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ECONOMIC FEATURES OF THE ARAB SPRING

David Cobham and Abdallah Zouache

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Send correspondence to:
David Cobham
Heriot-Watt University
D.Cobham@hw.ac.uk

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Abstract

This paper analyzes the economic factors that lie behind the upheavals commonly known as the ‘Arab Spring,’ and the economic policy opportunities that a genuine Arab Spring might open up. The evidence suggests that the upheavals were unlikely to have been responses to economic downturns resulting from the global financial crisis, and more likely to have been influenced by the longer term performance of the Arab countries, which has been characterized by relatively slow economic growth as well as failure to move away from authoritarian political systems. The principles of Islamic economics have not provided the basis for a distinctive set of economic policies for new governments. The actual economic programs of some major Islamist political parties turn out to be typically centrist, not very well-developed, but not very different from the policies which non-Islamist (and non-authoritarian) parties might propose. The paper concludes by appealing for more research on specific economic policies that post-Arab spring reformist governments could implement.

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Keywords: Arab Spring, Islamic finance, rent-seeking, liberalization, growth, economic policy

ملخص

تحلل هذه الورقة العوامل الاقتصادية التي تكمن وراء الاضطرابات المعروفة باسم "الربيع العربي"، والفرص السياسة الاقتصادية أن الربيع العربي الحقيقي قد يتواجد. وتشير الأدلة إلى أن الاضطرابات من غير المرجح أن تكون ردا على الركود الاقتصادي الناجم عن الأزمة المالية العالمية، ولكن الاحتمال الأكبر أن تكون بســـبب الأداء على المدى الطويل من الدول العربية، والتي اتســـمت بنمو اقتصادي بطيء نسبيا فضلا كما فشلت في الابتعاد عن الأنظمة السياسية الاستبدادية. لم تقدم مبادئ الاقتصاد الإسلامي على أساس مجموعة مميزة من السياسات الاقتصادية للحكومات الجديدة. البرامج الاقتصادية الفعلية لبعض الأحزاب السياسية الإسلامية الكبرى تتحول إلى تيار الوسط عادة، ولكنها لم تختلف كثيرا عن السياسات غير الاسلامية (وغير السلطوية). تخلص الورقة إلى الحاجة للمزيد من الأبحاث حول بعض السياسات الاقتصادية المحددة للحكومات الإصلاحية من الربيع العربي وامكانية تنفيذها.

1. Introduction

Recent political events in the Arab World, especially the increasing conflict in Syria and Libya, the political and security issues in Tunisia, and the combination of terror and repression in Egypt, might suggest that the political and religious agendas are the most important to examine. While those dimensions of the current situation are obviously important, it is essential to look beyond them: this paper aims to analyze the economic factors that lie behind the upheavals commonly known as the 'Arab Spring,' and the economic policy opportunities that a genuine and 'successful' Arab Spring might open up.

The paper starts by considering whether the upheavals were responses to economic pressures resulting from the global financial crisis. It turns out that it is hard to find evidence of particularly sharp downturns in these countries. Instead, the paper considers the longer term performance of the Arab countries, which has been characterized by relatively slow economic growth as well as a failure to move away from authoritarian political systems; it is argued that the source of the Arab Spring lies more in these long term failures than in short term conjunctural factors. Next, the paper asks whether the principles of Islamic economics could provide the basis for a distinctive set of economic policies for new governments. Given a negative answer to that question, it examines the actual economic programs of some major Islamist political parties: these are typically centrist, not very well developed, but not very different from the policies which non-Islamist (and non-authoritarian) parties might propose. The paper concludes with a call for more research on new economic strategies and policies which could and should be implemented by reformist governments (of any kind) in the Arab world.

Appendix Table A1 contains a very brief timeline of the Arab Spring, from the event that initiated it (Muhammad al-Buazizi setting himself on fire in Tunisia in December 2010) through the resignations of the Tunisian and Egyptian Presidents in January and February 2011 to the overthrow of the Muslim Brotherhood government in Egypt in July 2013 and the referendum in Egypt on a new constitution in January 2014.

It is customary to classify the Arab countries as oil exporters and oil importers or, in more detail, as diversified economies, (pure) oil economies, mixed oil economies and low income primary producers. In much of this paper we cover the Arab World as a whole, because despite important differences between (and within) countries there are some fundamental points in common, which have been illustrated forcibly by the cross-country nature of the impulses driving the Arab Spring itself. However, where relevant, we concentrate on the countries where that Spring made most impact: Bahrain, Egypt, Jordan, Libya, Morocco, Syria, Tunisia and Yemen.

2. The Role of Economic Factors in Triggering the Arab Spring

It is natural to ask whether the events which started in Tunis in late 2010 and spread quickly to a number of other Arab countries were triggered by a particularly sharp economic downturn as the global financial crisis made itself felt in the region. Figure 1 shows the annual GDP growth for the IMF's definitions of different regions, including MENAP (Middle East, North Africa and Pakistan). While growth in the advanced economies fell to zero in 2008 and -3.7% in 2009, that in emerging and developing economies as a whole fell only to 2.2% in 2009, and growth in MENAP (which had in the preceding years fluctuated between a low of 2.9% in 2001 and a high of 8.3% in 2004) fell only to 4.1% in 2008 and 3.4% in 2009. The most obvious reasons for this are that the MENAP region was relatively less affected by the *financial* crisis because its banks were relatively unintegrated into the international financial system (in particular, they had not been buying asset-backed securities in international markets); and, when the financial crisis led to a sharp downturn in the advanced economies, MENAP countries were not so deeply affected because most of them were not large-scale exporters of manufactured goods to the advanced economies.[1] On the other hand, as figure 3 shows, the MENAP region experienced the highest spike in inflation of any region in 2008, followed by a renewed (though smaller) spike in 2012.

Figures 3 and 4 provide comparable data for the eight Arab countries most affected by the Arab Spring: Bahrain, Egypt, Jordan, Libya, Morocco, Syria, Tunisia and Yemen. While Libya saw a collapse of growth, and some countries such as Bahrain and Jordan witnessed serious slowdowns, others such as Egypt and Tunisia had rather milder fluctuations. Moreover, while countries such as Egypt, Yemen, Jordan and Syria experienced sharp but temporary rises in inflation in 2008, mainly due to spikes in world food prices, others including Tunisia saw only minor increases.

It is possible that small fluctuations in GDP, combined with sharp rises in inflation, could be accompanied by sharp declines in the level or growth of real wages. Official data on real wages are collected from national statistics by the ILO, but as it points out (ILO, 2013, p.29) the data for MENA countries are patchy, in some cases questionable, and for some countries difficult to interpret because of the differences between native and expatriate workers. Figure 5 brings together these data for the same eight countries (except for Libya and Yemen for which no data are available). For some countries real wage growth declined somewhat in 2010, but only for Syria, where real wage growth went negative, was this a sharp fall. In Egypt and Bahrain, on the other hand, real wage growth fell sharply in 2009, following high rates in 2008, particularly for Egypt, but rebounded in 2010.[2] The ILO database also has some data on the share of wages in GDP, mostly only up to 2009, but there is little evidence there either of a squeeze on labor that might have triggered social or political tensions.[3] Finally, data from the World Bank's World Development Indicators for household consumption expenditure per capita and for GDP per head fail to reveal evidence of a significant squeeze preceding the events of late 2010 and 2011.

However, there is one source (to our knowledge) that suggests a possible squeeze on living standards in 2010, on the basis of labor force survey data rather than aggregate official statistics. Figure 6, which comes from Roushdy and Gadallah (2012), suggests that Egyptian real wages did indeed contract sharply in the second half of 2009 (no later data available).[4]

The conclusion we draw from all of this is that, while there may have been some proximate economic triggers for the events of 2011, they do not look strong enough to have been decisive. Instead, we suggest that those events should be seen as primarily the consequences of the poor performance of the Arab countries over a much longer period in terms of economic but also non-economic development, which we discuss in the next section.

3. The Economic Background to the Arab Spring

This section does not offer an original econometric analysis of the long-run growth determinants in the Arab economies. For that purpose, the reader can refer to the excellent

[1] Moreover, while the oil price fell sharply in early 2009 from the extraordinary highs it had reached in the middle of 2008, the average level for 2009 was not much below that for 2006 while the average for 2010 was well above the higher level that prevailed in 2007.

[2] Real wage growth fell sharply in Egypt in 2011, but that was after rather than before the social upheavals (Mubarak stepped down in February 2011).

