

forum forum

Newsletter of the Economic Research Forum

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A Word from the Managing Director

Democracy vs. Development

The Economic Research Forum held its 21st Annual Conference in Tunisia under the theme of ‘Democracy and Economic Development.’ The conference sought to better understand the complex and sometimes controversial causal relationship between democracy and economic development by bringing together ERF’s wide network of experts with a number of distinguished speakers from around the region and the world. In this regard, I am pleased to say the conference was quite a success.

For one thing, the choice of Tunisia made a lot of sense. Not only did Tunisia sparkle the Arab Spring that has so radically altered the landscape of our region, but its experience has also been widely perceived as the most promising of Arab countries in transition. And while the country was unfortunately rocked by its first terrorist attack on tourists since 2002 only a few days prior to the conference, ERF’s determination to proceed with the event highlights our solidarity with the Tunisians and our trust and faith in the Tunisian experiment.

As for the valuable insights gleaned from the conference, I invite you to read this edition of Forum, which provides coverage of different sessions, views and lessons that were presented on and for the region. This edition of Forum also contains three exclusive interviews with some of the conference’s speakers. Moreover, in an effort to enrich our newsletter, this issue includes a new section, titled Insights, where you can read pieces by distinguished authors on various matters pertaining to MENA economies.

Still, one outcome of the conference I would particularly like to highlight is that it has become quite clear that nothing is set in stone and that with the right political will and vision nothing can prevent Arab countries from meeting their peoples’ legitimate aspirations to become prosperous, developed democracies.

Finally, I would like to extend my deepest gratitude to the guests who allowed for the success of the conference and to ERF’s staff, affiliates, donors and Board of Trustees who continue to make ERF an institution of excellence.

Happy reading,

Ahmed Galal

A handwritten signature in black ink, appearing to read 'AGalal'.

ERF's 21st Annual Conference

Democracy and Economic Development



From left to right: Ahmed Galal, Abdlatif Al-Hamad and Hedi Larbi

The Economic Research Forum (ERF) kicked off its 21st Annual Conference on March 20 in Gammarth, Tunisia, at the Golden Tulip Carthage Hotel. The event, held under the theme of Democracy and Economic Development, joined over 200 economists, political scientists and policymakers from the region and abroad.

The conference began with opening remarks by Chairman of the Board of Trustees Abdlatif Al-Hamad, ERF Managing Director Ahmed Galal, and Hedi Larbi of the Tunisian Economic Association. The three deplored the heinous terrorist incident that rocked Tunisia's Bardo Museum, leaving 23 dead, a few days prior to the conference, and emphasized that continued hard work is the best way to counter the sinister ambitions of extremists. They also expressed their gratitude to the ERF network and highlighted how, in the words of Hamad, "ERF is an institution that has grown from nothing to something important and dynamic thanks to its fellows, affiliates, management and staff."

On his part, Galal said the conference was held in Tunisia since it is a country where "democracy is in the making," which fits well with the theme of the conference. He added that the wide attendance to

the conference is a testament that "[ERF] is supportive of countries that are democratic, inclusive and civilian [...] We are not fearful and are not running away." Galal also gave a brief rundown of ERF's accomplishments over the past year and noted the introduction of a new Policy Dialogues program by ERF to bridge the gap between research and policymaking in the region. "ERF is like a submarine, it is very powerful but also underwater," he explained, adding that for its fruits to fully materialize it needed to surface and ensure proper reach to the community of policymakers in the region.

Finally, Larbi gave an overview of the difficult transitions that many countries in the region are undergoing, describing the process as "tumultuous," as people lose hope due to the lengthy nature of the transitions and the ever deteriorating economic and political circumstances. He also made note of the concurrent spread of extremism and radical Islam in many countries – ideologies that in no way meet the aspirations of the region's peoples who seek democracy. Still, he ended on an optimistic note, urging stakeholders to find appropriate ways to build and sustain the democratization processes being undergone.

Plenary Session 1:

Understanding the Relationship between Democracy and Development

The first plenary session of ERF's 21st Annual Conference came to answer a number of questions of vital importance to the transition processes a number of MENA countries embarked on following the Arab Spring. Namely, what is the nature of the causal relationship between democracy and development? Does democracy lead to more growth and development in countries? Conversely, does development lead to democracy? And, perhaps more importantly, what does all of this mean for MENA countries in transition.

To explore this complex theme, ERF joined speakers Ibrahim Elbadawi, (Dubai Economic Council), and Adam Przeworski, (New York University), together in the first plenary session of the 21st Annual Conference.

Following the two cross-cutting themes of resource-dependency and social polarization, Elbadawi, who largely focuses on oil-rich Arab economies, began the session by giving a presentation titled 'The Arab Spring: Much Violence, Little Democracy,' in which he tackled three broad questions: (1) Is democracy important for development? (2) If so, why has the Arab Spring been such a "late awakening"? and (3) Why is there so much violence?

Elbadawi's answer to the first question concludes that the Asian development model is not transferable to the Arab world because of dependence on natural resources and fractionalization in the Arab World. Elbadawi argues that Arab countries, especially oil-rich populous ones, for the large part suffer from low commitment to checks and balances and low levels of inclusiveness, leading to their ex-

periencing of the oil curse phenomenon. Moreover, many Arab countries are fractionalized on the basis of language, ethnicity and religion. And while authoritarianism is not sustainable in the Arab World, democracy is the best path for highly fractionalized societies to function. Accordingly, Elbadawi draws three lessons for transitioning MENA countries: (1) "...For every Lee Kuan Yew of Singapore, there are many like Mobutu Sese Seko of the Congo" (Dani



"The Asian development model is not transferable to the Arab world because of dependence on natural resources and fractionalization in the Arab World"

Ibrahim Elbadawi, Dubai Economic Council

Rodrik, 2010); (2) the Arab Spring should not only bring about democracy, as badly needed as it is for this region, but should also lay the foundations for strong systems of political checks and balances; and (3) programmatic benevolent authoritarianism has been, and will likely continue to be, an exception to



"No democracy ever collapsed in a country with per capita income higher than that of Argentina in 1976."

Adam Przeworski, New York University

the rule in the socially fractionalized Arab World; indicating that democracy is key to the survival of the nation state in this region, while factional, winner take all, democracy is not a solution.

Moving on to answer the second question of why the Arab Spring was so late to happen, Elbadawi identifies a number of factors. For one thing, controlling for initial income, growth and democratic legacy, natural resource dependency impedes democratic transitions (nevertheless below a certain threshold, resource rents have no impact). Secondly, wars, a widespread MENA phenomenon, also hinder democratic transitions. Moreover, countries surrounded

by democratic neighbors are more likely to be democratic. Finally, neighborhood wars (such as the Arab-Israeli conflict) impede democratic transitions.

Coming to the question of why the transition process was so violent in the region, Elbadawi notes the “induced violence” phenomenon. According to Elbadawi, since the year 2000, autocrats have been ousted by popular uprisings more than they have by coups. Accordingly, authoritarian regimes have taken note of this and learned to respond to popular uprisings by counter-revolutions through induced violence. Furthermore, while early modernization and institutional theories are useful; they do not account for the role of resource dependency and social characteristics in the adoption of strategies of violence. Although highly-endowed countries usually opt to “bribe” their citizenry to pre-empt uprisings; their low and moderately endowed counterparts usually adopt a strategy of violence to pre-empt revolts. Moreover, when it comes to social characteristics, Elbadawi finds that an autocrats’ belonging to an ethnic minority/majority determines the chosen strategy to suppress revolts.



Divergent Views

Adam Przeworski

In an attempt to understand the causal relationship between democracy and development, Adam Przeworski, Carroll and Milton Professor of Politics and (by courtesy) Economics at New York University, took over from Ibrahim Elbadawi and presented Democracy, Elections, and Development in the first session of ERF's 21st Annual Conference. The following is a piece written by Przeworski in which he highlights the key points of his presentation.

1. Introduction

The mutual relation between political regimes and economic development has been a subject of intense research, with publications running in thousands. Some of the results are robust but other results are highly divergent. Hence, the question is what we should believe and how much we should believe it. I first summarize the literature on the impact of democracy on economic growth. Then I focus briefly on the effect of development on transitions to democracy but concentrate on the impact of elections on the survival of young democracies. The conclusion emphasizes some virtues of democracy.

2. Democracy and Development

The bottom line is that there is no reason to believe that on the average non-democracies have a higher rate of growth than democracies: this much is almost certain. Whether democracies perform better, however, is open to divergent

views. Results concerning the impact of democracy on growth depend on (1) Measures of democracy, (2) Dependent variable: levels or growth rates, of total GDP or per capita. (3) Causal channels that are postulated; hence, specifications of regression equations. (4) Treatment of endogeneity. (5) Organization of data: annual, 5-year average, accumulated experience, focus on transitions. (6) Estimators, particularly the use of fixed effects. (7) Data sources: different versions of PWT, Maddison (Income levels correlate closely across these sources but growth rates less well.) (8) Samples: periods and coverage, importantly whether communist countries are included.

3. Development and Democracy

Here again one finding is robust and one controversial. It is certain that democracies are more likely to survive in countries with higher per capita income. The startling fact is that no democracy ever collapsed in a country with per capita income higher than that of Argentina in 1976. By now, there have been about forty democracies, which lived about 1500 years, with incomes higher than that; they experienced all kinds of crises, yet none fell. In turn, it is highly controversial whether economic development increases the probability of transitions to democracy, as the modernization theory postulated. The crucial variable that affects these results is inclusion of the past history of political regimes of a particular country: the results tend to be positive when this history is not included and null when it is.

