

# American University of Beirut Institute of Financial Economics

## Lecture and Working Paper Series No. 2, 2009

### Development without Democracy in the Arab World

Samir Makdisi



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### **Development without Democracy in the Arab World<sup>1</sup>**

Samir Makdisi<sup>2</sup>

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# Development without Democracy in the Arab World

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## Abstract

Modernization theory states that democratization follows economic development. And indeed, while in many regions of the world a positive correlation between socio-economic development and democratization may be observed, by and large, this has not been the case in the Arab region. The central question that this lecture addresses is: what are the major reasons for the persistence of the Arab democracy deficit? Recent cross-country (econometric) work complemented by country case studies point to two general explanatory factors—namely oil wealth and regional wars, and particularly the Arab/Israeli conflict. Supplementary country-specific factors include the dominance of the public sector, co-optation of business and other elites by the regime in power, religious fractionalization, fear of fundamentalist Islamist groups, persistence of colonial legacies after independence, and direct and indirect interventions by foreign powers. The deepening of the democratization process in the Arab region appears to be contingent on the just resolution of the Palestinian question, alongside political and institutional reforms that will lead to more open, accountable and representative institutions.



## **Introduction**

Although limited progress in democratization was experienced in a few Arab states during the 1970s, the Arab World has generally failed to catch up with other countries, falling further behind in the period following the breakup of the Soviet Union and the ushering in of the modern era of globalization. Modernization theory states that democratization follows economic development. And indeed, while in many regions of the world a positive correlation between socio-economic development and democratization may be observed, by and large, this has not been the case in the Arab region.

The central question that I should like to address in this lecture is: what are the major reasons for what has been termed the democracy deficit of the Arab region? I will begin with a few remarks on the relationship between democracy and development, and then move on to the empirical measurements of democracy (Polity IV scores) and the major reasons for the general persistence of non-democratic regimes in the Arab World, as revealed by these scores. I will conclude with brief observations on the conditions that govern the transition of Arab countries towards more substantive democracy.

## **Relationship between development and democracy**

The causal relationship between democracy or autocracy, on the one hand, and development, on the other, has not been established in the literature on the subject. Some researchers have argued that development leads to democracy (Lipset, 1959). Others have advanced the thesis that countries that have succeeded in democratizing have had higher growth rates than those that have failed for most years, and have had higher growth rates than the average of those countries that did not attempt to democratize. Democracies perform better than autocracies in a number of respects; e.g., they produce greater stability and can better handle adverse shocks that negatively affect long-term growth (see Rodrik, 1998). At the same time, other writers point out that autocracies can also promote development and, indeed, for certain countries, mild forms of autocracy might even be desirable for this purpose. The experiences of South Korea, Taiwan and Indonesia are given as examples of how strict central authoritarian regimes could promote domestic development and only later become democratic in their form of government. And once they democratized, higher levels of per capita income significantly reduce the probability of their relapse into autocracy (cf. Przeworski, 2005). Whether the experiences of these countries are necessarily replicable in other developing nations is an open question. Some scholars even argue that, indeed, there is no causal relationship either way. Nonetheless, as Sen (2000) puts it, if there is no clear direction between growth and democracy or between growth and autocracy, it still remains that, since democracy and political liberty are important values in themselves, the case for adopting them is strong.

In the case of the Arab countries, what we observe is that despite notable socio-economic development in the decades since independence, and notwithstanding occasional limited measures of political liberalization, substantive democracy has not taken root. Lebanon's consociational democracy may stand apart in terms of civil rights and freedom of expression, but the country's political regime has not advanced, and its democracy has remained constrained by its sectarian setup.

Authoritarian regimes in the Arab world have tended to be captured by sub-national groups or other "functional" special interests, which have so far been able

to blunt the convergence to democracy despite the presence of an expanding middle class. Indeed, the capture of the state by such groups has often been accompanied by growing corruption and nepotism, especially manifested during the process of privatizing public firms and enterprises, with all its distorting effects on governance and the national economy.