[3] In Jordan the wage share, which had been 37-38% for several years, actually rose to over 40% in 2009 (no later data available). In Egypt the wage share had risen from 25.6% in 1996 to a peak of 28.7% in 2000; it then drifted down to 25.9% in 2007 and 24.9% in each of 2008 and 2009. In Morocco the share fell back to 30.8% in 2008, after a period of 32-33%, but the 30.8% was within the range of the late 1990s. In Tunisia the share fluctuated around 35-36%, and was actually towards the top of the range in 2009. In Bahrain the share rose to 35.4% in 2009, after four years in which it had been between 31.4 and 29%. There are no data for Libya, Syria or Yemen.

[4] See also Said (2012).Said (2015) characterises 1988-98 as a period of real wage erosion in Egypt, but 1998-2012 as a period of real wage recovery, with wage inequality rising from 1988 to 2006 but then falling back.

works by El Badawi (2005) and El Badawi and Soto (2014), or to Parent and Zouache (2012). Instead, we view the literature on the economic performance of the Arab economies over the long run. There is general agreement that over the last thirty years that performance has been weak, while growth in the non-Arab parts of the Middle East and North Africa region – Turkey and Israel – has been rather better. Yet, after political independence, and especially in the seventies, many MENA countries experienced impressive growth. For instance, Egypt benefited between 1961 and 2003 from high growth rates that suggested that the country was converging towards the developed economies (Dobronov and Iqbal, 2007, p. 34). Likewise, Algeria had one of the highest rates of capital accumulation in the world in the seventies (Belarbi and Zouache, 2015), which enabled the country to experience a decade of relative prosperity with GDP growing at an average annual rate of 6.8 percent (World Bank, 2003, p. 1). In the 2000s, it was thought that the Gulf countries might provide an alternative spur to Arab growth. The GCC countries recorded average annual GDP growth of 5.1% between 2000 and 2004, and as much as 7.3% in 2005 (World Bank, 2008, p.7). Some scholars then discussed whether the case of the United Arab Emirates could be classified as an economic miracle (Walters et al., 2006). However, the financial crisis raised doubts about the development model of the GCC countries, whose GDP is estimated to have contracted by 0.6 percent in 2009 (World Bank, 2010, p. 157).

Nevertheless, while recent research has focused on the impact of the financial crisis and of the Arab Spring, it seems clear that the Arab economies have suffered from structural weaknesses. For instance, if we take the standard indicator utilized in empirical growth theory – the real GDP per capita growth rate –the Arab countries have experienced a slow economic performance over the long run (Appendix Table A2 shows the absolute GDP growth rates, which are much higher for countries with high population growth): see Table 1 and Figure 7.

Furthermore, it is interesting to notice, from the regional averages also shown in Table 1, that the Gulf countries did not enjoy a better economic performance than other members of the Arab league. For example, the Levant countries experienced higher growth of GDP per capita.[5]

Another important economic feature of the Arab countries is their volatility. Figure 8 confirms Artadi and Sala-i-Martin's (2002) finding that the Arab economies suffer from high volatility of economic growth, while the linear trend confirms the weak economic growth of these countries overall.

The economic performance of the Arab countries has been analyzed through two approaches: the first is the growth accounting method[6],which attributes to total factor productivity the residual growth rate of aggregate product that is not explained by the variations in the capital and labor inputs, and the second involves a wider analysis of the empirics of economic growth.

One explanation for the bad economic performance of the Arab World is that Arab economies suffer from low levels of productivity growth. Pipitone (2009) estimates total factor productivity (TFP) for several Arab Mediterranean countries[7] from 1971 to 2008. The main result is that TFP growth has been low, with the 80s being the decade with the worst average performance. In line with this result, Pipitone (2009) concludes that physical capital is the key factor driving actual economic growth in the Mediterranean area. Abu-Qarn and Abu-Badr

[5] Early data on Arab countries' economic growth should be treated with caution. But incomplete data from World Development Indicators from the 1960s onwards confirms both the point that MENA and Arab GDP per capita growth has been much slower than that of the East Asia and Pacific or South Asia regions and the point that GDP per capita growth has been higher in the Levant countries and in North Africa than in the Gulf.

[6] Results using this method need to be treated with caution since TFP estimates depend heavily on the assumed form of the production function, and this caution is even more important in the light of the data issues in Arab countries.

[7] The Arab countries examined are Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, Palestinian Territories, Syrian Arab Republic and Tunisia.

(2007) confirm this result. For a sample of 10 MENA countries[8] covering the period 1960-1998, they find that the role of TFP in determining economic growth is insignificant and often detrimental (negative). Most of the growth is due to the accumulation of physical capital and improvements in the quality of labor. For most of the Arab countries in most of the period, the growth of TFP was negative. Accordingly, both papers (Pipitone, 2009; Abu-Qarn and Abu-Badr, 2007) conclude that investment, that is the accumulation of capital, seems to have been the major determinant of economic growth in the Arab countries

However, Artadi and Sala-i-Martin (2002) did not find evidence that a low level of investment was the main source of low growth in the Arab World.[9]Instead, they suggested that the decline in the investment rate since the eighties was a consequence rather than a cause of the low economic performance. According to them, the main trouble in the Arab World is not the quantity of investment – which was relatively high by international and historical standards– but rather the quality of investment. They argue that the very high ratio of public to private investment in the Arab countries, together with the inefficiency of the financial system in allocating capital, have lowered the quality of investment. Furthermore, the development of private investment in the Arab economies was impeded by the hostile and unstable political environment resulting from excessive political and military conflicts, excessive government intervention, and inadequate human capital. Other authors have emphasized factors such as poor agricultural policies, import-substituting industrialization policies, low levels of competition and high levels of rent-seeking, and in some cases poor macroeconomic policies. Given these results, many of the more recent studies, such as Esfahani (2008), have tried to estimate the impact of institutions in order to explain the poor economic performance in the Arab countries.

The alternative to growth accounting/TFP analysis is to identify a diverse set of potential causes behind the poor growth performance in the Arab countries; this is the second approach referred to above, and involves the direct incorporation of the various factors mentioned in the previous paragraph, amongst others. Using an empirical model of long-run growth, Hakura (2004) shows that the determinants of economic growth vary across the16 MENA countries she considers.[10]For the GCC countries, the main factors that explain the weak growth performance are their initial level of income and the large size of the government. In the other MENA oil countries, the poor institutional environment (quality of the bureaucracy and rule of law) appears as a leading component in explaining the poor growth performance. With respect to the non-oil MENA countries, Hakura argues that one should add political instability to poor institutional quality and large size of governments. Esfahani (2008) discusses the relationship between the economic performance in MENA countries and the development of their growth fundamentals. He argues that the short run causal link between institutions and growth is not obvious, and that the promotion of good governance should be supplemented by growth strategies. Makdisi, Fattah and Liman (2003) identify several factors, which explain the growth performance of the MENA region in comparison with other regions: less efficient capital, a strong natural resource curse, a lower impact of trade openness, total factor productivity growth being low, and a higher sensitivity to adverse external shocks. Elbadawi (2005) analyzes the

[8] Algeria, Egypt, Iran, Israel, Jordan, Morocco, Sudan, Syria, Tunisia and Turkey.

[9] The authors constructed a measure of GDP per capita, by aggregating the World Bank or the Summers-Heston-Aten/Penn World Tables (2002) PPP-adjusted GDP data for each country and dividing it by aggregate population. The countries used to construct this measure of Arab World GDP were: Algeria, Egypt, Kuwait, Oman, Saudi Arabia, Mauritania, Morocco, Syria, Tunisia, Comoros and Jordan. Lebanon, Libya, the West Bank and Gaza Strip, Bahrain, Qatar, UAE, Iraq and Yemen were excluded because of data limitations. See also Page (1998) for an argument that the Arab World did not experience particularly slow growth of capital over the period.

[10] In Hakura's study, the MENA countries are divided into three sub-groups: GCC countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates); other oil-exporting countries (Algeria, Islamic Republic of Iran and Libya); and non-oil MENA countries (Egypt, Jordan, Lebanon, Morocco, Syrian Arab Republic, Tunisia and Yemen).

overall economic growth performance in the Arab World since the mid-1960s. The primary factors that he identifies in explaining the weak performance of the Arab World in the long run are location and openness, demography and civil conflicts. The persistence of this weak performance can be explained by the combination of social conflicts and weak political institutions that may dampen the impact of external shocks.[11]

The impact of conflicts is included in Parent and Zouache (2012) as a spatial transmission channel. These authors assume that conflicts spread between neighboring countries and then examine how this spatial diffusion of political troubles influences the growth performance of the Arab countries. The authors find that there is a spatial inertia effect in the process of low growth:Middle Eastern and African countries suffer from the low growth of their neighboring countries. They then use a Bayesian methodology to select among the determinants of economic growth of African and Arab countries. They find that, in addition to the standard neo-classical variables –investment, saving and initial output –, the determinants that matter in explaining the lack of convergence in these economies are mostly institutional. In particular, it seems that the institutional factors, notably measured via the direct (colonial rulers) and indirect (ethnic fractionalization) colonial legacy, are key determinants of the persistence of low growth in Africa and in the Middle East.