4. Elections and the Survival of Democracy

Elections seem to play a role in consolidating democracies that is independent of the rate of growth. The crucial factor is having experienced the first change of control over the government between parties as a consequence of elections. First alternations are very difficult, because the potential losers do not know the eventual costs of their defeat: whether the opposition wants only to defeat them or to destroy them. Once one alternation occurs peacefully, however, subsequent alternations are easier and democracy is more likely to survive. My calculations indicate that 49 percent of regimes that never experienced an alternation are overthrown by violence but only 18 percent of those that experienced the first alternation are.

5. Variance

Any list of the countries that over some continuous number of years grow miraculously and countries that experience economic disasters, will be populated almost exclusively by non-democracies. Some democracies are always found among the “tigers” but never among the disasters. In general, it is evidence that non-democracies experience highly varying performance, while democracies tend to grow at a steady rate. This is true when we distinguish different continuous spells of democracies and non-democracies and even when we look at the experience of these spells under the same political leader.

6 Political "instability" and growth

An extensive body of literature examines the impact of “political instability” – events such as changes of chief executives, mass demonstrations, general strikes – on economic growth. The startling finding is that these events cause economic crises under autocracies but do not affect growth under democracies. This is because under democracy such events are routine: people are free to change political leaders, demonstrate, and strike. Because investors expect them, they do not react to them. In turn, under autocracy such events signal the weakness of the regime and perhaps its imminent collapse.

7. Conclusion

The implication of these last two observations is that, while democracies may not grow faster, they have two virtues: (1) They allow people to plan their lives, including even fertility decisions, (2) They allow people to process conflicts in a variety of ways without violence.

Plenary Session 2:

Forms of Democracy and Economic Development

On the second day of ERF's 21st Annual Conference a plenary session on 'Forms of Democracy and Development' was held. The session joined Tarek Masoud, (Harvard University's John F. Kennedy School of Government), Mustapha Nabli, (former Governor of the Central Bank of Tunisia), and Gérard Roland (University of California Berkeley). The three speakers broadly explored the many forms of democracy and their different results in terms of growth and development.

Masoud started the session, which was chaired by Mouna Cherkaoui of the University of Mohamed V and ERF, by presenting on 'The relationship between institutions and democracy.' Masoud's main premise is that institutions are, to a large part, almost inconsequential when it comes to political and economic effects, as demonstrated by the Tunisian and Egyptian cases. He asserted that literature findings on the matter are too theoretical and do little to affect the real world, adding that it is unlikely that political institutions would "ever" be chosen by different stakeholders on the basis of long-term economic effects. Expressing skepticism towards the idea that the survival of democracies has anything to do with the chosen institutions, ultimately, per Masoud, political systems are selected because the most powerful actors believe them to be in their political interest and not on the long-term economic impact they may have.

To back up his argument, Masoud compared and contrasted the experiences of Tunisia and Egypt following the Arab Spring. He said that while some will argue that the electoral systems adopted by both countries following their



"Political systems are selected because the most powerful actors believe them to be in their political interest and not on the long-term economic impact they may have."

Tarek Masoud, Harvard University

2011 revolutions (pure proportional representation for Tunisia and a mixed system for Egypt) were responsible for the proceeding domination of Islamists in Egypt and the relative balance of power in Tunisia, this theory does not hold true. Rather, Masoud argued, the electoral systems reflected the balance of power in Tunisia and Egypt but did not determine it, namely because in Tunisia there was a strong civil society and various political parties covering the political spectrum that enjoy some degree of power; while in Egypt there was a monolithic bloc of Islamists that would have come to power regardless of the system and institutions chosen. Moreover, Masoud cited the discrepancy in development between Egypt and Tunisia – with Tunisia enjoying higher urbanization, GDP per capita and literacy rates – to further his premise that economic and social structures are more consequential in determining outcomes than institutions and the different forms they make take.

Moving on, Nabli took to the podium and expressed some disagreement with Masoud's take on the matter, arguing that while indeed structural factors are



"Parliamentary regimes that are not majoritarian, and with more proportional representation, tend to be more inclusive, distribute more and generate more economic growth."

Mustapha Nabli, former Governor of Central Bank of Tunisia

important and can account for the different political outcomes, one cannot simply neglect other factors, namely: forms of democracy or regimes, complementary institutions, and stage of democracy.

According to Nabli, empirical evidence lends credence to the notion that consensual democratic parliamentary regimes that are not majoritarian, and with more proportional representation, tend to be more inclusive, distribute more and generate more economic growth. Nevertheless, Nabli also noted



"Countries with more individualist cultures have more innovation and higher long-term growth."

Gérard Roland, University of California Berkeley

the existence of some empirical evidence that more parliamentary systems generate less growth during transition periods.

In Egypt, for instance, Nabli argues that a more presidential/majoritarian political system and sharpened polarization led to failure; while a more parliamentary and consensual approach in Tunisia helped drive the success of the transition. Still, he conceded that Tunisia will have to bear some transition costs in the form of lower economic growth because of the quasi-parliamentarian system it adopted.

Furthermore, Nabli posits there are preconditions for democratization, when it takes place, that lead to good governance and better economic outcomes. For instance, a prior modern and capable State, with relative political autonomy and an impersonal, meritocratic and competent bureaucracy, coupled with a consecration of the rule of law as a constraint on political power (especially the rulers), greatly enhances chances of success. Conversely, a democracy without a previously good State capacity/strong rule of law is likely to produce clientelism and bad economic outcomes. This, for example, explains why democratization in the case of Yemen and Libya was doomed from the start, per Nabli.

To conclude his presentation, Nabli stressed the critical priority for building and strengthening state institutions, which are not clientelistic, and are re-

sponsive to the needs of the middle class in MENA countries, adding the process can be achieved relatively rapidly if real political will is present.

Finally, Roland adopted an altogether different approach on the matter, examining the impact of culture on democratization, and the possible link with income. Roland argued that cultural values affect the direction of institutional change when there is a window of collective action (revolution or elite revolt). Indeed, he said revolts

do not necessarily lead to democracy, even when successful and could lead to autocratic regimes. In his view, individualistic cultures create demand for democracy, while collectivist cultures are more prone to autocracy by emphasizing the necessity of benevolent rulers to create stability between different clans/groups and by seeing freedom as endangering stability. Moreover, addressing the matter of the impact of culture on income, Roland said that countries with more individualist cultures have more innovation and higher long-term growth.

Roland concludes by offering a number of policy recommendations, including: (1) While culture changes very slowly, strong public debates should be pursued between proponents and opponents of democracy; (2) Inclusive democracy is important to avoid tyranny of the majority. (3) Political institutions characterized by strong separation of powers are stabilizing, even at the cost of possible paralysis of decision-making. (4) Decentralization and federalism help countries deal with geographical political heterogeneity and help to empower civil society.

Plenary Session 3:

Navigating the Transitions to Democracy

The ERF brought together speakers Eva Bellin (Brandeis University), Erik Berglof (London School of Economics) and Larry Diamond (Stanford Uni-



"The door is not closed on democratization in the Arab world."

Eva Bellin, Brandeis University

versity) on the third and final day of its 21st Annual Conference to explore how MENA countries can best manage their transitions to democracy.

Bellin began the session, chaired by Bassma Kodmani (Arab Reform Initiative), by presenting on 'Lessons for Democratic Transition in the Arab World.' The core argument of Bellin's presentation was that established findings in the literature that economic development better sustains democracy, that neighborhood democratization has a high chance of leading to transition, and that a professionalized military apparatus is more likely to ensure a smooth transition to democracy are not actually deterministic. In this sense, per Bellin, identifying lessons of what has worked elsewhere will not provide a definitive roadmap for Arab countries' successful transition to democracy. For instance, the idea that higher GDP is more conducive to democracy is not a set rule, since half of the poorest countries in the world are democracies, Bellin argues, adding that some authoritarian regimes can have high levels of economic development as happened in the cases of Chile and Argentina.

Bellin says that while this premise is worrying for intellectuals, it heralds good news for activists and policymakers since it shows that nothing is set in stone and that all countries could become democracies. The single requisite factor, she argues, is a leadership that truly believes in and wants

democracy, since, in the end, democratization is a human process that requires consent building and persuasion. This is evident in leaders like Nelson Mandela and Mahatma Gandhi who were able to overcome tremendous obstacles to establish democracies, Bellin said. Moreover, Bellin referenced Morsi's Egypt and Tunisia's Ghannouchi to highlight the instrumentality of political leadership to successful (Tunisia) and unsuccessful (Egypt) outcomes.

Not only that, Bellin also argues that many of the supposed obstacles mentioned in much of the literature (e.g., culture and religion) are quite overrated, with the only real obstacles being the resource curse and security concerns, emanating, for instance, from the threat posed by terrorism.

Bellin concluded by saying that all of this indicates that " the door is not closed on democratization in the Arab world," provided that Arab countries empower their populations, cultivate a strong civil society, build institutions of accountability and, most importantly, possess credible political elites/ "powerful players" who are committed to democratization.

Following Bellin's presentation, Berglof presented on 'Navigating Two Transitions – Towards Democracy and Market Economy in European and Arab Countries.' Berglof tried to answer the questions of: Is democracy causally good for economic transition? Does lack of democracy impede economic reform? And, within a given political system, what



"Improved economic institutions help democracy, democratization can help unleash economic reform, early economic reforms help predict democracy and democracies can make countries richer."

Erik Berglof, London School of Economics

can be done to invigorate economic transition and improve economic institutions?

Berglof found that democracy and market economy are strongly correlated: improved economic institutions help democracy, democratization can help unleash economic reform, early economic reforms help predict democracy and democracies can make countries richer.

Additionally, when it comes to what can be done to enhance reform in a given political system, Berglof identified three types of factors: (1) International external factors; (2) "Feasible political reform": at the national level (e.g., electoral system) and the local/regional level (accountability and transparency); and (3) the 'exploitation of windows of opportunity.' When it came to this last factor, Berglof stressed that small political openings can offer windows of opportunity for reforms that sometimes lead to better economic institutions. The successful exploitation of such windows, he added, hinged on a number of factors, including early transition histories, political polarization, leaders' priorities, external anchor and support, and human capital and inclusion.

