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**Research Report**

## Two Transitions: A Brief on Analyses and Policies for MENA and CESEE

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## Two Transitions: A Brief on Analyses and Policies for MENA and CESEE\*

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### Introduction

One year after the onset of the Arab Spring, the transition is clearly at its very beginning. In that, it does not compare with the onset of transition in Central, East and Southeast Europe (CESEE) in 1989 or 1990, which was a kind of breakthrough and provided a clear discontinuity with the past in almost all respects. In the majority of cases this has been one more step in the process of systemic change in the CESEE that will take some time to unfold. This Policy Note compares changes in the Middle East and North Africa (MENA) with the processes of reforms and change that took place in the socialist world from, arguably, 1956 to 1989. It is hard to time the current turmoil in the MENA region in comparison with the long process of reforms and transition in CESEE, but it could be argued that in most cases the 1989 moment is yet to come to the former region.

### Reasons for comparisons

In many respects, however, MENA countries are at a stage of their economic and social reforms where some CESEE transition countries were in the 1990s and even where some are still now. Transition in Central and Eastern Europe was a diverse affair. Clearly, the dynamics of change in Central Europe differed from that in the Balkans and both differed from that in the post-Soviet Union states (in the Baltic countries being more radical, while in the rest more gradual and delayed). Of course, changes in MENA countries are also differentiated and so are their prospects for future developments. Thus, mapping comparisons not only across time but also across countries and regions is a complex task. Certainly, the criteria used by the World Bank and by the EBRD or by the World Economic Forum, to name the most well-known ones, can place all these countries on the scales of transition, development, or reform, but those do not reveal the underlying regularities of these processes and thus do not provide for the understanding of the factors that drive

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transitions or their failures or setbacks. Finding out these regularities is why comparing transitions can be useful.

The comparison of the two transitions, in CESEE and MENA regions, is not the only one which is useful or insightful. If the stress is on problems of development, a comparison with transitions in Latin America would certainly be useful as well. Also, if development driven by economic reforms in authoritarian political circumstances is of interest, comparisons with some of the Asian transitions would be useful. There are at least three reasons why the comparison with transition in CESEE is perhaps preferable: (i) because of the appeal of democracy as an instrument of economic and social change and reforms, (ii) because of the impasse that the authoritarian reforms seem to have come to, which compares with the similar failures of pre-transition reforms and accommodations that eventually led to the 1989 change, and (iii) because of the complex influence of the European Union or of the development in Europe in general, which was certainly important in the CESEE's post-socialist transitions.

Additional similarity with the transition in Central and Eastern Europe is the ideological wall that still exists between the Southern and Northern Mediterranean. This is in part being maintained, similar to the case of the divided Europe, by the security concerns that are so prominent in the South Mediterranean region and in a wider region of MENA countries. There is not exactly an Iron Curtain between the two sides of the Mediterranean, but there is veil of ideological and security concerns that divides them. The disappearance of these security concerns would make the ideological divide much less important and would open the door for the closer cooperation and even integration between the two sides of the Mediterranean Sea. Again, in that respect, the developments in the MENA region have some similarity with the Prague Spring of 1968, with the temporary ideological set-back, and with the Polish Solidarity Uprising of the 1981, with the temporary reliance on military dictatorship.

Certainly the main difference between these two sets of countries is in their demographic and economic developments. The demographic transition is yet to happen in the MENA region, while most transition countries, with exceptions in the Balkans, Central Asia and in the Caucasus, have rather stagnant or even declining populations. In that, MENA countries are comparable to Turkey, which is also yet to go through its demographic transition. This comparison with Turkey is useful in that the latter country has proved that demographic factors do not have to act as deterrents to economic development. Indeed, Turkey is an example where development through industrialisation, again not altogether dissimilar with the more successful transition countries, is possible even if there is a very strong demographic pressure.

That leads to additional comparative observations. Clearly the long term association of Turkey with the European Community and now its Customs Union with the European Union has had significant consequences for its development and economic transition. The latter being the one from mostly an agricultural and closed economy to an industrializing open economy. Of course, there was a different security and ideological relationship between the Western Europe and Turkey, which has yet to be established in the case of the MENA countries.

Still, what these comparisons suggest is that there is an advantage to the model of development and growth that many transition countries and Turkey have followed, which is the one based on an open, industrializing economy. In that respect, MENA countries can be compared with the South European countries, not only in the Balkans but more generally. Those have certainly opened up their economies with either membership in the EU or with association and pre-membership agreements, but have failed to develop a sustainable model of growth for the most part due to lack of industrial development. There is in that sense a Mediterranean problem of transition and development. Of course, the countries in question are quite different and at different levels of development, but most important is their different position in the process of transition. However, there are significant similarities when it comes to the transition and development problems that they face.

### **Development models**

The growth model adopted by transition countries both in Central Europe and in the Balkans has produced differentiated results in these two regions. While Central European countries have made use of foreign financing to increase their exporting capacities, in the Balkans, and by and large in Southern Europe as a whole, large trade and current account deficits have opened up. Thus, for the time being in any case, that model of growth and development has to be changed significantly. This applies to several MENA (non-oil exporting) countries in much the same way. That, however, does not mean that more open economy and more liberalized markets as well as an increased role for the private sector and for foreign direct investments would not prove beneficial to these countries as has proved advantageous in Central Europe and in Turkey.