A common theme in discussion of Arab countries' weak economic growth is the constraints on, and indeed lack of, a dynamic private business sector (e.g., Anderson and Martinez, 1998). Malik and Awadallah (2013) have taken up this theme in connection with recent developments. They relate the large role of the state, together with the weakness of private business, which is not 'embedded' with or in the state, to the centralizing tendencies of the Ottoman empire, the nature of the successor Arab states, the fragmentation of the Arab World (where, for example, intra-Arab trade is significantly below that predicted by a gravity model – see Atrash and Yousef, 2000) and the underdevelopment of the infrastructure, which could facilitate regional trade.

Despite its weak economic performance, the Arab World has succeeded in reducing poverty (Artadi and Sala-i-Martin, 2002) and improving human development, mainly because of falls in child mortality and fertility and improvements in health and education since independence (Salehi-Isfahani, 2010).Figure 9shows that, even if the Arab states have not reached the level of human development of OECD countries, their performance in terms of human development is comparable to that of East Asia and Latin America and superior to the Sub-Saharan African countries. Table 2 nevertheless reveals great disparities between the Arab countries, with Qatar (at 0.851), Saudi Arabia (0.836) and the United Arab Emirates (0.827) (0.806) displaying the best performance, and Morocco (0.617), Iraq (0.642), Syria (0.658) and Egypt (0.682) the weakest.

In addition, it is clear that there have been major failures in the Arab countries in the areas of inequality (Bibi and Nabli, 2010); employment (ILO, 2012, chapter 3);and the 'democratic deficit' (Elbadawi and Makdissi, 2005).It is probable that these failures, which relate only in part to the weakness of Arab countries' economic performance, also made major contributions to the eruption of the Arab Spring.

4. New Economic Policies?

Given the continuing role of Islamist parties in government in Tunisia and Morocco, and the aborted period of Islamist government in Egypt, it is useful to consider first whether Islamic economics provides a set of principles or policies on which a post-Arab Spring government could draw for inspiration. We then examine the economic policies actually put forward by three of the main Islamist parties in the region. Our emphasis is on the policies and strategies

[11] See Elbadawi and Makdisi (2010), in particular, on the role of wars.

proposed, since these parties either had little time to introduce major reforms or were/are non-dominant members of coalition governments.[12]

The attempt to develop a distinctive Islamic economics[13] goes back to the work of Sayyid Abul A'la Al-Mawdudi in Pakistan, where it was part of the effort to build distinctive Muslim social and political arrangements following the partition of India. It was then taken up in the Arab World in the 1970s and later in Malaysia and other Muslim countries. One key element is the emphasis on the morally proper behavior of good Muslims, and its implications for the way the economy is organized; the effect is that there is often a tension between the ideal or desirable and the possible or probable behavior, which is at odds with the western-trained economist's starting-point (self-interest). Another key element is the proposition that the economy should be organized according to the principles of the Shari'ah, which is the corpus of Islamic law, as derived from the Qur'an (the holy book) and the Sunnah (the practice of the Prophet Muhammad).[14]

This corpus includes some rules about inheritance, and some rules about taxation, notably the concept of zakat, which is a tax levied on the better off to finance a range of good causes and dates back to the time of the Prophet Muhammad. The Qur'an specifies rates of tax on various tax bases, e.g. types of wealth or agricultural product; some modern governments have tried to implement these specifications or some modernized version of them. The historical roots ensure that there are a number of anomalies which arise here, and debates around them. But the share of zakat revenues in overall tax revenue is not now and is not likely ever to be large.[15]

The core element of Islamic economics, however, is clearly the prohibition of *riba*, which is interpreted as interest. There has been some dispute in the past about the precise meaning of the word *riba*, but the current consensus of Muslim scholars is that it refers to any lending at a fixed (predetermined) interest rate. There were a few early precursors such as the Mit Ghamr bank in the Nile delta in the mid-1960s, but Islamic banking in its modern form dates from the mid-1970s, when the Islamic Development Bank was established as a central institution with support from Saudi Arabia, Libya, Kuwait, the UAE and other countries in the Organization of the Islamic Conference, and a range of separate Islamic banks began to operate (Warde, 2010, chapter 4). Among the most important of these, the Dubai Islamic Bank was set up in 1975, the Faisal Islamic Bank of Egypt and the Kuwait Finance House in 1977, the Bahrain Islamic Bank in 1978, the Islamic International Bank for Investment and Development (in Egypt) in 1980, the Dar al-Mal al-Islami group (registered in the Bahamas and Geneva, with shareholders from Saudi Arabia, other Gulf countries, Pakistan, Egypt, Sudan and elsewhere) in 1981, the Al Baraka Group and the Al Rajhi Group (both Saudi)in 1982 and 1983, and the Bank Islam Malaysia in 1983. Islamic banking continued to expand rapidly over the next three decades; by 2010 the aggregate balance sheets of Islamic banks were $1,300bn (Warde, 2010, p.1).

The distinctive feature of Islamic banking is the ban on fixed interest payments. Loans should in principle be made on a profit and loss sharing (PLS) basis, with the lender and borrower agreeing in advance how to share the profits which arise from an investment project. The two main types of contracts involved are the *mudaraba*, in which the lender is a sleeping partner in

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[12] Kienle (2015) documents the economic measures actually introduced by Ennahda in Tunisia and the Freedom and Justice Party up to the summer of 2013. He shows that they repeatedly loosened their original budget targets in response to the economic and social pressures they faced, but "no revolution in economic and social policy took place in either Tunisia or Egypt" (Kienle, 2015, p. 24).

[13] See Warde (2010, chapters 2 and 4).

[14] Note, however, that there are different 'schools of law' in Islam which do not always agree on what is the 'correct' principle or action (El-Gamal, 2006).

[15] Historically, different rates between 2.5% and 10% were to be applied to different products (agricultural and livestock), see Warde (2010, pp. 186-8). In any case, it is not clear that the actual economy of the Muslim world was regulated in this way in the early years after the Prophet Muhammad (under the Umayyad caliphs) or in any later period.

the project, and the *musharaka* in which the lender is a an active partner. However, as Islamic banking grew, particularly in the second (1991-2000) and third (2001--) phases identified by Warde (2010), the banks turned away from these PLS contracts towards sale-based or mark-up transactions, notably the *murabaha* contract, under which a bank buys raw materials or intermediate inputs for a company and the company pays the bank at a later date a higher price (agreed now). Such contracts look, to both western-trained economists and Muslim critics of the practice of Islamic banking, like fixed-interest contracts in (minimal) disguise. More generally, El-Gamal (2006) has discussed how Islamic banks came to focus more and more on finding ways to replicate conventional western bank contracts within an 'Islamic' format.

This tendency can be placed within an analytical perspective. The modern theory of financial intermediation as developed in the 1980s, on the basis of asymmetric information and incomplete financial markets, argued (without any reference to Islamic banking) that the optimal financial contract for a bank is the standard debt contract, under which (1) the borrowing firm repays to the lending bank a fixed sum so long as the firm is solvent, (2) the firm is declared bankrupt if it cannot pay, and (3) in that case the bank receives the firm's actual revenue and any remaining assets. The underlying argument (Gale and Hellwig, 1985) is that this arrangement minimizes the monitoring costs which the bank has to undertake to protect its investment, because the borrower has no incentive to underreport his profits, the bank needs to monitor only in case of bankruptcy, and in such cases the bank receives the maximum return possible, which means that it requires (for the activity of lending to be worth undertaking) the lowest possible return in cases of solvency; this in turn implies that overall lending (and so welfare, investment and growth) is maximised. The implication for Islamic banking is that PLS lending requires additional costly monitoring, and is therefore in some sense inefficient.[16]

On the other hand, as El-Gamal (2006) has shown clearly, the newer types of contracts which became popular as Islamic banks turned away from PLS operations – including Islamic mortgages, asset-backed leasing bonds, synthesized forwards and *tawarruq* retail loans – inevitably involve excess transaction costs of other kinds (e.g., for the establishment of special purpose vehicles or for the purchase and sale of the intermediate commodities) compared to the conventional western bank equivalents. These costs constitute an alternative source of inefficiency to the higher monitoring costs involved in PLS contracts, so that the shift away from PLS to imitations of conventional contracts does not solve the basic problem which Islamic banking faces.