Based on the aforementioned, Berglof presented a set of recommendations for Arab countries in transition, advising them to "get political institutions right early," pursue and implement local reforms, integrate internationally (both in terms of trade and finance) and exploit windows of opportunities.

Presenting last, Diamond titled his talk 'The Democratic Recession and the Challenges for Democratic Consolidation' and proceeded to outline his findings on a "democratic recession" occurring between 2005 and 2014.

Diamond, who argued for the necessity of taking "freedom" into account as measured by U.S.-based Freedom House, said that there is an "intimate and durable" relationship between the quality of democracy and the quality of state institutions. He



"If there is a future in the near time for democratization in the Arab World, it has to involve success in Tunisia."

Larry Diamond, Stanford University

distinguished between two types of democracies, "electoral democracies," which meet the bare minimum levels of democratization and "high-quality" liberal democracies that are "recognizable" by using Freedom House Data. Diamond noted that while Freedom House was biased for the first 10-15 years of its establishment, after the Cold War this was no longer the case.

Furthermore, Diamond stressed that nothing is more important for new democracies than improving their political institutions and said if there is a future in the near time for democratization in the Arab World, it has to involve success in Tunisia.

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Special Events

Social Drivers of Political Change in the Arab World

ERF held a special event on the Social Drivers of Political Change in the Arab World on the second day of its 21st Annual Conference. The session involved the presentation of three papers developed in the context of ERF's work. Mohamad Al-Ississ presented his paper titled 'After the Uprisings - The Transformation of Public Opinions;' Nisreen Salti presented a paper, done in collaboration with Melani Cammett, titled 'Memories of Redistribution: Welfare Legacies and Political Attitudes and Behavior;' and Raj Desai presented his paper, developed in collaboration with Anders Olofsguard and Tarek Yousef, titled 'Exclusion and Dissent: Explaining Political Attitudes and Behaviors. The event was chaired by Ishac Diwan and joined Tarek Masoud as a discussant. Commenting on the presentations, Masoud praised the papers as "rich and interesting," adding that the presentations showed two interesting developments in the study of Middle East politics and economics, namely the increasing methodological sophistication in these fields and the increasing adoption of interdisciplinary approaches.



Nisreen Salti



Mohamad Al-Ississ

Inequality in the Arab World

On the third day of the 21st Annual Conference, authors presented work on Inequality in the Arab World during a special event at the conference. The event included speakers Ragui Assaad, presenting a paper on 'Inequality of Income and Wages in MENA: Outcomes and Opportunities;' Ishac Diwan, presenting on 'Attitudes Towards Inequality, What We Have Learned from the World Values and Gallup Surveys;' and Caroline Kraftt, on 'Inequality in Human Development in the Middle East and North Africa.' The event was chaired by Djavad Salehi-Isfahani (Virginia Tech University and ERF) and joined John Roemer (Yale University) as a discussant. Roemer concluded the session by saying democracy, as we see it today, is in its first stages since only formal political equality exists. He noted that since the "very rich continue to control levers of power," we cannot really assert that the true democracy exists. Roemer further advised Arab countries to sharply increase income and wealth taxes on the wealthy through a mass social movement if they wish to achieve prosperity.



From left to right: John Roemer and Djavad Salehi-Isfahani

Celebrating Excellence

Best Paper Awards

Papers submitted to ERF's Annual Conference are assessed by a committee of internationally-recognized academics from the ERF network. The papers are judged on the soundness of their methodology, the strength of the research, policy relevance, and the extent to which they substantially add to existing research in their field. The awards are presented to the authors of the best paper(s) presented under each theme. The winners of ERF's 21st Annual Conference Best Paper Awards are listed below, along with abstracts of their papers.



From L to R: Mine Cinar, Walid Mensi, Ahmed Galal, Hany Abdelatif and Ibrahim Elbadawi

Finance

- *Hedge and Safe Haven Gold and Other Assets in GCC Markets: A Vine Copula Analysis*, Walid Mensi, Shawkat Hammoudeh, Juan Carlos Reboredoc and Duc Khuong Nguyen

This study examines the role of gold as a hedge or a safe-haven asset in the six GCC stock markets (Bahrain, Oman, Kuwait, Qatar, Saudi Arabia and United Arab Emirates), by using a vine copula approach. Taking into account the effects of oil prices, short-run interest rates and the Dow Jones Islamic World Emerging Markets index in the gold-stock relationship, our evidence indicates that gold plays an important role as a hedger and as a safe haven in the GCC stock markets. Furthermore, the practical implication of gold as a risk management instrument is evaluated by comparing the market risk performance of

different portfolios, showing that GCC investors can take advantage of the risk of investing in gold during tranquil and downturns periods, realizing risk diversification and downside risk reduction benefits. The findings are crucial to investors, portfolio managers and regulators in the GCC region.

Macroeconomics

- *Arab Countries between Winter and Spring: Where Democracy Shock Goes Next!*, Hany Abdel-Latif, Tapas Mishra and Anita V. Staneva

This study presents new and rigorous mechanisms - a major weakness of the extant literature till date - to study spatiotemporal dynamic spill-over effects of democratic shocks on cross-country economic growth in general and in the Arab Spring in particular. As a centrality of this paper's

research, it investigates how democratic shocks occurring in the 'proximity' of another country, are likely to trigger similar institutional reforms and growth upsurge in a system of interdependent economies. We define proximity in economic and socio-cultural senses and construct a distance metric based on these measures to estimate dynamic effects of (democratic) shocks. A spatial vector autoregressive framework is developed to study the first stage of dynamic complementarity with respect to democratic distance. Detailed response of democratic shocks and the transmission mechanism is modeled by Global Vector Autoregression method. Our work reveals discrete changes in regimes that run counter to the dominant aggregate trends of democratic waves or sequences, demonstrating how the ebb and flow of democracy varies among the world's regions. The main finding suggests that the current revolution waves in the Arab World can be understood in light of the economic situation in a given country. More specifically, we find that high and upper middle income countries are immune to the recent democratic shock transference, whereas the lower middle and low income countries seem to be perfect candidates for another revolutionary wave.

International Economics

- *Algeria–Mali Trade: The Normality of Informality*, Sami Bensassi, Anne Brockmeyer, Matthieu Pellerin and Gael Raballand

This paper estimates the volume of informal trade between Algeria and Mali and analyzes its determinants and mechanisms, using a multi-pronged methodology. First, we discuss how subsidy policies and the legal framework create incentives for informal trade across the Sahara. Second, we provide evidence of the importance of informal trade, drawing on satellite images and surveys with informal traders in Mali and Algeria. We estimate that the weekly turnover of informal trade fell from approximately US\$ 2 million in 2011 to US\$ 0.74 million in 2014, but continues to play a crucial role in the economies of northern Mali and southern Algeria. Profit margins of 20-30% on informal trade contribute to explaining the relative pros-

perity of northern Mali. We also show that official trade statistics are meaningless in this context, as they capture less than 3% of total trade. Finally, we provide qualitative evidence on informal trade actors and mechanisms for the most frequently traded products.

Labor and Human Development

- *The Unfolding of Gender Gap in Education*, Nadir Altinok and Abdurrahman Aydemir

Early childhood is the most important and sensitive time for human development. However, countries tend to under-invest in this stage of development, particularly in the Middle East and North Africa. Additionally, children may face unequal opportunities to grow and thrive based on their circumstances. This paper analyzes inequality of opportunity in early childhood development in twelve countries in the Middle East and North Africa, assessing development along a variety of dimensions and across the early lifecourse. We quantify inequality from in utero to age five in terms of health, nutrition, social-emotional development, early learning, and early work and decompose inequality into the shares related to different circumstances. The findings demonstrate that there is substantial inequality of opportunity starting early in life, and that inequality of opportunity is particularly high in early learning and in activities that support early cognitive development. A variety of circumstances impact early inequality, with wealth, mother's education, and geographic differences all contributing substantially. Our analysis suggests that ensuring



From L to R: Ahmed Galal, Abdurrahman Aydemir and Jackline Wahba

equality of opportunity in school and adult life will require redressing the causes of inequality of opportunity in early childhood.

Microeconomics

- *Household and Contextual Indicators of Poverty in Tunisia: A Multilevel Analysis*, Mohamed Amara and Hatem Jemmali

Using micro data from the 2010 National Survey on Households' Budget, Consumption and Standard of Living, this study investigates the main factors contributing to poverty distribution, one of the most severe socio-economic problems in Tunisia. To this end, the study employs a multilevel Logit model and a multilevel mixed linear model to simultaneously analyze the micro-level (household) and macro-level (governorate) factors that might affect the household poverty status. Household size, household composition, occupation, education levels, the gender of the household head and the number of earner by household variables were assessed at the micro-level. Unemployment rate, poverty rate, industrial and agriculture parts and the migration are included to control the ef-



From L to R: Mohamed Amara, Hatem Jemmali and Atif Kubursi

fect of contextual effects. Our findings showed that the likelihood of a household being poor is positively and significantly related to household size, more children and lower education level. The extremely poor households are more likely to live in rural areas, while poor households live in urban areas. Macro-level analyses indicated that greater neighborhood unemployment rate was associated with higher odds of poverty, while greater industrial agglomeration and migration balance were associated with reduced odds of poverty.



An Interview

Forms of Democracy and Economic Development

Tarek Masoud, an associate professor of public policy at Harvard University's John F. Kennedy School of Government, presented on different forms of democracy and their impact on development in the second plenary session of ERF's 21st Annual Conference. During the session, he assessed the impact of political institutions on economic development in countries in transition, using the experiences of Tunisia and Egypt following the Arab Spring to back up his arguments. Professor Masoud is the author of *Counting Islam: Religion, Class, and Elections in Egypt* (Cambridge University Press, 2014), and co-author of *The Arab Spring, Pathways of Repression and Reform* (Oxford University Press, 2015).