In fact, the experience of more successful transition economies as well as of those in Latin America and the industrializing Asia suggests that it is the economic policies that may be mismanaged to produce growth and development failures. In that respect, the example of the Balkan transition countries and economies is particularly instructive. There, reliance on foreign financial inflows has led to the opening up of large macroeconomic disequilibria in external accounts, but also in internal balances, especially in the labour markets. Security concerns and persistent hot and cold conflicts have also contributed to these unsustainable

economic developments. But, macroeconomic policy failures have been certainly the most responsible for these developments.

With that in mind, it is clearly important to maintain the policy mix that does not allow for wide increases in current account deficits and is mindful of the developments in the labour markets. That in essence means that the growth and development strategies should be such to increase openness and reform the markets and institutions, but in a sustainable way, that is with growing exporting capacities both in industrial and other goods and services. It does not seem to be useful to contemplate an emulation of mercantilist models of development because of limited political, social, and natural resources for such a strategy.

### **Policies and EU support**

Thus, the growth and development strategy that seems most appropriate is that of liberalization of markets and privatization of state sectors with policies that are mindful of external and internal macroeconomic balances. Clearly, democratically elected governments should be able to implement such economic policies with the help of the European Union and the IFIs (the IMF, the World Bank, the EBRD, and the EIB primarily). There are huge structural reforms to be undertaken in the MENA region and in that respect the task may not be altogether different from the one that has been faced by CESEE countries in transition. And even in some latter cases, those tasks are far from having been accomplished.

There is no doubt that in many CESEE countries in transition the issues usually associated with development policies are still paramount. This is also the case in MENA countries. There are issue connected with good governance and also with the building up of the appropriate physical and other infrastructure. And then there are social issues. MENA countries are not exceptional when it comes to corruption, rent seeking, and other problems with good governance. Also, though overall inequality is not as high as in other developing countries, there is no doubt that the issue of fairness in distribution and redistribution of resources is a very important social concern. Indeed, that has fuelled and will continue to fuel the demands for social inclusion and democratic voice.

In that transition, the EU can certainly assist. Though there are suspicions that the EU is more than necessarily intrusive with its policy of deep integration, which is what it offers through its Neighbourhood Policy, the deep and comprehensive free trade agreements could be used precisely as one way to improve the governance and to benefit from assistance in infrastructure investments and development. In some transition countries, primarily in the Balkans, the appeal of nationalism was relied on to both keep EU integration at bay and to cement the elites that stood to benefit from rent seeking and the

corrupt system of government. In that respect, deeper integration with the EU may be helpful if macroeconomic policy mistakes are avoided.

In the latter the IFIs could be of help. Those have now shown an interest to developing a programme and policy assistance approach centred on the notion of inclusive growth. That should mean that policies of liberalization, privatization, restructuring and others from the transition agenda should be aimed to support positive developments in the labour markets. That means not only policies for increased employment, but also better education and skills upgrading and also more support for entrepreneurship and more inclusive social development. This is a significant improvement over the Washington Consensus and indeed should be more in tune with the way the EU and the European countries are approaching the model of development that relies on social market economy. Thus, in that respect, the EU and the IFIs could work rather closely to support the transition in MENA countries learning from good and bad lessons of the Central, East and Southeast European transitions.

The EU has been supporting regional integration in transition countries and also in MENA countries. This policy has had some success in the case of the Visegrad countries, but much less so in the Balkans. Similarly, it does not seem to have had all that much success in MENA countries, at least in terms of intra-regional trade and the integration of other markets. This tends to change with development and especially with the increased importance of intra-industry trade and foreign investments. In other words, the importance of regional cooperation in trade and in other market integrations should be expected to increase with the transition to more industry-based economies in that region too. In that, growing regional cooperation tends to be supported by growing economic integration with the EU. That policy approach should therefore strengthen.

In the case of CESEE transition countries, liberalization of trade and finance was also combined with freer movement of people, which is important in a variety of ways. That is more of a problem when it comes to MENA countries due to concerns with the large emigration potential in these countries. There is certainly scope for more enlightened policies in dealing with the labour market development in view of the fact that these are two demographically complementary regions.

## **Conclusions**

The initial enthusiasm with the pro-democracy movements in the Southern Mediterranean has been replaced by a more realistic view of the developments in that region. In some countries, e.g. Tunisia, the development resembles those in CESEE transition countries at the beginning of democratization. In others, e.g. Egypt, the situation is more similar to the situation in the 1980s in some transition countries. In other countries in the region, the

developments are still more complicated, because Libya, for instance, is in a post-conflict phase of its development and resembles some of the countries in transition in the Balkans, while the developments in other countries in the region range from gradual transitions like in Morocco to violent conflicts like in Syria. Thus, there is a long way to go both politically and economically and certainly socially.

Still, if the experience of transitions in CESEE is anything to go by and if the studies of democratization are to be learned from, one can expect a slow but persistent move towards more inclusive political systems and more open and liberalized economies in MENA countries as well. There are security risks and ideological obstacles and thus the process cannot be expected to be without detours and set-backs. The EU has a large stake in this democratization and modernization drive succeeding and it should fashion its policies towards this region accordingly. Given that the main instrument that it has used in the case of transition countries has been integration and support for economic development, that is the instrument it should rely on in the case of MENA transition too.