Whatever the reasons,[17] it is clear from the relatively small amounts of data available that Islamic banks simply do not do very much lending of the PLS type; that is, most of their activities are not significantly different from those of conventional western banks (Khan and Mirakhor, 1990; Aggarwal and Yousef, 2000). But that means that the most distinctive and developed element of Islamic economics turns out not to offer a serious alternative to the conventional paradigm. Since, in addition, Islamic economics has very little to say on a wide range of other policy areas – overall demand management policy, exchange rate regimes, public expenditure and social security, anti-trust and competition policy, labor market regulation, health economics, education economics – it seems clear that Islamic economics does not offer a set of principles which could be used to guide actual government policy post-Arab Spring.

We now turn to examine the policies put forward by three of the principal Islamist parties in the Arab world: the Freedom and Justice Party (Muslim Brothers) in Egypt (FJP), the Ennahda

[16] This argument is applied in the Islamic context by Khan (1985) and Cobham (1993). See also Aggarwal and Yousef (2000) for an argument which emphasises principal-agent problems for lenders.

[17] Other reasons suggested in the literature for the low level of PLS lending by Islamic banks include adverse selection (companies which apply for loans from Islamic banks are those which have been rejected by conventional banks), e.g., Kuran (2004, p. 12).

Party in Tunisia (EP), and the Justice and Development Party in Morocco (JDP). Table 3 sets out the main elements of their economic programs. We can identify a number of common points. First, these parties are neither very socialist nor highly free market. They envisage some sort of balance between private and public sectors, with economic growth coming from private sector entrepreneurial activity in an enabling environment provided by the public sector, together with some sort of social safety net financed by a progressive taxation system. Secondly, they all aspire to high rates of economic growth in order to raise incomes and reduce unemployment. Thirdly, they all want to see corruption reduced and governance improved. Fourthly, they do not propose to ban conventional financial activities or even to shift the balance sharply in favor of Islamic banking. Fifthly, they all seem to be pragmatic about (foreign) tourism, that is, they do not intend to ban tourists from bathing or from consuming alcohol.[18] And finally, they are all relatively open to international economic flows, both trade and investment. Of the three, the JDP reflects more influence from and connection to current debates in international economic policy circles, with its emphasis on the UNDP's Human Development Index or on certain types of labor market interventions. The EP's program also has some echoes of such discussions, but the FJP rather less. The JDP also shows the most awareness of the constraints on economic policy, and the FJP the least.

We can also identify a number of common lacunae or gaps. First, none of these programs address issues of monetary policy and exchange rate regimes, although these have been controversial in recent years, with talk (but no action) in Morocco, Tunisia and Egypt of the adoption of formal inflation targeting (IT). Secondly, they put forward no serious plans for the reform of education systems, although most observers regard failings in that area as key constraints on economic development (e.g., Muasher, 2014). Thirdly, they show little interest in the issues concerning the remittances of overseas workers, which are of fundamental importance to all of these economies (should emigration be encouraged/discouraged, should the financial channels for remittances be of concern, should remittances be taxed, how might the investment of remittances in productive (as opposed to real estate) investment be encouraged, etc.). Fourthly, they do not set out any specific policies for increasing competition and reducing the power of oligopolies. And lastly, these programs are typically light on numbers and precise commitments, from costings of public spending commitments to targets for the relative sizes of the public and private sectors. It should be said, however, that this lack of precision is neither surprising – these are parties which had not expected to be near political power yet and had little incentive to develop detailed economic programs –nor different from that found in the programs of other parties in the region.

What policies might we expect from a non-Islamist (and non-authoritarian) post-Arab Spring government, that is, a government operating on the basis of conventional economic thinking in the interest of society as a whole rather than some narrow elite? Here there are few sources to draw on, but the kind of policies such a government could implement would include the following. First, such a government could act to limit corruption, within a framework of improved governance with an independent judiciary and a free press. Secondly, an improved social safety net could be created. Thirdly, revised labor laws, together with genuine (rather than government-controlled) trade unions and a substantial minimum wage, could allow a major shift in the balance of power in the labor market which would reduce inequality and poverty at the lower end of the income scale. Fourthly, additional state support for small businesses could be provided, notably in the form of access to finance. Fifthly, there is scope for public sector spending to improve the infrastructure in many cases, particularly transport but also telecommunications including internet access. Sixthly, major tax reforms are appropriate in many countries, including the introduction and/or reform of progressive income

[18] It is less clear that such activities would continue to be permitted for domestic citizens.

tax systems, in ways that would increase tax revenues and reduce existing inequalities. Seventhly, such a government could take action to improve competition and reduce monopoly elements in domestic production, which is particularly important in countries where liberalization and privatization under authoritarian regimes have produced an Arab version of crony capitalism (Owen, 2004; Chekir and Diwan, 2014; Hinnebusch, 2009). Lastly, monetary and exchange rate policies could be reformed in ways that give priority to price stability but allow the pursuit when appropriate of other objectives.

Such policies, it should be noted, are in some cases not very different from those proposed, typically in less precise forms, by the Islamist parties. And in other cases where they cover gaps in the Islamists' proposals they could in many cases be adopted by them. This suggests that, at least insofar as the Islamist parties genuinely favor democratic practices, there is a middle ground where they and non-Islamist (but non-authoritarian) parties can hold constructive debates and even cooperate in coalitions.

5. Conclusion

In this paper we have argued that there was a significant economic element to the Arab Spring, but the eruption of the Spring owed more to the poor long term economic (as well as non-economic) performance of the Arab World than to any immediate short-term economic squeeze. We have then argued that Islamic principles cannot on their own provide a set of specific alternative economic programs to those previously pursued by authoritarian governments. No doubt partly for this reason, it turns out that the stated economic programs of major Islamist parties are not very different from the policies and strategies that might be pursued by non-Islamist reformist governments.

However, given the gaps and the general nature of many of the policies discussed above, there is clearly a need for the development of more specific policies that could be implemented by reformist Arab governments in a range of areas. It is noticeable that Malik and Awadallah (2013), who insist on the urgent need for Arab economies to generate independent and integrated private sectors in the Arab economies, remain vague on the mechanisms and policies which would facilitate this. Similarly, Rodrik (2009) discusses the need for industrial policies in the Middle East but fails to offer specific policy recommendations.

We offer two examples of what we mean, one micro and one macro. First, given the evidence that neo-liberal reforms by authoritarian governments have resulted in crony capitalism, how should a reformist government respond? Many writers (e.g., Chekir and Diwan, 2014; Malik and Awadallah, 2013) have argued that this Arab crony capitalism is one of the main obstacles to faster economic growth (and greater employment and lower inequality). So should privatizations that involved sales of state firms at knockdown prices to the cronies of the then governments be unpicked? Or should policy aim to cut the oligopolies down to size by demolishing the tariff barriers that sustain them, introducing a strict anti-trust policy imposing divestment and demerger and/or providing help and encouragement to potential domestic competitors? And what, if anything, can and should be done about the concentration of industrial and commercial activity in the hands of the military, as in Egypt?

Secondly, conventional arguments suggest that in monetary policy, priority should be given to price stability, where inflation depends on inflation expectations as well as excess demand. 'Modern' central banks such as those in the developed and in some emerging countries therefore typically put emphasis on transparency and accountability as ways to help them to influence inflation expectations (Roger, 2010; Schmidt-Hebbel, 2010). In particular, (formal or informal) inflation-targeters usually publish regular monetary bulletins of some kind containing their forecasts for real income growth and inflation, try to explain their decisions ex post and indicate their likely reactions to possible shocks ex ante. These processes, which include the central bank answering and interacting with its financial sector, academic and political critics, are seen as fundamental to the operation of their monetary strategies. But in the Arab World, the authoritarian regimes have always rejected this kind of engagement, and their central banks remain for the most part lacking in transparency and accountability. The basic reasons for the poor central bank governance, on the one hand, and for countries such as Egypt, Tunisia and Morocco not proceeding to IT, on the other, would seem to lie not in carefully considered views about the costs and benefits of such changes,[19] but in the old regimes' preference for full control and their resistance to accountability and transparency (see, for example, Selim, 2011; Boughzala and Moussa, 2011); in that sense monetary and exchange rate policy can be seen as a microcosm of the problems faced by these countries. But what should a reformist government which is willing to accept accountability and transparency do? Should it make its central bank independent, build up its technical expertise, float the country's exchange rate and introduce conventional IT? Or should it opt for a more nuanced set of objectives so that the central bank can also respond, in extremis, to misalignments of exchange rates or asset prices?

In our view, it is time for economists to work on specific policy proposals in these and many other areas, proposals which reformist governments could implement and which can be used to challenge authoritarian governments which are reluctant to reform. At the same time economists need themselves to take transparency and accountability seriously: reformist governments do not just need to implement good policies, they need to convince their peoples that they are good policies by explaining them and defending them, and economists should help to develop the narratives that are appropriate for this purpose.