Below is an interview with Tarek Masoud.

Do different forms of democracy have any bearing on the outcome of a country's path towards development?

There is, of course, a broad literature on the economic effects of political institutions. For example, we have a vigorous debate over whether democracy or dictatorship is better for development and growth, with scholars such as the late Mancur Olson arguing that democracies should grow faster because leaders have incentives to tax less than their dictatorial counterparts, and others arguing that democracies should grow more slowly because voters force elected leaders to divert resources from investment to consumption. However, in a thorough and, in my view, definitive study conducted by Adam Przeworski and his co-authors, no significant differences were found between these two regime types in the level of growth (although some differences were found in pattern). Now, given that something

as fundamental as regime type seems to have little effect on growth, it seems unlikely that variations within the democratic regime type—in terms of things like electoral rules or the structure of legislative-executive relations—should have discernable developmental consequences. To the extent that there is a literature on the economic effects of different forms of democracy, that literature is inconclusive.

Tunisia seems to have made more progress in the democratization process compared with Egypt, why?

Tunisia is a country of 10 million people---that is, about one ninth the size of Egypt---so a comparison with Egypt is probably unfair. That said, there were certainly conditions in Tunisia that rendered it a more hospitable terrain for democracy: these include a more educated population, a higher level of economic development, a stronger and more capable state bureaucracy, and a longer legacy of civilian (that is, non-military) rule. In a very real sense, then, the difference in the two countries' democratic trajectories may seem to be overdetermined.

How have the economic and social structures in Egypt changed (if at all) since the events of June 30, 2013, and what does this mean for the makeup of the upcoming parliament?

The principal change I discern in Egypt, through my study of social and political surveys conducted in the country since 2011, is the stark diminishing of

support for Islamist political parties, a shift in popular attitudes toward the role of religion in politics more broadly, and an increasing popular desire for order and stability. What has not changed, however, is the absence of genuine political parties that can channel popular preferences into the political process. In fact, although surveys show that citizens have turned their backs on Islamist parties, they also show that other, non-Islamist parties remain as unpopular as ever. Consequently, I expect the new parliament to be fragmented among a variety of political parties and electoral lists. This does not preclude, however, the emergence of a strong party or parties after the election, as the work of the legislature naturally causes members to coalesce around policy interests and ideologies.

Young people across the Arab World have struggled to build effective political organizations, having been shut out of politics for quite a while. In your view, how can they be better integrated for a better society for all?

Political incorporation of the youth is important, but even more important is their economic incorporation. The problems of youth unemployment that so many scholars believed were a contributing factor to the so-called Arab Spring protests remain as urgent as ever. Arab governments must focus on the economic empowerment of young people, which will require the reform of education systems and la-

bor markets. This may sound as if I am arguing that democracy must be put on hold (perhaps indefinitely). But democracy seldom emerges in economically underdeveloped societies, and when it does, it does not last long. A healthy economy is a prerequisite for an inclusive policy.

What lessons do you have for Arab countries seeking democratization and economic development?

The core challenge facing the Arab world since the end of the Ottoman Empire has been establishing strong states with the capacity to organize their societies and economies. So far, what we have instead are what the late Egyptian scholar Nazih Ayubi called “fierce states”---ones that have been able to impose order, but which have been stunningly unable to enact national level policies or erect competent and professional state institutions. The Arab Spring seemed to bring with it the promise of dismantling these fierce states, but what it brought instead were either what I call “feckless states,” in which political leaders were neither able to impose order nor enact policies; or “failed” states, in which the entire governing apparatus broke down. I do not believe that Arabs are doomed to inhabit either “fierce,” “feckless,” or “failed” states, but breaking out of this trap requires enlightened political leadership that prioritizes building competent state institutions, fighting corruption, and expanding economic opportunity.



An Interview

Understanding the Role of Culture in Democracy and Development

Gérard Roland, E. Morris Cox professor of economics and professor of political science at the University of California Berkeley, presented in the second plenary session of ERF's 21st Annual Conference. Roland adopted a cultural approach, examining the impact of culture on democratization, and the possible link with income.

Below is an interview with Roland to get his take on how culture impacts prospects of economic development and democratization.

What role does culture play when it comes to economic development and democratization?

Economists realize more and more that culture has effects on economic variables. Coming to my own research, jointly with my colleague at UC Berkeley Yuriy Gorodnichenko, we have looked at the role of individualism and collectivism on economic development and democratization. We have shown that an individualist culture, where social status rewards go to people who stand out, favors innovation, and thus growth, while a collectivist culture that values more conformity, favors innovation less. An individualist culture is also more favorable for democracy because individualism values equality before the law and protection of rights of the individuals from state encroachment.

What about distribution? Do individualist/collectivist societies tend to be more equal or unequal?

This is something we have not looked at yet. There are many issues at stake here. Collectivist societies

do redistribution via the extended family and tribe and clan networks. Individualist societies, on the other hand, rely on the state to redistribute income. The welfare state is thus something that naturally emerged in individualist societies, and is not as strongly developed in collectivist societies, who are also poorer. On the other hand, some individualist countries, like Scandinavia, have high redistribution whereas the United States has very little redistribution. It is not clear that preferences for redistribution are strongly linked with the individualism-collectivism cleavage.

A number of the BRICS countries tend to fall more on the collectivist end of the spectrum, perhaps with the exception of South Africa. These countries include the world's largest democracy (India) and some of the fastest growing economies in the world. How can this fit into your theory?

India is actually the most individualist country among developing countries, and it is also a vibrant democracy. China is a collectivist society, and is not a democracy, nor is it likely to become a democracy any time soon. China has been growing a lot in the last 30 years, but it is still a poor country. In our regressions of GDP per capita on individualism, China is not an outlier at all.

Do religion and the religiosity of a society affect the level of individualism/collectivism of a culture?

That depends on the values of a religion. Protestantism is the most individualist religion. Christian re-

ligions are rather individualist because they insist on individual salvation and an individual's direct link to God. This holds also for Islam, as far as I can understand. Buddhism is much more collectivist as a religion. Among the Christian religions, orthodox religion is probably the least individualist. I have to say that I am not a specialist on religion, and these are just very speculative remarks.

If changing a culture is impossible in the short term, what can collectivist cultures do to successfully transition to democracy and achieve economic development?

Democracy must come from below, there has to be an active civil society fighting for democracy. Im-

posing democracy from above does not work in general.

How can Arab countries foster a culture of individualism? Are there any theories that are particularly strong?

I think what is important is that people, men and women, fight for their human rights, for equality before the law, for transparency in government, for celebration of the value of life of all humans on earth, for tolerance and peace. This is easier said than done, as we know.



An Interview

Can Arab Countries Undergo Successful Transitions?

Eva Bellin, a professor of Arab politics at Brandeis University, presented in ERF's 21st Annual Conference's third plenary session on 'Navigating Transitions to Democracy.' Bellin analyzes the different theories and the experiences of different countries concerning this matter, offering a number of key lessons to Arab countries in transition.

ERF interviewed Bellin to gain a better understanding of where Arab countries currently stand on the path towards economic development and democratization.

Are Arab countries in transition to democracy and economic development likely to succeed in achieving both? Please explain your answer.

Transition to democracy and economic develop-

ment, are two objectives much less tightly linked, both logically and historically, than many might wish. At the same time the two objectives are not mutually exclusive. To my mind, the common ground between the two lies in the need to develop States whose logic of political survival rests not on the discretionary distribution of patronage but rather on procedural legality and political accountability. The latter is a tall order that requires effective political mobilization, both from below and from above.

What lessons do you have for Arab countries seeking economic development and democratization?

Democratization is the product of long-term, reiterative struggle. It hangs on the efforts of committed advocates, determined to wrest power from elites

who are equally determined not to share it. To sustain struggle, one must persuade people ideologically that this is the “least-worst” system to manage society’s competing interests. But even more importantly, one must directly harness people’s interests and show how democratic institutions “deliver” on these. In Latin America, the brutal experience of military dictatorships persuaded even the most committed revolutionary leftists that there was value in what had prior been perceived as “bourgeois democracy.” At the same time, the ability of these regimes to deliver on people’s everyday needs (say the Bolsa Familia system in Brazil) has given these new regimes a “footing” in society.

In your presentation at the Annual Conference, you identified the resource curse and security concerns as real obstacles to democratization. Can you expand on these limitations and how they can be overcome?

The primary obstacle posed to democratization by the resource curse is two-fold. Extraordinary State wealth and State largesse guts citizens’ economic motivation to demand institutionalized accountability from the State. And extraordinary State wealth endows the State with the resources to sustain the means of massive political repression of society. Still there is some reason for hope, especially with regard to the former. Even if economic motivation to demand democratization may be reduced in resource cursed countries, cultural motivation for more freedom and equality may yet evolve. For example, women in Saudi Arabia have been campaigning for more rights (e.g., the right to drive; the right to more space in the public sphere) and the regime seems likely to accommodate this as the movement among Saudi women grows and the foundation of the regime’s popular legitimation evolves. Cross-cultural sharing and the development of civil society networks (both locally and globally) are key to this process.

Security threats also constitute a major obstacle to political opening. So long as regimes can point to the dangers to public safety posed by radical groups (e.g., ISIS), they can claim a “carte blanche” in clamping down on various freedoms. The only

way out (besides defusing the radicalism itself) is to maintain a double game: acknowledge the security threat posed by radicals (and go after it with full force) at the same time as insisting on the logical limits of these campaigns. Clamping down on all opposition, even the non-radicals, does not foster security. It fuels insecurity by radicalizing ever more groups. This must be made clear.

Also in your presentation, you seemed to propose that democracy is imposed from above through political leaders. In light of this, how do you view the future of Arab democracy?