### **Empirical measurements of democracy**

The gap between a theoretical understanding of democracy and its actual implementation is often wide, especially in developing countries. But even among the so-called mature democracies there are distinct differences in this regard. For example, the influence of corporate capital on the democratic process, including control of the media, is much stronger in certain Western countries than in others; or the degree of social equity and the quality of social coverage (pertaining to the social rights of citizens), as well as of civil liberties and political participation, may differ markedly from one country to another. Such differences, it might be argued, render some of these countries more democratic than others. In other words, empirical measurements of democracy that attempt to capture its basic features, such as political competition, participation, and civil liberties, do not necessarily succeed in fully reflecting the true democratic status of any given country; this is debatably more true in developing than in developed countries. In part, this may be attributed to methodological flaws of the measurements, but could also be attributed to their coding rules, which do not always accurately capture the abuses of the governing classes and/or of special interest groups.

Equally importantly, any measure of democracy must fully recognize the universal right to political participation as reflected, for example, in universal suffrage. Some of the widely used indices, such as the Polity IV index (to which I shall shortly refer), do not account explicitly for female suffrage. To that extent they suffer from an inadequate assessment of the democracy status of any given country in the period prior to the enactment of the right of women to participate in national or even municipal elections.

On the other hand, Polity IV possesses a number of positive attributes (e.g., clear and detailed coding rules), and, whatever its flaws, its wide use by researchers renders it useful for comparative empirical assessments of the democracy status of different countries and regions. Furthermore, it appears to cohere with other indices of democracy in terms of cross-regional comparisons and dynamic behavior over time (e.g., Van Hannen's and the more subjective Freedom House). This enhances its validity, although it does not necessarily establish its total reliability. In any case, measures of democracy can and should be supplemented by additional investigations and, where necessary, their assessment should be modified accordingly.

Polity IV classifies countries according to four measures of regime characteristics: (1) competitiveness of executive recruitment; (2) openness of executive recruitment; (3) constraints on the chief executive; and (4) competitiveness of political participation and regulation of participation. The Polity score ranges from minus 10 (strongly autocratic) to plus 10 (strongly democratic).

While the Polity IV rankings of Arab countries may not, for the reasons I have already noted, accurately reflect their evolving political situation, in general they have not been far off the mark in assessing the status of democracy in the Arab region. With the exception of Lebanon, the Polity IV scores of the Arab countries over the period 1960-2008, though varying from one country to another as well as over time, have generally ranged in the negative (non-democratic) zone. Clearly the intensity of authoritarianism differs from one Arab country to another, but with one or two exceptions none of them has crossed over the line to being what might be classified as a democratic state. Lebanon, with its established consociational democracy, is a notable exception. But, as I have already mentioned, even Lebanon's democracy is only a partial democracy, being sectarian with unequal political rights among citizens. Without going into the details of the Arab political regimes, it is natural to ask the question: what explains the general persistence of non-democratic regimes in Arab countries despite their notable economic development?

## **The Arab world experience does not conform to modernization theory**

Modernization theory (Lipset, 1959, 1994; Barro, 1996) suggests that the standard of living is the most robust determinant of a country's propensity to experience democracy. While most Arab countries have enjoyed substantial economic growth between the 1960s and the first decade of this century, it is puzzling that these gains have not been associated with significantly increased political rights, much less full-scale democratization. This phenomenon indicates that factors other than economic growth have governed the trajectory of political governance in the Arab World and the persistence of its democracy deficit.

Recent research, a combination of both an extended modernity cross-country econometric model and several case studies on the relationship between democracy and development in the Arab region, has attempted to identify these factors. (I am specifically referring to the outcome of a research project I co-managed with Ibrahim Elbadawi. See Elbadawi and Makdisi, 2007 and 2010). Briefly, the econometric work points out that, after controlling for a host of socio-economic (per capita income, school attainment, life expectancy), social (ethnic fractionalization), and historical (colonial legacy) variables, a negative and highly significant Arab region specific effect remains, referred to as the Arab Dummy (proxy for the democracy deficit). Noteworthy is that religion (Islam being the dominant religion in the region) does not appear to have a significant effect. In other words, these factors do not, on their own, explain why Arab autocracies have succeeded in preventing transitions to substantive, in contrast with formalistic, democracies.