[19]See Cobham (2011) for a discussion of these costs and benefits, against the background of an analysis of the relationship between countries' financial institutions and markets, on the one hand, and the monetary and exchange rate regime choices which they can reasonably make, on the other, with particular reference to the Arab countries. Cobham and Dibeh (2009, 2011) and Boughazala and Cobham (2011) each contain a range of papers on monetary policy issues in the Arab countries.

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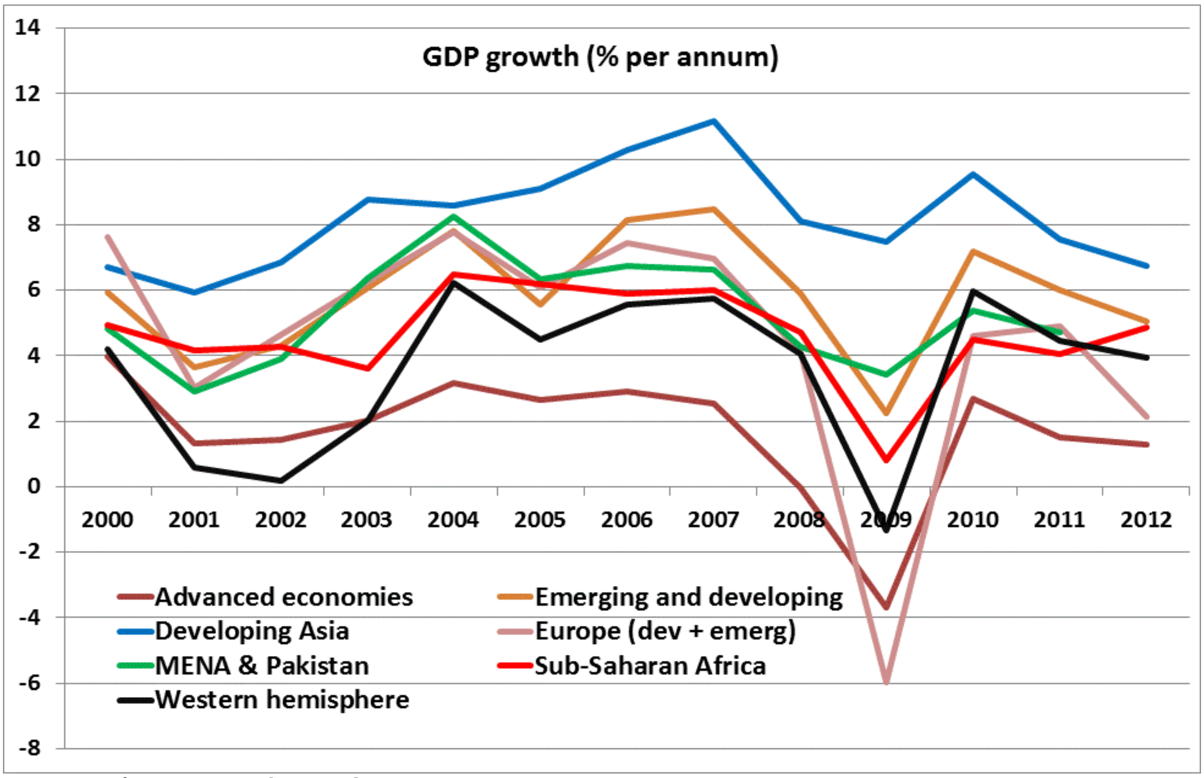
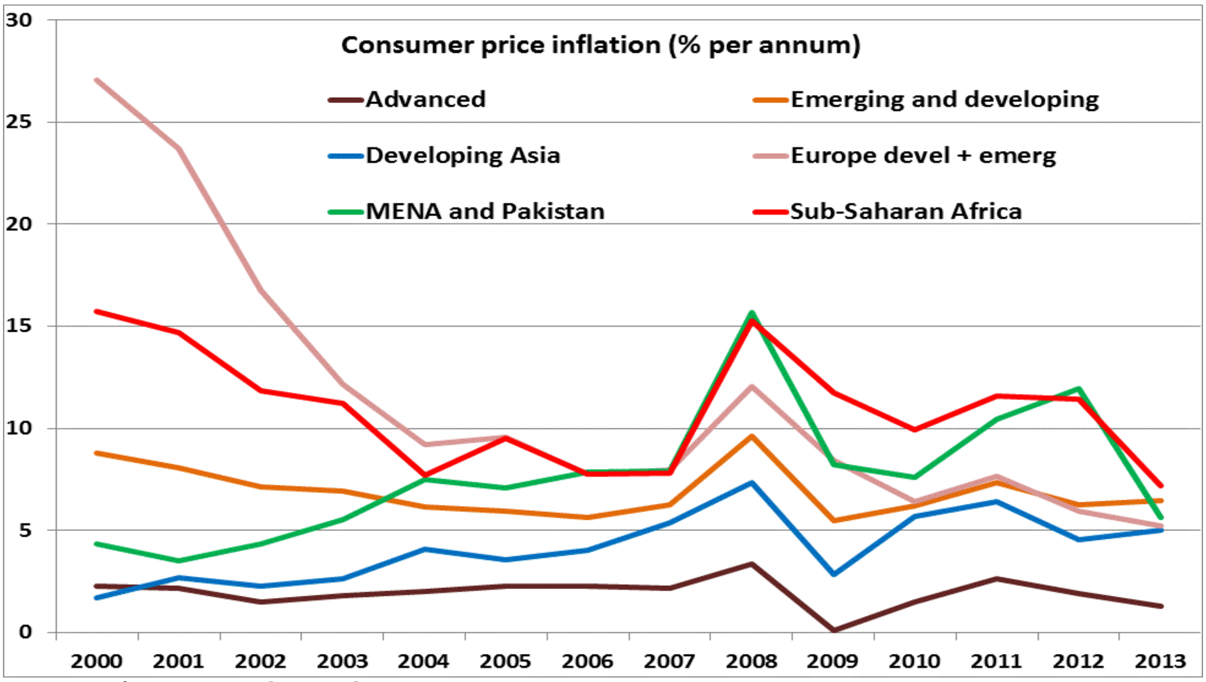
Figure 1: GDP Growth by Region



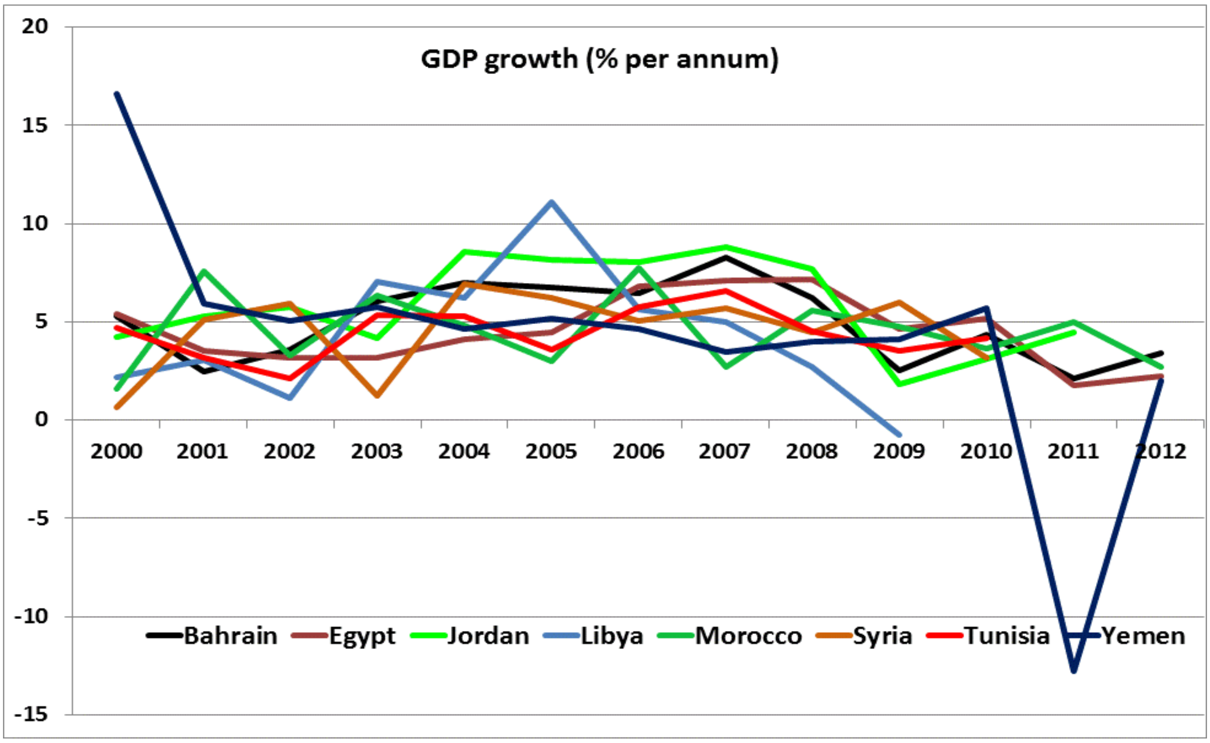
Source: Data from International Financial Statistics