It’s not that ‘democracy is imposed’ from above by leaders. It is rather that, at critical junctures, leaders play a key role in inspiring, shaping, and managing the success of introducing the institutions of non-violent conflict resolution. Leaders committed to and practiced in such institutions are key. There is no way to predict the emergence of such leaders since some of the talents involved in such successes are highly individualistic and contingent (e.g., charisma). However, practice in such institutions is key. It is no surprise that Hocine Abbassi, a long term activist in the Tunisian trade union movement, played a key role in his country’s National Dialogue and the successful negotiation of Tunisia’s constitution. The more that civil society groups develop in the Arab world, the greater the production of leaders with this sort of experience and commitment.

*Insights*

What More Can Economic Analysts Offer Policy Makers on Subsidy Reform?

by *Mustapha Nabli*
and *Ravi Kanbur*

Exchanges on subsidy reform between policy makers and economic analysts, particularly analysts from International Financial Institutions (IFIs), have become somewhat stylized. One might even say that they have fallen into a rut. The standard dance begins with a situation where the subsidy leads to a large fiscal deficit and an imperative to manage this deficit. Economic analysts from IFIs and elsewhere then do an incidence analysis of a subsidy (e.g., a fuel subsidy), which shows that it is very badly targeted towards the poor. The strong implication is that removing the subsidy will not impact on poverty “too much.” But, of course, it will have some impact. It is then suggested by analysts that better targeted transfers that focus on the poor could mitigate the poverty impact.

Policy makers and politicians considering subsidy reform, and indeed any policy reform, are of course interested in poverty impact. But, equally, they are aware of and interested in the broader political economy of subsidy reform. More generally, they are interested in the full range of winners and losers from subsidy reform. To the extent that compensation is on the agenda, they are equally interested in finding possible mechanisms for mitigating impacts on politically salient groups as they are in mitigating impacts on the poor. But here the analysis that is usually available to them—the typical incidence analysis of the subsidy or subsidies, done with greater or lesser sophistication depending on data availability—does not help very much.

What is it that analysts can do to respond to this key concern of policy makers? One answer is to still do

incidence analysis, but of a different sort. Such incidence analysis would differ from the conventional type in two ways. First, it would look at incidence on socio-politically salient groups that go beyond just those suffering from income poverty. Such groups include the middle classes, labor groups, regional groupings and others. Second, the analysis would look at the incidence of not just removal of subsidies, but of alternative policy packages, which include instruments beyond subsidies. The exercise would thus show the winners and losers from a range of fiscally equivalent packages.

Identifying the alternative instruments that go beyond targeted cash transfers to the poorest groups is most important: is it wage policy, or any other instruments? This raises the issue of the feasibility (or lack thereof) of reaching some groups, which may be strongly affected by the subsidy reforms but are difficult to identify and target, and the consequent political implications. It also raises the issue of the macroeconomic impact of using alternative instruments, such as wage policy.

Clearly, such an exercise would need close collaboration between policymakers and analysts to identify packages that are feasible from the implementation standpoint and that identify socio-politically salient groups. But once these are identified, the analysts can use their expertise to conduct incidence analysis, which can be modified as the discussion evolves. Such a process would surely be more productive than the stalemate we seem to be at right now.

Other questions where analysts can be helpful involve the design of the subsidy reform itself. One question is whether policymakers should go for a “big bang” or a more gradual approach? Another concerns identifying the macroeconomic implications when the size of the subsidies is quite large. The reform in Iran is a case in point where the macroeconomic implications eventually led to the failure of a major policy experiment. Yet another question is whether the price reform should aim to keep relative prices consistent with the structure of international prices or accept a distortionary structure by less aggressively adjusting the prices of commodities consumed more by the poor. What are the equity-efficiency trade-offs?

One additional, often ignored, problem is that of the cross-border implications of subsidy reforms. In many situations where neighboring countries have large subsidy programs for the same commodities, reforms in one country may have significant implications in terms of smuggling and cross-border trade. These are of concern to policymakers, but are usually not part of standard analysis of subsidy reform.

Of course there are some nascent analyses along the lines suggested here. However, what is needed is a more systematic integration of policymakers’ political economy concerns into the typical subsidy reform analysis.

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Insights

Arab Countries between Winter and Spring?

By Hany Abdellatif

What is happening in Arab Spring countries raises many questions and captures the world's attention. The Egyptian revolution, following on rapidly from the Tunisian uprising, has sent shockwaves across the whole world and has inspired new political awareness in other Arab countries that might also experience regime change. Several governments have responded to more limited protest movements with promises of political and constitutional reform. This raises the question of whether the Arab World might experience another wave of democratization, as happened in Eastern Europe after 1989.

More importantly, democratization may proceed differently in the Arab World than it has in other regions, due to political cultures - in particular, the role of Islam in politics and the important role of oil in some of the region's economies.

Does what happens in Egypt affect other countries in the region? Of course, Egyptians would like to believe that the answer is yes, but is this really true? This is what a recent study titled "Arab Countries between Winter And Spring: Where Democracy Shock Goes Next!" tries to answer. The paper, co-authored by Hany Abdel-Latif, Tapas Mishra and Anita Staneva, reflects on the experience of the 'Arab Spring' countries by examining whether a positive change in democracy in Egypt would possibly lead to similar institutional reforms in its neighboring countries. This study contributes to the current literature by suggesting a detailed mechanism through which countries are linked together using information on bilateral migration, geographic distance and the freedom of speech index.

The paper shows that while there is a possibility of some reforms taking place in the low and middle-income countries, high-income countries seem to be

totally isolated from what is happening in the Arab World. A very important policy lesson, which can be derived from this study, is that the current revolution waves in the Arab World can be understood in light of the economic situation in a given country. Therefore, economic reform should be on top of the post-revolution governments' agendas.

In particular, the study has shown that democracies in poor countries have significantly better prospects if they can maintain their economic growth. In economic terms, then, the real danger for democracy lies in the combination of poverty with prolonged economic decline. In addition, democracy cannot be implemented by military means; it has to grow from within countries by gradually constructing political processes, institutionalizing them, and combining them with economic reforms.

These findings explain the fall of the Muslim Brotherhood regime in Egypt, which had directed all its efforts towards implementing political reform at the expense of economic reforms; a lesson I believe the current administration in Egypt understands very well.



Book Review

Understanding the Political Economy of the Arab Uprisings

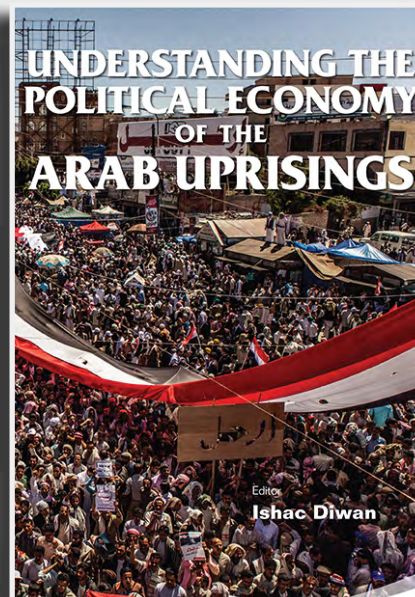
Edited by Ishac Diwan
World Scientific, 2014.

Reviewed by Hassan Hakimian

Analyzing the root causes and consequences of the recent Arab uprisings is the subject of a burgeoning literature. In this recent addition to a challenging subject, Ishac Diwan's edited volume – *Understanding the Political Economy of the Arab Uprisings* – brings together a rich collection of diverse contributions. Most of the ten chapters in the book had previously appeared under different publications of the Economic Research Forum for the Arab countries, Iran and Turkey (ERF) in Cairo. However, their re-assembly here, with a preface by Roger Owen and enriched by a reflective introduction by the editor, adds much to our understanding of the rapidly changing political economy of the region.

As Diwan observes, recent developments dispel 'any remaining notion of exceptionalism' for the region, but they also open up the space to new uncertainties or 'less deterministic theoretical considerations.' Such an open-

minded and candid approach is indeed a strong virtue of the book, highlighting at times an agenda for future research as well.



The book is organized along three principal themes: the root causes of the uprisings, hurdles in their transitions to democracy and drawing lessons from other

countries. A fourth, minor theme – Arab capitalism in crisis – is cross-cutting and the two chapters here (Nugent on corruption and Atiyas on competitive markets) could have been subsumed under the above themes given their links to either the roots of the crisis or challenges ahead and lessons from elsewhere.

The book's main theoretical strength is arguably its political economy approach, which anchors its methodology on the interaction between the economic and political dimensions of the uprisings. Thus, the roots of the revolts are firmly located in the economic liberalization experience which Arab countries experienced since the 1980s without a parallel process of liberalization taking hold in the political sphere. In his chapter, Diwan demonstrates painstakingly how the emergent Arab 'crony capitalism' fuelled the alienation of middle classes, who – led by their youth – came to resent the rise of

a class of well-connected elites with privileged access to economic opportunities.

Owen goes further by elaborating how in the political sphere cronyism became intertwined with family dictatorships in a republican setting where 'elected' Arab rulers and their sons became de facto monarchs with powers and privileges preserved for what he describes as 'Presidents for life.'

Putting the 'Arab Spring' in a wider context, Caroline Freund and Melise Jaud's quantitative study finds that of the 90 countries experiencing regime change in the past 50 years, 39% led to failure. Their study highlights success factors as being low natural resources, high female literacy and a tradition of parliamentary democracy – factors that arguably only bode well for Tunisia in her quest for transition to democracy.

Other chapters too add depth to and extend this comparative perspective: Ersel on the transformative role of Political Islam in Turkey, Esfahani and Gurakar on a comparative study of social orders in Turkey and Iran and a last chapter by Shidiq and Vermonte on the early years of democracy in Indonesia. The result is sobering indeed for anybody who expected the 'Arab Spring' to be short or to have a happy ending.