Rather, turning to region-specific factors, the model finds that the dominance of oil in the economies and societies of the Arab region, and significantly the prevalence of conflicts (and in particular, the Arab/Israeli conflict) appear to be the major relevant explanatory variables for the region's persisting democracy deficit. The negative impact of oil wealth on democracy (the trade-off between economic welfare and political rights) corroborates the well-known rentier thesis. On the other hand, the fact that regional wars (notably the Arab/Israeli conflict) as well as civil conflicts have had an adverse impact on the process of democratization in

the Arab region is a highly significant and (I would like to add) original finding in that it identifies this region as being different with regard to the impact of conflicts on democracy. While conflicts have led, for whatever reasons, to a subsequent democratization process in other regions of the world, in the Arab world they have not.

Eight case studies were carried out by teams of economists and political scientists to test the results of the above econometric model and further probe into the factors that account for the persistence of autocratic regimes in selected Arab countries (they are included in Elbadawi and Makdisi, 2010). I should like to point out some of their conclusions:

Focusing on the interaction of oil wealth and democracy, some of the case studies underline how oil wealth (which allows for a soft budget constraint) has permitted the governing class to trade off the creation of social welfare and employment for nationals for political openness and participatory governance (to that extent legitimizing the existing political regime), let alone the development of the security apparatus as an instrument to preserve the status quo.

They also point to the indirect influences of oil wealth in helping to hinder the process of democratization in non-oil Arab countries. The oil countries have been and remain concerned about the potential spread of democracy in the other Arab countries (the neighborhood effect). As the non-oil countries benefit from sizable worker remittances, official financial aid, and private investment inflows from the oil countries, they have not been immune to the conservative political influence of, especially, the larger Arab oil states. For example, oil wealth has been used to support particular religious/political groups in certain non-oil countries. This support, irrespective of its charitable aspects, has tended to accentuate already existing social/religious divisions and to render the leaders of these groups politically beholden to their benefactors. Oil wealth has also been used to help autocratic regimes spend lavishly on their security/military establishment, or to support them in their regional wars.

The political influence of oil wealth might have reinforced already existing constraints on the democratic process in non-oil countries, though, on its own and in the absence of other hindrances, it might not have been able to arrest it. Related to these considerations is the impact of foreign power involvement in the region on account of oil wealth (and, of course, the regional conflict). The case studies demonstrate how this involvement has negatively influenced the democratic process in the region.

Equally, if not more importantly, is the relationship between conflict and democracy. The case studies generally support, though to varying degrees, the conclusion of the cross-country work that regional wars, and in particular the Arab/Israeli conflict, have had a negative influence on the process of democratization. The influence of the regional conflict does vary with its distance from the country concerned. Thus it is more important in the case of Jordan and Syria than Algeria.

Furthermore, for those countries that have gone through a civil war, such as Sudan and Lebanon, its negative impact on polity has been manifested in a number of ways. For example, in the case of Sudan it encouraged military coups, while in the Lebanese case it contributed to a deepening of sectarian divisions and, in consequence, hindered a potential move toward a more advanced democracy. And in the case Algeria, (and also Egypt, which did not experience a civil war) the violent contestation of power between the ruling elites and their Islamic fundamentalist opposition has been used by the former to prop up the fear of an impending fundamentalist takeover. This strategy has proved to be a potent instrument for shoring up external support for these regimes as well as for dividing the internal democratic opposition. I should like to note here that, in my view, the root causes for the growth of fundamentalism in the region may be traced to three interacting factors: the unwillingness of the Arab governing classes to democratize, fearing loss of domestic control and privileges; the persistently strong Western support of Israel's position not to recognize legitimate Palestinian rights; and Western support of Arab autocracies in the belief that this support would protect the West's oil and other regional interests. Whatever the prospects for

fundamentalist movements assuming power via an electoral process, fear of such movements is not an argument at all, though some writers have propagated it, to promote the perpetuation of autocratic regimes. Instead, more genuine political representation with greater civic and political rights should be promoted as a means of meeting the challenges posed by fundamentalist movements.

Finally, all the case studies have identified additional country-specific factors that have inhibited the process of democratization. By way of illustration, they include the dominance of the public sector, deindustrialization, co-optation of business and other elites by the regime, religious fractionalization, fear of fundamental Islamist groups, persistence of colonial legacies after independence, and direct and indirect foreign power interventions. The case studies add to our understanding of why—limited democratic progress over the past five decades notwithstanding—the democracy deficit has persisted in various Arab countries for reasons that supplement or exceed the negative influences attributable to oil wealth and regional conflicts.