Figure 2: Consumer Price Inflation by Region



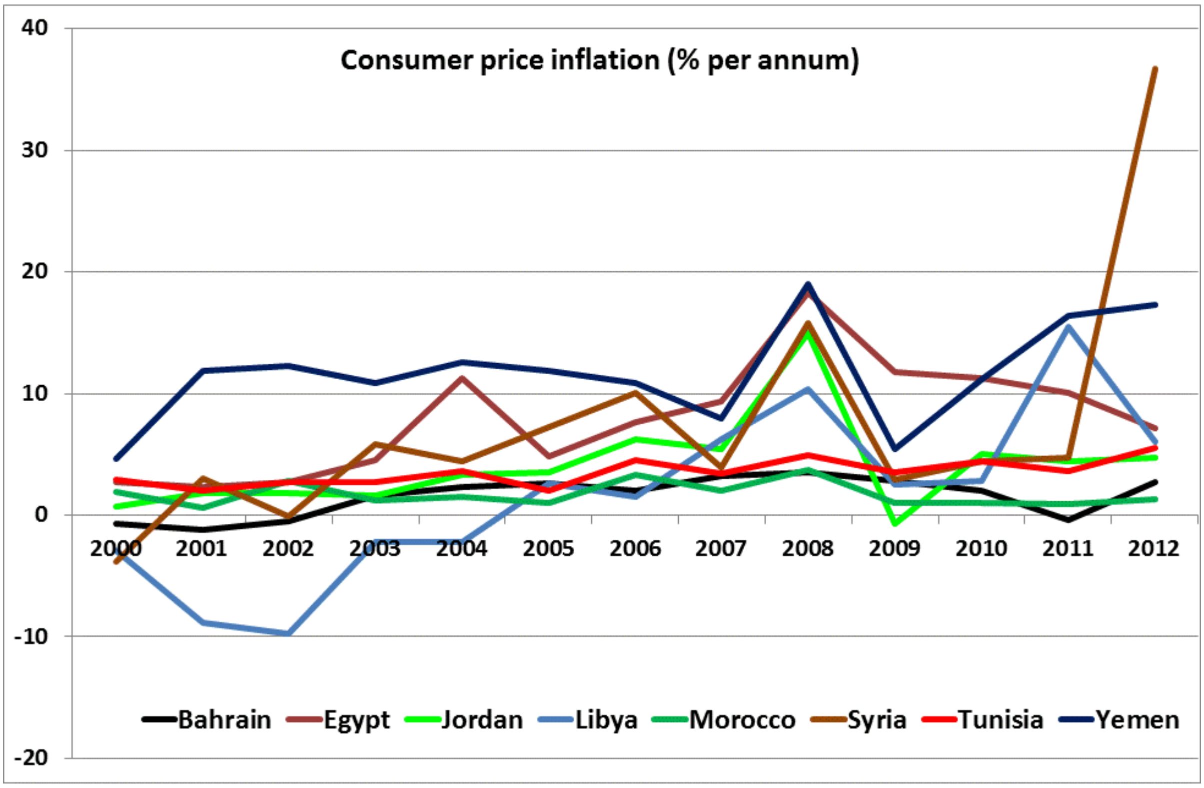
Source: Data from International Financial Statistics

Figure 3: GDP Growth by Country



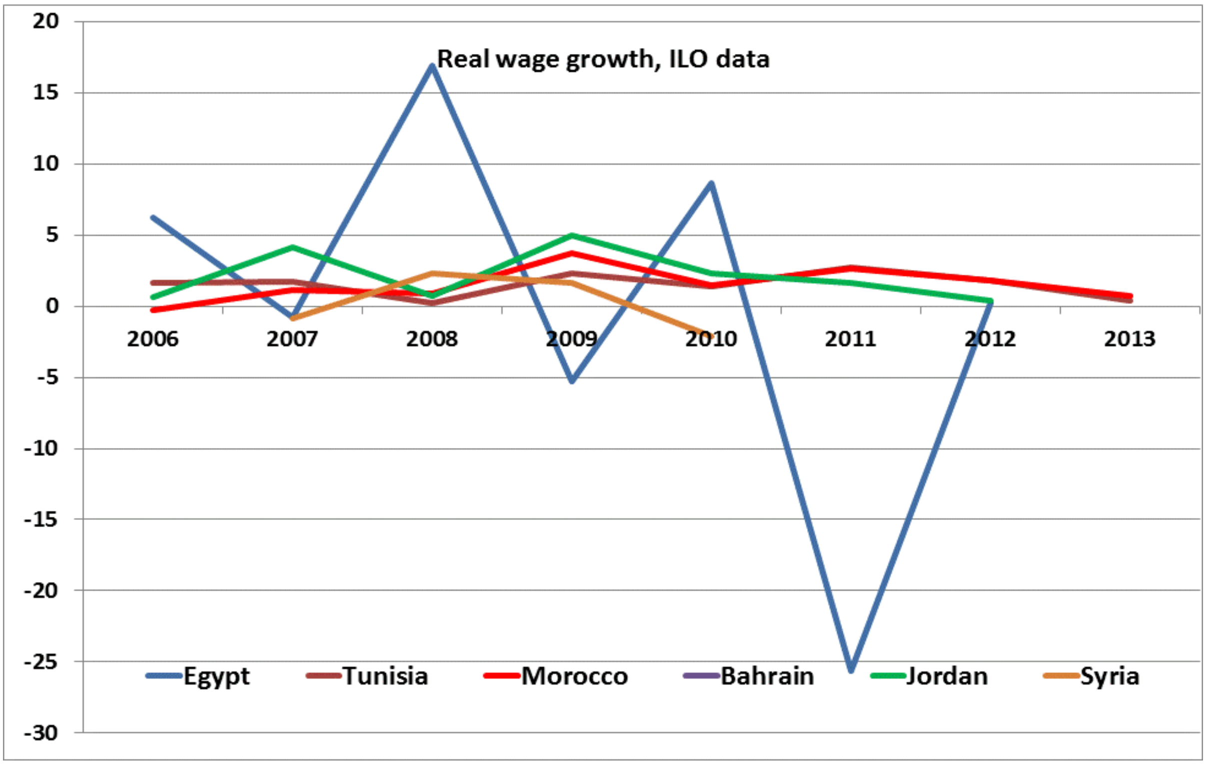
Source: Data from International Financial Statistics

Figure 4: Consumer Price Inflation by Country



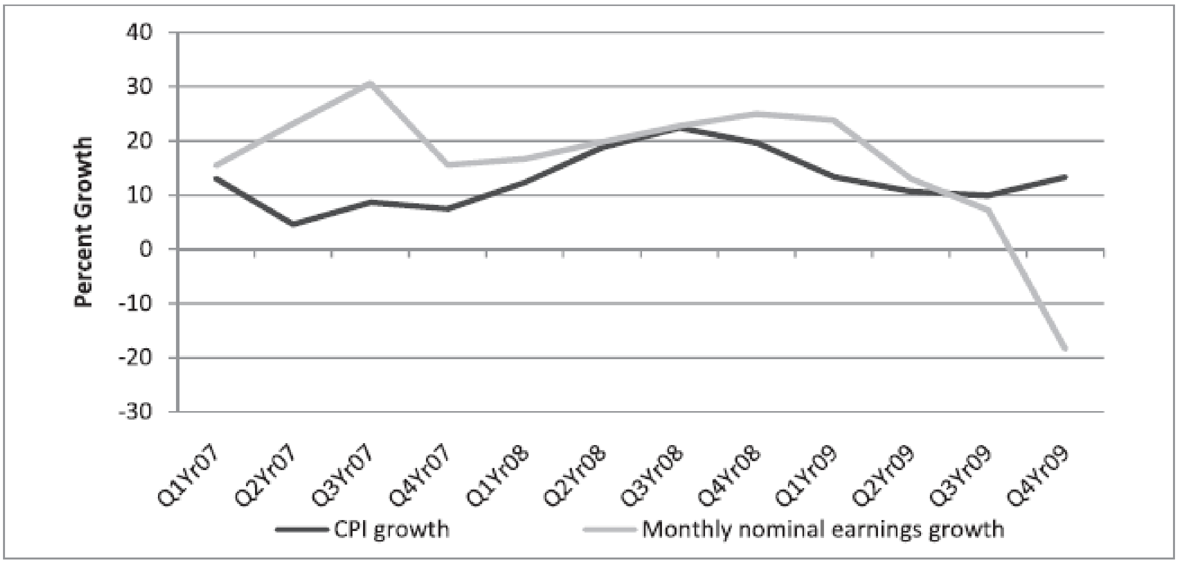
Source: Data from International Financial Statistics