Overall, the book is a strong contender for inclusion on a highly select reading list on the subject. Its scope and coverage is excellent and quality of analysis hard

to improve. This is not withstanding the fact that the book leaves unresolved a number of pertinent issues: why, for instance, has the combination of revolts with crony capitalism been limited to the Arab region so far? A second 'mystery' – as Diwan puts it – is why did the uprisings affect countries that were doing relatively better economically?

The answers to both of these questions are likely to lie as much in the recent Arab uprisings as in the wider context of understanding revolutions at large. But the latter would require a more general theory of social upheavals, for which the book undoubtedly offers initial steps and indispensable insights.

Hassan Hakimian is the Director of the London Middle East Institute (LMEI) at SOAS, University of London. This review first appeared in the Feb-March 2015 issue of the Middle East in London magazine published by the LMEI.

New ERF Affiliates

New Research Fellows

Elias Mouhoub Mouhoud

graduated with a PhD in Economics from the University of Paris I – Sorbonne in 1991. He is a professor of Economics and the University of Paris-Dauphine; the director of the International Research Network (GDRI) of the CNRS (National Center for Scientific Research); the director of Master of International Affairs at the University of Paris Dauphine; a member of the Council Board of AFSE (French Association of Economics); and a member of the council Board of SASE (the Society for the Advancement of Socio-Economics. His research interests include the topics of European Integration, International migration dynamics and remittances and Technological innovation.



Mazin Al Janabi

has over twenty eight years of real-world experience in financial/banking sectors, academic institutions and in many different roles in the USA, Mexico, the UK, and other European countries. Currently, he is a Professor of Finance and Banking at the College of Business and Economics, UAE University. He has worked for top international financial groups such as ING-Barings and BBVA-Bancomer, where he has held several senior positions. Janabi has several publications in Finance, Journal of Emerging Market Finance, Emerging Markets Finance and Trade, Review of Middle East Economics and Finance, among others.



Mohamad Ayadi

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received her PhD from George Washington University in 2006. She is an assistant professor at the College of Business and Economics, Department of Economics and Finance, United Arab Emirates University. Her research interests include Energy Policy and Environmental Economics, Fiscal Policy, Political Economy of Natural Resources, Institutional Economics, Public Economics, Economic Growth. Anshasy has been published in a number of refereed journals, including Applied Economics, Public Finance and Management and the Journal of Environmental Management.

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published numerous papers in academic journals, such as the Review of Income and Wealth, Regional Science and Urban Economics, and Journal of Economic Inequality.

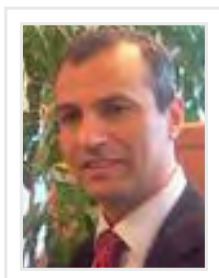
Abdurrahman B. Aydemir

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Jad Chaaban

received an MBA from the European School of Management in 2000 and a MSc in Agricultural, Environmental and Natural Resources Economics and a PhD in Economics from the Toulouse School of Economics (TSE) in 2001 and 2004 respectively.

He is an Associate Professor of Economics at the American University of Beirut (AUB). Before that he was an economist in the World Bank's Middle East regional office. Chaaban has served as an economic policy advisor to various Lebanese ministries and public agencies. He was also the president of the Lebanese Economic Association (LEA) from 2007-2014. His interdisciplinary work has been published in several academic journals.



Osama D. Sweidan

received his PhD in Economics in 2004 from Colorado State University (CSU), USA. He also holds a MSc degree in Economics from Al-Yarmouk University, Jordan. In 2006, he moved to University of Sharjah, UAE, as an Assistant Professor of Economics and was promoted to Associate professor in 2011. Then, he moved to United Arab Emirates University (UAEU) in 2013. In 2014, he was appointed as a chair of the Economics and Finance Department. His research interests focus on issues related to the central banks, inflation rate and business cycles. He has around 25 research papers published in international refereed journals such as Economic Modelling, Studies in Economics and Finance, Journal of Economic Studies, and Applied Economics Letters.



New Research Associates

Samer Atallah

received a PhD in Economics from McGill University in 2011. is an Assistant Professor of Economics at the American University in Cairo. From 2008-2011 he lectured in McGill University and was a visiting scholar at the University of Chicago Center in Paris in 2014. Atallah has previously worked at the Egypt Environmental Initiative Fund-Canadian International Development Agency and Nestle. His research interests are in the fields of Development Economics and Political Economy.

Gokce Uysal-Kolasin

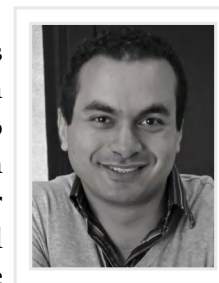
holds a PhD from the University of Rochester (2006). She spent some time working for an investment bank in Istanbul and in 2007 started working at Bahcesehir University, where she helped found a research center: Betam. She is also a part of the faculty at the Economics Department. Her fields of specialization are Labor Economics, Economics of Gender, Household Savings and Economics of Education. She has published in internationally refereed journals and led research projects for various national and international institutions.



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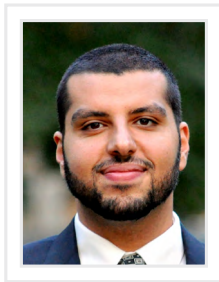
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Adam Osman

earned his PhD. in Economics from Yale University in 2014. He is an Assistant Professor of Economics at the University of Illinois at Urbana-Champaign and the Scientific Advisor to the upcoming J-PAL – MENA office to be located in Egypt. His research centers on issues of youth unemployment and market access with a special emphasis on issues that affect the MENA region. He is currently working on projects that deal with vocational education, apprenticeship training, Islamic microfinance, expanding credit access for SMEs, and studying the impacts of opening up access to foreign markets.



Hamed Ghoddusi

received his Ph.D. from the Vienna Graduate School of Finance (VGSF) and holds degrees in Economics, Management Science, and Industrial Engineering from the Institute for Advanced Studies (Vienna, Austria) and Sharif University of Technology (Tehran, Iran). He is an Assistant Professor of Finance at the Howe School of Business, Stevens Institute of Technology, USA. Hamed has also been a visiting scholar/consultant at number of major research institutions. Some of his current research projects include incentives for innovation in agriculture, rebound in agriculture water, and optimal vertical integration in resource-based economies.



Irene Selwaness

recieved a PhD in Labor Economics for the University of Paris I Panthéon-Sorbonne, Paris School of Economics, CNRS, France in 2012. She also holds an M.A (DEA) in Quantitative Economics from the same university. Selwaness is an Assistant Professor of Economics at Cairo University. She also held the Fred H. Bixby Postdoctoral Fellowship at the Population Council in Egypt from 2013-2014. Selwaness has been assigned as a consultant to the World Bank, the International Labor Office and the Danish Egyptian Dialogue Institute, among other organizations. Her research interests are in the fields of Labor Economics,



Mohammad Vesal

graduated in 2014 with a PhD in Economics from London School of Economics and Political Science (LSE). Vesal started his academic career as an assistant professor at the Graduate School of Management and Economics at Sharif University of Technology in Tehran. During the 2014-15 academic year, Vesal has taught Microeconomics I and II, Econometrics I, and Development Economics for the M.Sc. Economics program at this university.



Research Activities



Since the last edition of *Forum*, ERF has been busy initiating new research activities. During the past six months ERF initiated four structured projects. In addition, it launched two open calls for papers resulting in the initiation of eight projects out of one call while the reviewing process is still unfolding for the other. Irrespective of their inception modality; all the initiated projects have gone through a thorough peer review process by external reviewers. A brief description of these projects is presented below:

Natural Resources and Economic Diversification

The Political Economy of Macroeconomic Policy in Resource-Rich Arab Economies, *Adeel Malik*

Politics is a central dimension of macroeconomic policy, which makes policy choices partly determined by political choices. This project explores to what extent political institutions have affected macroeconomic policy (fiscal, financial and monetary), and through which channels, in the case of Arab resource-rich economies that have so far shown resilience to shocks owing to their deep pockets rather than sound institutions.

Project on Implications of the "Fracking Revolution"

The oil price which has hovered around US\$ 110 over the past four years, has now slid to US\$ 70. Many analysts have attributed this to the unexpected magnitude of the U.S. fracking revolution (new techniques of horizontal drilling and hydraulic fracturing) which have completed around 20,000 new wells since 2010, more than ten times Saudi Arabia's tally. It has also boosted America's oil production by a

third to nearly 9 m barrels a day, just about 1 m barrel/day short of Saudi Arabia's output. An implication of these developments is that the long-run future trends in the global real prices of oil and gas are more likely to be flat than upward. Cheaper oil may boost global growth and may contribute to less volatility of oil markets, but may also entail major effects on oil-exporting Arab countries.

In this context, ERF has commissioned two papers to address these questions. The first addresses the impact of fracking on the global energy market, including the equilibrium price of oil and the economic and geo-political aspects, especially from the perspective of the Arab oil countries (by Lutz Kilian). The second would assess the implications of the fracking revolution on the Arab oil economies (both importers and exporters distinguishing between the GCC and the populous group) by Kamiar Mohaddes.

Oil price shocks and optimal policy rules for resource-rich Arab countries, *Almukhtar Al-Abri*

The purpose of this project is to investigate the optimal monetary policy framework for the resource-

rich Arab countries. The research attempts to address several novel questions. The first is to determine what the most appropriate monetary policy, in general, and exchange rate regimes, in particular, are appropriate given the exposure to oil price fluctuations and increasing levels of trade and financial openness. Second, the research introduces the role of labor market heterogeneity in determining the choice of the exchange rate regime. In particular, the paper intends to assess to what extent labor market flexibility in different Arab countries with different characteristics of labor markets (through the elasticity of labor supply) can substitute for exchange rate flexibility as a mechanism of adjustment to oil price shocks.