### **Moving on: deepening the process of democratization**

Accelerating and deepening the process of democratization in the Arab region is clearly a complex process. This is both a region-wide question as well as one that concerns each Arab country individually. The conditions for the success of a substantive (as opposed to a formalistic) democratization process and its duration could, of course, differ from one country to another. If the process of democratization does successfully take root in one Arab country, its beneficial impact is likely to be felt in other, especially neighboring, Arab countries. Time will not allow me to present here illustrations pertaining to the deepening of the democratization process in specific Arab countries, but I should like to conclude with some brief observations on region-wide issues of relevance to this question.

It seems to me that there are at least three interrelated issues to consider: (1) the just resolution of regional conflicts, and in particular the Palestinian question; (2) the impact of adverse external interventions; and (3) institutional reform that brings with it new social contracts in both oil and non-oil countries. These issues should be viewed as being mutually interacting: resolving one

issue will help resolve the others. An additional factor to take into account is the growth and empowerment of the middle class intertwined with a more active role for independent civil society organizations, and the promotion of the culture of democracy to ensure, among other things, protection of minority rights and promotion of gender equality.

The significance to the question of democracy of resolving regional conflicts appears to be straightforward. Conflicts, and in particular the unsettled Palestinian question, have been inimical to the development of democracy in the Arab region: this is unlike the experience of other regions where conflicts have helped pave the way for democratic reform. Conflicts in the Arab region have at once provided an incentive for the growth of fundamentalist religious movements, attracted destabilizing foreign intervention, and diverted resources away from economic and social development toward military and security apparatuses that have helped support autocratic regimes. Resolving justly the Palestinian question and other conflicts in the region may not, on their own, fuel the process of democratization, but would certainly create an environment that is more favorable to this cause. (cf. Platteau, 2008) For one thing, their resolution would most likely lead to less destabilizing foreign interventions. And the role of independent civil society organizations that advocate and work for political and economic reform would be strengthened in the process. In this context, it should be noted that all too often Arab regimes have either subjected civil society organizations to their control or sponsored their creation in an effort to have them serve the interests of the state. Unless civil society organizations are effectively independent, their role in furthering the public good and advocating reform will be compromised.

Domestic political and institutional reform—i.e., developing more open, accountable and representative institutions—is, of course, an essential component of the democratic process. For example, adopting electoral laws that guarantee fair representation, strengthening the independence of the judicial system, protecting property rights, promoting greater gender equality, establishing regulatory bodies to correct market failures, creating social insurance organizations, and establishing mechanisms that manage social conflicts are all aspects of building the institutional

infrastructure of a genuinely democratic state. In the case of the oil-rich countries, institutional reform leading to new social contracts that embody a more equitable distribution of oil wealth and greater political freedom can only serve the cause of democracy. But it will also indirectly serve this cause in the region by reducing the concentration of financial wealth in the hands of their rulers and hence their ability to influence the course of political developments in non-oil countries.

Finally, the growth of an independent middle class is correlated not only with rising per capita income and standards of living, but also with the transition from state-controlled economies to private sector oriented, though still regulated, economies. When the economy is basically state-controlled, the middle class often becomes beholden to rulers who dispense favors in return for loyalty. With the reduction in the direct economic role of the state, the middle class (including intellectuals, business people, and civil society organizations) becomes more assertive in its demands for greater political reform. It should be noted that coalitions of Arab pro-reform advocates, as well as many Arab intellectuals, have challenged prevailing authoritarian regimes by calling for democratic reforms (e.g., see Bichara, 2007 and Center for Arab Unity Studies, 2007). Nonetheless, a major concern that remains in this context is that the economic transformation from public to private may simply lead to what has been termed the “privatization” of the state itself,—i.e., the state becomes the preserve of the ruling families and their allies in the ruling “political” parties, a phenomenon that has come to exist in a number of Arab countries. In this context, the ascendancy of an independent middle class will create a more favorable environment for a germane democracy to take hold. But while the interest of the business class in democratization is to a large extent driven by economic self-interest (hence their advocacy of a privatized national economy), the role of Arab intellectuals, universities and pro-reform organizations is crucial in fostering the ultimate objective of democratization as good governance. This is intrinsically related to their success in promoting a marriage, at the institutional level, of the universal principles of democracy (the culture of democracy) with the region’s particular social conditions.

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