Figure 5: Real Wage Growth (ILO Data)



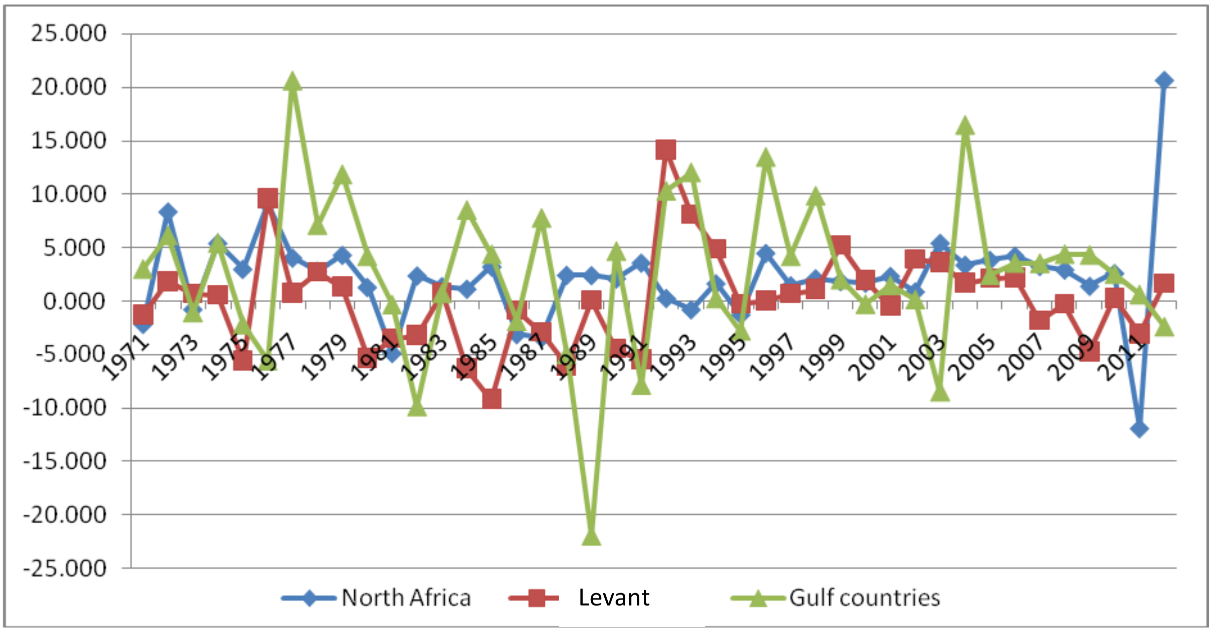
Source: ILO Global wage database, accessed August 2015

Figure 6: Inflation and Nominal Earnings Growth in Egypt, 2007-9



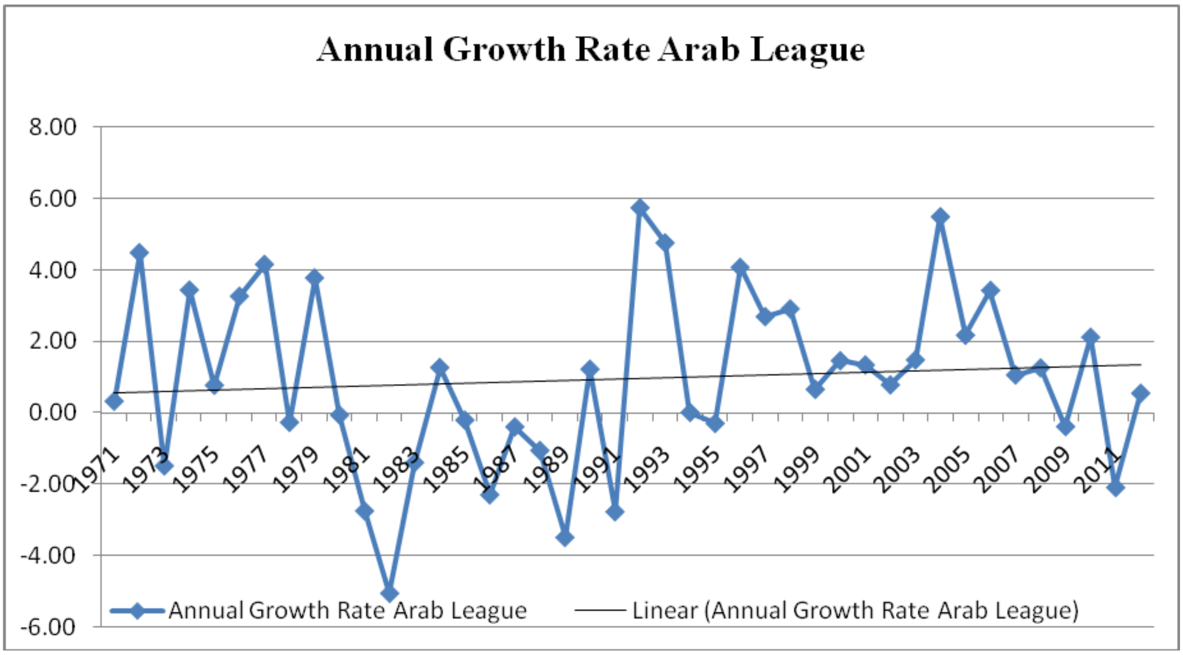
Source: Roushdy and Gadallah (2012)

Figure 7: Growth Rates by Region



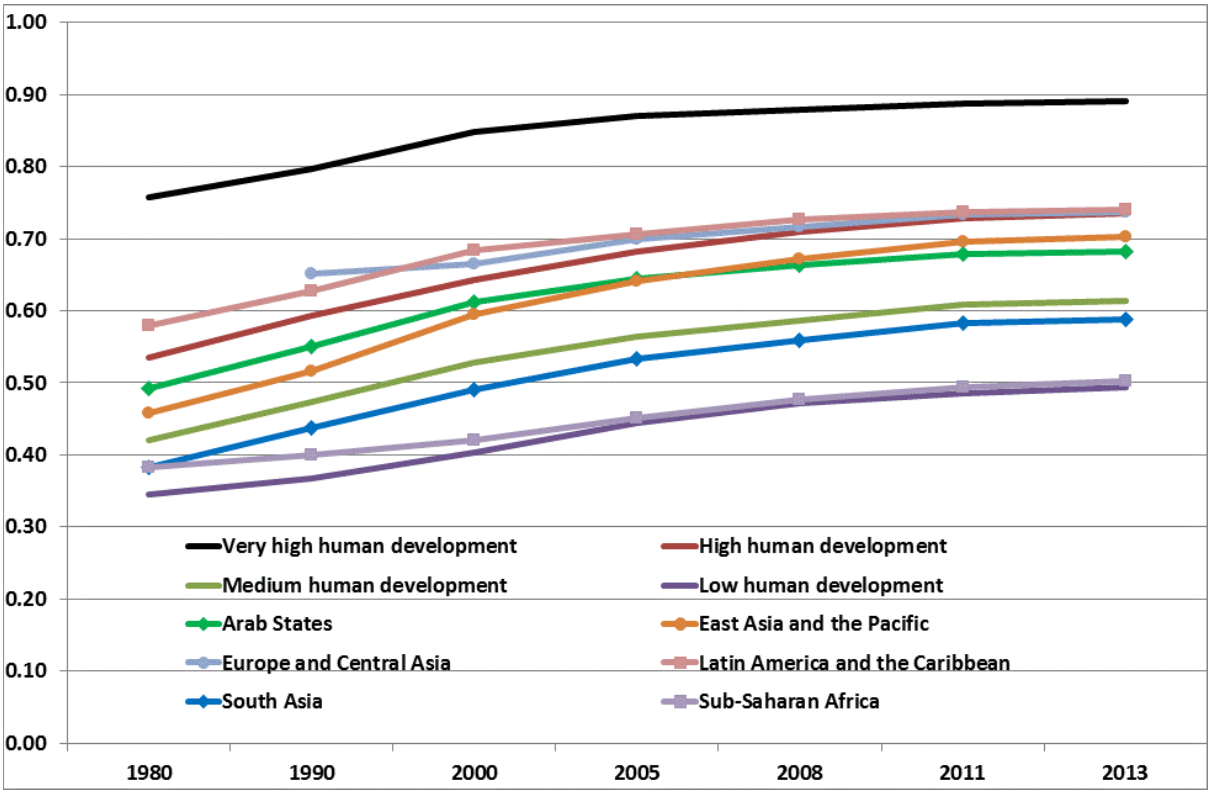
Source: Authors' calculations (data from UNCTAD)