Capital Market Financing by Firms in the Arab World, *Sergio Schmukler*

This research project intends to examine which and how many firms from the Arab World obtain capital market financing in domestic and international capital markets. It also plans to study whether there are differences in the financing in domestic and international markets and in equity and bond financing. Using a large international dataset on firm-level domestic and international issuances of equities and bonds during 1991-2011, matched with different attributes for 45,527 listed firms from 51 countries during 2003-2011, the authors can study how many firms and which firms issue equity and bonds, and for the latter how long their borrowing is. The authors will compare the performance of firms from Arab countries (and in particular resource-rich economies) with firms from other developed and developing countries in terms of growth performance. This analysis should help in the understanding of how firms from Arab and other countries access short- and long-term financing and addresses useful questions such as: which markets (domestic or international) do firms use to access long-term funds? How have those evolved? How many firms use long-term markets? Are longer-term issuers different? Are there differences between firms from high-income, developing countries, and Arab countries? How did the global financial crisis affect the main trends on each of these markets?

News

FEMISE Won A New Competition

In response to a call for proposals by the European Commission, FEMISE submitted a proposal that was supported by the majority of its member institutions. FEMISE won the competition at the end of 2014. The new project amounts to Euro 2.5 million, of which the Commission will grant Euros 2 million, and will ensure the continuity of FEMISE's research and network activities over the next four years.

Vacancy Announcement MANAGING DIRECTOR

The Economic Research Forum is seeking a Managing Director (MD) with a distinguished track record in economic research, management, close knowledge of the Middle East and its economies, and fluency in Arabic and English.

The appointment is for up to five years, starting January 2017, and is renewable once. The MD is accountable to the ERF Board of Trustees and is responsible for all executive functions: research activities, fund-raising, administrative and financial management, and appointment of all staff. The MD will continue to develop the network's strategic directions, expand the network of its affiliates, reinforce its links with the academic and policy-making communities, and actively pursue funding for both research programs and the ERF endowment fund.

**Deadline for expression of interest:
August 31st, 2015.**

Please send a C.V. and letter of expression of intent to: ERF Board Search Committee Chair Mouna Cherkaoui, (cherkaoui.mouna@hotmail.com), and Yasmine Fahim (yfahim@erf.org.eg).

Recent Events

Training Workshops for National Statistical Agencies Staff

December 5-7, 2014, Cairo, Egypt

In celebration of the 100th anniversary of the creation of Egyptian official statistics and the 50th anniversary of the foundation of the Central Agency for Public Mobilization and Statistics (CAPMAS), ERF organized two workshops for 50 participants from the national statistical agencies of the Arab countries, in partnership with CAPMAS. The first training focused on Sampling and Data Collection and Dissemination, while the second focused on Statistical Analysis of Panel Data. These workshops were conducted under the umbrella of ERF’s OAMDI capacity-building activities.

Writing Effective Policy Briefs

December 7-8, Cairo, Egypt

ERF organized a two-day workshop on writing policy briefs for 20 researchers from across the region. The workshop emanated from ERF’s firm belief that researchers can play an instrumental role in informing policy processes and was facilitated by Ishac Diwan and Sherine Ghoneim. Training sessions covered such topics as: What Policy Makers Look For in a Policy Brief; Planning, Writing and Checking a Policy Brief; and Visual Aids and Tips for an Effective Policy Brief.

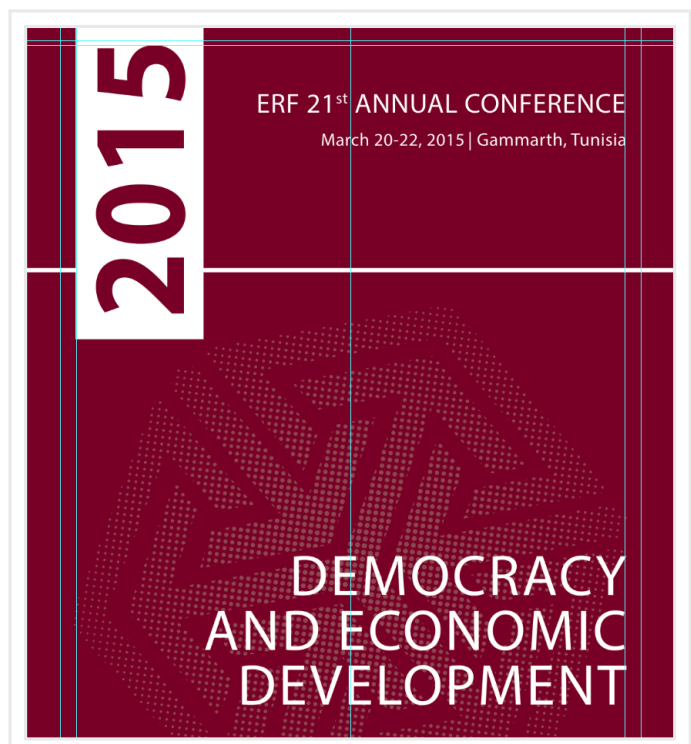


From left to right: Sherine Ghoneim, Ahmed Galal and Ishac Diwan

21st Annual Conference “Democracy and Economic Development”

March 20-22, 2015, Tunis, Tunisia

This year’s conference was held in Tunisia, March 20-22, 2015, in collaboration with the Tunisian Economic Association. The main theme of the plenary sessions was “Democracy and Economic Development.” Besides the plenary sessions, which featured world renowned economists, political scientists and policy makers, six parallel sessions were held daily. Parallel sessions saw the presentation of more than 40 papers under the themes of Macroeconomics, Microeconomics, International Economics, Finance, Labor and Human Development and Institutional Economics. In addition, there were two special sessions showcasing the work by ERF on the themes of “Transition in the Arab World” and “Inequality in the Arab World.” As always, the closing session was devoted to celebrating the winners of what has become a regional mark of excellence: The Best Paper Award.



Training Workshop on Measurements and Analysis of Opinion Poll Data

May 10-12, 2015, Cairo, Egypt

In collaboration with the World Values Survey, ERF organized a training workshop on analyzing the use of opinion poll data for some 15 participants from the MENA region. The workshop tested theories related to attitudes to gender equality, civic action, democracy and human security, and economic policies preferences in MENA countries; using the opinion polls data from World Values Survey data sets 6th wave. Lectures on econometric methods were combined with a select review of the economic, political science, and sociological literatures that use opinion polls to test theories empirically. Participants were introduced to relevant econometric techniques as well as various types of graphical analysis.

aims to promote a better understanding of the mechanisms of the private sector in MENA countries within the broader political economy framework of various countries, and to assess the broader economic effects of insider influence, corruption and other forms of rent-seeking. The workshop convened for 2 days in Oxford, UK; gathering a number of experts in political economy.



Participants at the workshop



Participants at the training workshop

Workshop on Private Sector Dynamism in MENA

June 5-6, 2015, Oxford, UK

In collaboration with the University of Oxford, ERF organized a workshop to discuss the first drafts of the research paper accepted under the "Political Economy Determinants of Private Sector Dynamism in the ERF Region" call for proposals. This project

Upcoming Events

Rural Development in The Middle east and North Africa

June 11-13, 2015,

Casablanca, Morocco

ERF is organizing a parallel session at GDN's 16th Annual Conference taking place in Casablanca, June 11-13, 2014. The theme of the conference is 'Agriculture for Sustainable Growth: Challenges and Opportunities for a New 'Green Revolution,' an issue of great relevance to the ERF region. ERF's session attempts to highlight some of the critical aspects of the rural development challenges facing MENA countries. In this context, the speakers will size up the magnitude of poverty in rural areas, assess past policies targeting the alleviation of poverty, explore the extent to which scarce water is used, and analyze the underlying causes of rural-urban migration.

Latest ERF Publications

An Edited Volume

The Egyptian Labor Market in an Era of Revolution, *Ragui Assaad and Caroline Krafft* (eds.)

