state”, and the paper by Adeel Malik broadens the concept of rents to include foreign aid. Rents are revenues that accrue directly to the state without passing through the hands of the citizens. In contrast with those that rely on tax revenues, rentier states are less

accountable for spending their revenues, which many people believe is the source of the “resource curse.” The final paper in the section, by Robert Beschel and Tarik Yousef on public sector reform in MENA, documents the deeply political nature of these reforms, which explains their limited intensity. Since the paper is not only about natural resource economies, it may have fit better in either the first section on growth and transformation (the civil service is the other side of the coin of crony capitalism) or the last one on political transitions.

Finally, the last section, on political transitions, is the one most focused on the aftermath of the Arab Spring. As mentioned above, Cammett’s paper concludes that whether elites defect from authoritarian rulers or remain part of their patronage networks can determine whether the transition is smooth or chaotic. Mustapha Nabli’s point is that a transition to democracy will be difficult in countries with weak state capability and institutions. Since most Arab countries fall into this category, he is pessimistic about a democratic dividend emerging soon. The final paper by Caroline Freund and Méliè Jaud show that democratic transitions can be quite varied—some are reversed, others stall, a few succeed, and very few succeed quickly. Taken together, the papers in this section explain why the situation following the Arab Spring has been so turbulent, and why it may persist for some time.

This book brings together a variety of disciplines (economics and political science), research methods (empirical analysis, case studies, literature surveys) and perspectives on the tumultuous events in the Arab world starting in late 2010. Avoiding simplistic conclusions, the book provides, as the editors suggest in their introduction, some clues to the puzzles raised by the Arab Spring and subsequent events. It is a rich collection of research on arguably the most important topic facing the world today. Two years after the papers were presented, a lot more research has been done, and many more questions, such as the implications of falling oil prices or the spread of Daesh, have arisen. The upcoming 2017 World Congress is an opportunity to prepare a sequel.

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