Figure 8: Volatility in the Arab States



Source: Authors' calculations (data from UNCTAD)

Figure 9: Human Development Index for the Arab States and Other Groupings



Source: Human Development Indicators, UNDP

Table 1: GDP Per Capita Growth

	1971-90	1990-2008	2008-12
Algeria	1.3	1.2	1.1
Egypt	2.4	1.8	1.1
Libya	0.7	1.3	0.8
Morocco	1.5	1.5	1.2
Tunisia	1.8	1.9	1.1
North Africa average	1.5	1.5	1.0
Bahrain	0.9	1.2	0.8
Kuwait	0.2	1.5	1.0
Oman	2.4	1.7	1.2
Qatar	0.5	1.7	1.1
Saudi Arabia	1.0	1.1	1.1
UAE	0.5	0.8	0.7
Gulf average	0.9	1.3	1.0
Iraq	1.4	1.0	1.2
Jordan	1.1	1.5	1.1
Lebanon	0.5	2.4	1.3
Syria	1.3	1.7	0.9
Levant average	1.1	1.6	1.1

Source: Authors' calculations (data from UNCTAD)

Table 2: HDI Index of the Arab Countries

	1980	1990	2000	2005	2008	2011	2013
Algeria	0.509	0.576	0.634	0.675	0.695	0.715	0.717
Egypt	0.452	0.546	0.621	0.645	0.667	0.679	0.682
Libya	0.641	0.684	0.745	0.772	0.789	0.753	0.784
Morocco	0.399	0.459	0.526	0.569	0.588	0.612	0.617
Tunisia	0.484	0.567	0.653	0.687	0.706	0.716	0.721
North Africa average	0.497	0.567	0.636	0.670	0.689	0.695	0.704
Bahrain	0.677	0.729	0.784	0.811	0.810	0.812	0.815
Kuwait	0.702	0.723	0.804	0.795	0.800	0.810	0.814
Oman	..	..	..	0.733	0.714	0.781	0.783
Qatar	0.729	0.756	0.811	0.840	0.855	0.843	0.851
Saudi Arabia	0.583	0.662	0.744	0.773	0.791	0.825	0.836
United Arab Emirates	0.640	0.725	0.797	0.823	0.832	0.824	0.827
Gulf average	0.666	0.719	0.788	0.796	0.800	0.816	0.821
Iraq	0.500	0.508	0.606	0.621	0.632	0.639	0.642
Jordan	0.587	0.622	0.705	0.733	0.746	0.744	0.745
Lebanon	..	..	..	0.741	0.750	0.764	0.765
Syrian Arab Republic	0.528	0.570	0.605	0.653	0.658	0.662	0.658
Levant average	0.538	0.567	0.639	0.687	0.697	0.702	0.703

Source: Human Development Indicators, UNDP

Table 3: Economic Programs of Islamist Parties: Policies and Targets

policy area	Freedom and Justice Party, Egypt	Ennahda Party, Tunisia	Justice and Development Party, Morocco
economic growth target	higher and more equitable growth	high: 7% 2012-16, later revised down	high: 7% (later revised down), plus rise in human development index (especially literacy)
unemployment and poverty	public services expansion; support for labour-intensive, import substitution and export industries; rises in minimum wages and pensions; introduction of unemployment benefits	reduce unemployment to 8.5% by 2016; free medical insurance and public transport for active job-seekers	employment and anti-poverty programmes to raise average income level by 40% in 5 years; raise pensions
business taxes	n.s.	longer tax holiday for new firms	reduction of top rate from 30 to 25%
business environment	pro-competition and anti-trust policies; support for SMEs; target raise investment as % of GDP;	raise investment to 31% of GDP (from 25% 2011); more investment-friendly climate; encourage stock exchange listing of firms	new investment law, with Islamic finance providing cheaper loans, support to SMEs (including better aces to public sector contracts)
corruption and governance	corruption to be cut and governance to be improved via separation of powers, independent judiciary, free information, improved regulation	commission to combat corruption, disclosure of senior officials' assets	improvement in Corruption Perceptions Index to 40th from 85th in 2010; independent statistical agency
household taxes	shift from sales and value-added taxes to progressive income taxes	lower tax burden on lower income groups	VAT reform; tax changes of progressive nature
subsidies	to be targeted more on those who need them and/or phased out	n.s.	n.s.
labour market	minimum and maximum wages for public sector, performance-related	vocational training especially for graduates, help for private sector to increase employment	raise minimum wage; employment incentives to firms; improved labor market monitoring and interventions; more technical training
public services	improve health, education, housing, transportation; spend more on vocational training	n.s.	more social housing, better health and education
financial sector	no specific policies but aim of gradual replacement of usurious institutions and transactions by Islamic ones	banking sector reform; adapt financial system to Islamic finance and micro-credit; make Tunis regional financial centre	facilitate Islamic finance
tourism	support and development, no plans to ban alcohol or bathing	support and development, no plans to ban alcohol or bathing	support and development, no plans to ban alcohol or bathing
foreign trade	amend agreements on oil/ gas exports to Israel to raise prices; support for import substitution and exports; raise agricultural self-sufficiency	revive North African Union, get advanced partner status with EU	continued openness to EU, trade agreement with US, export diversification with rise in quality
foreign investment	welcome insofar as it creates jobs and transfers technology	n.s.	welcome
overall fiscal policy	no precise targets but ideas for raising taxes, cutting subsidies and other spending, getting better value out of past and future privatizations	n.s.	reduce deficit to within 3% of GDP
monetary/exchange rate policy	n.s.	support for central bank's independence; inflation target 3%	n.s.
policies and aims not elsewhere specified	support for disabled; more R&D	reduce current account deficit; sectoral plans including alternative energy sources	encourage self-employment; environmental policies; sectoral growth policies including alternative energy sources; improve infant and natal mortality; more R&D

Note: n.s. = nothing specific.
Source: constructed by authors from:Freedom and Justice Party's 2011 election program; Ennahda's 2011 election program; Justice and Development Party's 2011 election programme, see also their (2013) political report; Saif and Abu Rumman (2012).

Appendix

Table A1: Timeline of the Arab Spring

December 2010	Tunisian sets himself on fire in Sidi Bouzid => protests
14 January 2011	Ben Ali Tunisian President gives up and flees
28 January 2011	major demonstration in Tahrir Square Cairo
11 February 2011	Mubarak Egyptian President steps down
March 2011	Saudi army goes into Bahrain to stop (Shi'i) uprising
March 2011	start of Libyan uprising
March 2011	Bashar al-Assad Syrian President says no change
October 2011	Gaddafi Libyan President killed
October 2011	Tunisian election: El-Nahda party wins largest share of votes, eventually forms government with other parties
January 2012	Ali Abdullah Saleh Yemeni President leaves Yemen
June 2012	Morsi (Muslim Brothers) wins Egyptian presidential election
July 2012	ICRC says conflict in Syria amounts to civil war
November 2012	President Morsi in Egypt gives himself unlimited powers, major protests start
February and July 2013	assassinations of key Tunisian opposition leaders lead to strong protests against Islamist government
July 2013	following large protests Egyptian army ousts Morsi
January 2014	new constitution adopted in Tunisia, leads to new caretaker government of technocrats
January 2014	referendum on new constitution in Egypt boycotted by Muslim Brothers

Table A2: Absolute GDP Growth Rate (Average Per Annum)

	1971-1990	**1990-2008**	**2008-12**
Algeria	1.1	0.9	1.2
Egypt	4.4	3.1	2.2
Libya	-1.9	1.4	-5.1
Morocco	2.1	2.2	3.1
Tunisia	3.0	3.5	1.3
North Africa average	1.7	2.2	0.5
Bahrain	-0.6	1.0	-4.0
Kuwait	-7.3	2.1	0.0
Oman	4.5	2.8	3.7
Qatar	-3.8	2.8	2.4
Saudi Arabia	0.0	0.6	2.2
UAE	-3.4	-0.9	-6.5
Gulf average	-1.8	1.4	-0.4
Iraq	1.8	0.0	3.9
Jordan	0.5	2.2	1.4
Lebanon	-3.1	4.7	4.7
Syria	1.9	2.7	-2.7
Levant average	0.3	2.4	1.8

Source: Authors' calculations (data from UNCTAD)