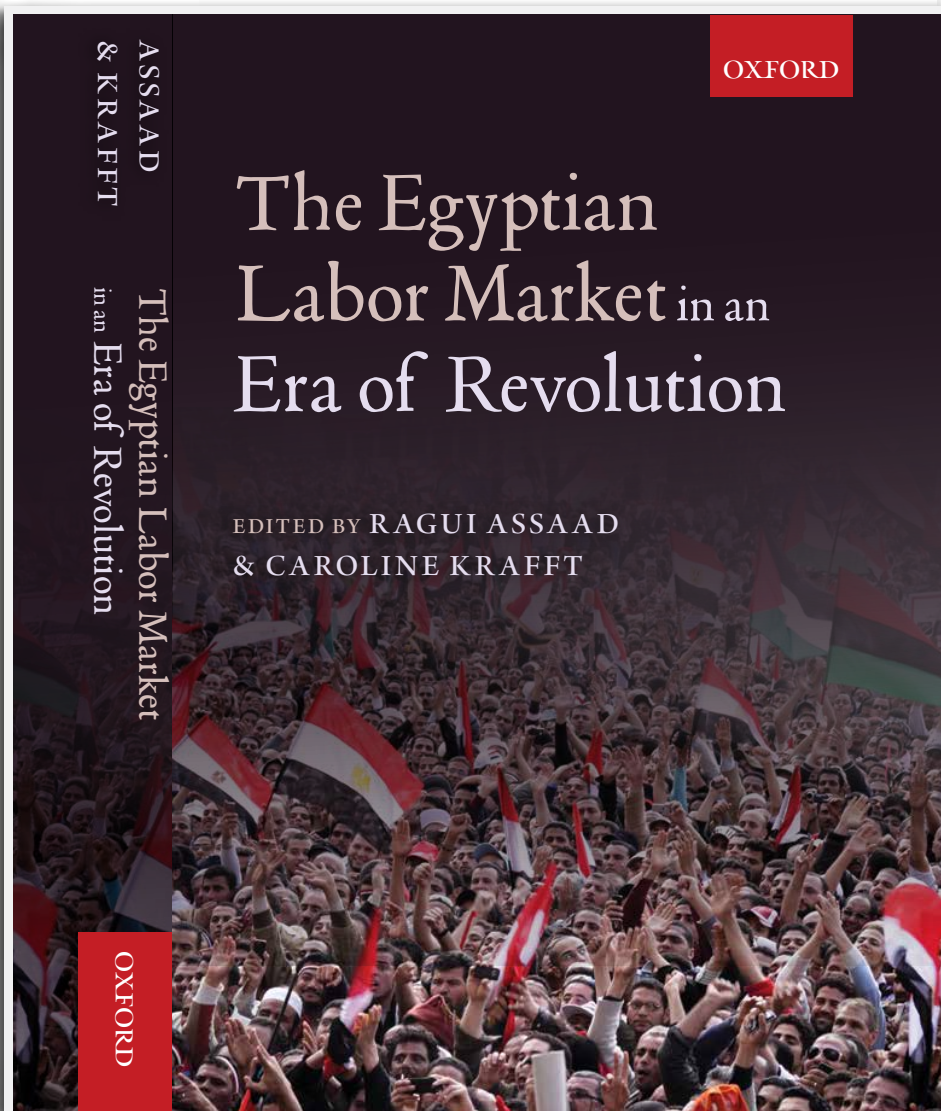
Oxford University Press

This book fills an important gap in the knowledge about labor market conditions in Egypt in the aftermath of the Arab Spring uprisings, and it analyzes the results of the latest round of the Egypt Labor Market Panel Survey carried out in early 2012. The chapters cover topics that are essential to understanding the conditions leading to the Egyptian revolution of 25 January 2011, including the persistence of high youth unemployment, labor market segmentation and rigidity, growing informality, and the declining role of the state as an employer. It includes the first research on the impact of the revolution and the ensuing economic crisis on the labor market, including issues such as changes in earnings, increased insecurity of employment, declining female labor force participation, and the stagnation of micro and small enterprise growth. Comparisons are made to labor market conditions prior to the revolution using previous rounds of the survey fielded in 1988, 1998, and 2006. The

chapters make use of this unique longitudinal data to provide a fresh analysis of the Egyptian labor market after the Arab Spring, an analysis that was simply not feasible with previously existing data.

For online orders:

<https://global.oup.com/academic/product/the-egyptian-labor-market-in-a-era-of-revolution-9780198737254?cc=us&lang=en&>



Latest ERF Publications

The Middle East Development Journal (MEDJ)

The Economic Research Forum is proud to announce the publication of the fifth volume of the Middle East Development Journal (MEDJ).

Vol. 7, No. 1.
June 2015



Challenges to wastewater reuse in the Middle East and North Africa
Marc Jeuland
DOI:10.1080/17938120.2015.1019293

Skill demand polarization in Egypt
Omneia Helmy
DOI:10.1080/17938120.2015.1019291

Modeling political performance of Islamist and Islamist-rooted parties in Turkey
Ali T. Akarca
DOI:10.1080/17938120.2015.1019295

Flow of migrants' remittances into Sudan: the role of macroeconomic environment
Ebaidalla Mahjoub Ebaidalla & Abdalla Ali Edriess
DOI:10.1080/17938120.2015.1019292

Taxation of Moroccan agriculture: an analysis of the sensitivity of the results of a dynamic computable general equilibrium model
Mohamed Karim & Amal Mansouri
DOI:10.1080/17938120.2015.1019294

Environmental stakeholders, environmental strategies, and productivity of Tunisian manufacturing industries
Houyem Zrelli & Mounir Belloumi
DOI:10.1080/17938120.2015.1025489

Working Papers Series

Since the last issue of Forum, 43 working papers have been published and disseminated electronically. All papers can be downloaded from the ERF website: www.erf.org.eg. The recently published papers are listed below:

Female Employment in MENA's Manufacturing Sector: The Implications of Firm-Related and National Factors
Ali Fakh and Pascal L. Ghazalian
Working Paper 917

MSEs Informality and Productivity: Evidence From Egypt
Hala Abou-Ali and Reham Rizk
Working Paper 916

Flexible Labor Regulations and Informality in Egypt
Jackline Wahba and Ragui Assaad
Working Paper 915

Fifty Years of Fiscal Policy in the Arab Region
Ishac Diwan and Tarik Akin
Working Paper 914

Gendering the Costs and Benefits of the Arab Uprisings in Tunisia and Egypt Using the Gallup Surveys
Rania Salem
Working Paper 913

Wages and Inequality in the Egyptian Labor Market in an Era of Financial Crisis and Revolution
Mona Said
Working Paper 912

Changes in the Institution of Marriage in Egypt from 1998 To 2012
Rania Salem
Working Paper 911

Informality and Socio-Economic Well-Being of Women in Egypt
Reham Rizk and Hala Abou-Ali
Working Paper 910

Determinants of Unemployment Duration

Samer Kherfi

Working Paper 909

Does Banking Market Power Matter on Financial (In) Stability? Evidence from the Banking Industry MENA Region

Widede Labidi and Sami Mensi

Working Paper 908

Women's Participation in the Egyptian Labor Market: 1998 - 2012

Rana Hendy

Working Paper 907

Do Natural Resources Inhibit Transparency?

Hamid Mohtadi, Michael Ross and Stefan Ruediger

Working Paper 906

Effects of Institutions and Natural Resources in A Multiple Growth Regime

Yacine Belarbi, Lylia Sami and Said Souam

Working Paper 905

Estimating the Income Counterfactual for Oil Producing Countries of The MENA Region

Mahdi Majbouri

Working Paper 904

Trade and Access to Finance of SMEs: Is There A Nexus?

Hala El-Said, Mahmoud Al-Said and Chahir Zaki

Working Paper 903

Mapping and Explaining Attitudes Toward Political Islam Among Ordinary Citizens in The Middle East and North Africa

Mark Tessler

Working Paper 902

Health Behaviors and Education in Turkey

Aysit Tansel and Deniz Karaoglan

Working Paper 901

Diffusion of Dissidence in Arab Public Opinion

Mohamad Al-Ississ and Samer Atallah

Working Paper 900

Determinant of Transitions Across Formal/ Informal Sectors in Egypt

Aysit Tansel and Zeynel Abidin Ozdemir

Working Paper 899

The Coverage Gap in the Egyptian Social Insurance System During a Period of Reforms and Revolts

Rania Roushdy and Irene Selwaness

Working Paper 898

Defining and Measuring Informality in the Turkish Labor Market

Elif Oznur Acar and Aysit Tansel

Working Paper 897

The Political Economy of Monetary Policy in Resource-Rich Arab Economies

Ghassan Dibeh

Working Paper 896

Informality and Poverty: A Causality Dilemma with Application to Egypt

Hanan Nazier and Racha Ramadan

Working Paper 895

Formal-Informal Gap in Return to Schooling and Penalty to Education-Occupation Mismatch: A Comparative Study for Egypt, Jordan, and Palestine

Tareq Sadeq

Working Paper 894

The Pros and Cons of Formalizing Informal MSES in the Palestinian Economy

Belal Fallah

Working Paper 893

Natural Resources, Incentives and Human Capital: Reinterpreting the Curse

Salim M. Araji and Hamid Mohtadi

Working Paper 892

The Distributional Consequences of Economic Growth and Public Spending Programs in Iran

Hadi Esfahani and Seyed Karimi

Working Paper 891

The Institutional Curse of Natural Resources in the Arab World

Hoda Selim and Chahir Zaki

Working Paper 890

Wage Inequality and Wage Mobility in Turkey

Aysit Tansel, Basak Dalgic and Aytekin Guven

Working Paper 889

Trade Liberalization and the Costs and Benefits of Informality: An Intertemporal General Equilibrium Model for Egypt

Abeer Elshennawy and Dirk Willenbockel

Working Paper 888

The Impact of Oil Price Fluctuations on the Sudanese Stock Market Performance

Suliman Zakaria S. Abdalla

Working Paper 887

Financial Development and Democracy: Is the Relationship Non-Linear?

Wafa Ghardallou and Abdelkader Boudriga

Working Paper 886

BRICS vs. MENA Countries: Mapping Out Threats and Opportunities

Marouane Alaya, Imed Mezghani, and Azzouz Zouaoui

Working Paper 885

Structural Breaks, Dynamic Correlations, Volatility Transmission, and Hedging Strategies for International Petroleum Prices and U.S. Dollar Exchange Rate

Walid Mensi, Shawkat Hammoudeh, Seong-Min Yoon

Working Paper 884

Firms Inormality: A Model and Empirical Evidence for Lebanon

Rawaa Harati

Working Paper 883

Foreign Direct Investment and Wages: Does the Level of Ownership Matter?

Cagatay Bircan

Working Paper 882

Job Accession, Separation and Mobility in the Egyptian Labor Market Over the Past Decade

Chaimaa Yassine

Working Paper 881

Financial Constraints Risk Aversion and Sharecropping in Rainfed Agriculture: Application to North West Tunisia

Mohamed Salah Matoussi and Neji Saidi

Working Paper 880

Implementing Extended Producer Responsibility: Comparative Analysis of Packaging Waste Management

Faten Loukil and Lamia Rouached

Working Paper 879

Real Exchange Rates and Export Performance in Oil-Dependent Arab Economies

Ibrahim A. Elbadawi and Linda Kaltani

Working Paper 878

Threshold Effects in the Capital Account Liberalization and Foreign Direct Investment Relationship

Mouna Gammoudi and Mondher Cherif

Working Paper 877

The Emergence of Highly Sophisticated Lebanese Exports in the Absence of an Industrial Policy

Sami Atallah and Ilina Srour

Working Paper 876

Determinants of FDI Location in Egypt: Empirical Analysis Using Governorate Panel Data

Shima'a Hanafy

Working Paper 875