

Spring Tide

Will the Arab risings yield democracy, dictatorship or disorder?

A report from the Economist Intelligence Unit





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Executive summary

Five months after the Arab uprising started in Tunisia, it has become possible to glimpse the likely outcomes for the region. The first section of this report traces the main political scenarios.

- Popular uprisings in the Arab world have produced the most dramatic changes in the region since the end of the colonial era in the middle of the 20th century. The fate of these popular uprisings remains in the balance, and the Economist Intelligence Unit sees three scenarios for the region:

- Scenario 1: A meagre democratic harvest (60% probability) — Reforms result in the creation of democratic structures in some countries. Most countries shift to some form of hybrid regime (somewhere between democracy and authoritarianism), with political change failing to deliver genuine accountability or popular participation in government decision-making.

- Scenario 2: Survival of authoritarianism (20% probability) — Efforts to build democratic institutions are derailed by internal contradictions and by counter-revolutionary forces, and the spread of the movement for democratic change is checked. Authoritarian rule remains the norm across the Arab world.

- Scenario 3: Democratic breakthrough (20% probability) — Successful transitions to functional democratic systems in Tunisia and Egypt provide an example of the sustainability of the revolution. Other regimes fall or are forced by popular pressure to enact meaningful reforms. Representative democracy, albeit with significant weaknesses, takes root throughout the region.

- The Arab Spring has been a considerable setback for al-Qaida, exposing its ineffectiveness as an agent for political change; although the movement's decline is not necessarily terminal, and if the Arab Spring proves a chimera it could gain renewed strength.

- The events in the Arab world are also a reminder of the inherent structural weaknesses of autocracies, with implications across the world.

The second section of the report assesses the economic impact of the Arab Spring. We present our short-term economic forecasts for the countries in the region, and use our long-term forecasting



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model to assess the possible growth dividend to 2050 of a transition to democracy.

- In the short term, the economic consequences of the Arab Spring favour the oil-producing countries that have experienced the least instability, as events in the region have added to the risk premium in the oil price, assisting governments with fiscal expansion to help head off discontent. Elsewhere, unrest has brought serious short-term economic disruption.
- Egypt and Tunisia require external support to shore up suddenly fragile fiscal and balance-of-payments positions. Economic output in Libya will plunge in 2011 as the civil war drags on, and a host of countries, from Syria to Bahrain, will feel the economic chill as nervous foreign investors pull out and tourists stay away.
- However, where prolonged political upheaval is avoided, we expect a relatively swift bounceback. The setback to politically controversial economic liberalisation in the region should prove only temporary.
- Over the long term, the Arab Spring would only produce significant economic benefits were democracy to take root across the region. An acceleration in economic growth under this scenario would significantly narrow, and could even eliminate, the region's gap with world average incomes by 2050.



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Key points

- The Arab world has experienced the most dramatic change since the end of the colonial era in the mid-20th century.
- The region's political inertia—which has often been equated in the West with stability—is no more.

Introduction: Arab activism

Political upheaval has extended across the Arab world

The wave of political activism that started in southern Tunisia in December 2010 has now reached all parts of the Arab world, from Morocco in the west to Oman in the east. The fate of these popular uprisings remains in the balance, but it is already clear that they have produced the most dramatic changes in the region since the end of the colonial era in the middle of the 20th century.

The “Arab Spring”, however, is a seasonal misnomer. Since the removal of the Tunisian and Egyptian dictators in January and February 2011, protest movements have stirred but have not flowered. Uprisings in Libya, Bahrain, Yemen and Syria have all led to military confrontations of varying intensity, but the regimes are still in place (although the grip of the rulers in Libya and Yemen is tenuous). In Libya, only NATO intervention has prevented Colonel Muammar Qadhafi's regime from reimposing its writ over the entire country following a rebellion in February in the eastern city of Benghazi. Bahrain's uprising has been stamped out with Saudi assistance, and the efforts of a more liberal wing of the royal family to foster a constitutional monarchy disowned. The Syrian regime is mercilessly crushing a popular uprising, and digging in for prolonged resistance to Western diplomatic and economic pressure.

Several governments have responded to more limited protest movements with promises of political and constitutional reform. Such processes are under way in Morocco, Algeria, Jordan and Oman. A group of economically powerful Gulf states—Saudi Arabia, the UAE and Qatar—remain resolutely opposed to fundamental reform, including the introduction of representative democracy. Saudi Arabia has sought to pre-empt pro-democracy protests by announcing a massive programme of state investment, in an attempt to address grievances about high rates of unemployment and the lack of affordable housing. It is also playing an important role in countering the pro-democracy trend, most conspicuously through its military intervention in Bahrain.

Finally, there are four Arab polities—Iraq, Kuwait, Lebanon and the Palestinian Territories—that have more experience of democratic politics (albeit very imperfect) than has been the case elsewhere in the Arab world. All four offer salutary examples of the pitfalls

Upheaval has overturned stereotypes about the Arab region and raised the prospect of a wave of democratisation



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Democracy Index 2010

Rank^a Score^b

Hybrid regimes

Lebanon 86 5.82

Palestinian Territories 93 5.44

Iraq 111 4.00

Authoritarian regimes

Kuwait 114 3.88

Morocco 116 3.79

Jordan 117 3.74

Bahrain 122 3.49

Algeria 125 3.44

Qatar 137 3.09

Egypt 138 3.07

Oman 143 2.86

Tunisia 144 2.79

Yemen 146 2.64

UAE 148 2.52

Syria 152 2.31

Libya 158 1.94

Saudi Arabia 160 1.84

Arabia

^a Out of 167.

^b 0-10, 10 most democratic.

Source: Economist Intelligence Unit.

The economic performance of the Arab world has been poor in a long-term historical comparison

of flawed democracy, as factional in-fighting (often involving heavily armed groups) has tended to result in prolonged periods of political gridlock.

Infertile soil for democracy?

The popular uprisings were sudden and unexpected, occurring in seemingly infertile territory. The Arab region is one of the world's least democratic. The Economist Intelligence Unit's 2010 Democracy index scored all the Arab states as "authoritarian regimes", except for Lebanon, the Palestinian Territories and Iraq, which are classified as "hybrids". The Arab world notably avoided the waves of democratisation that took place in Latin America, southern and eastern Europe, and parts of Sub-Saharan Africa and Asia, in the 1970s, 1980s and 1990s.

The recent upheaval therefore caught the outside world unawares, and has overturned a host of stereotypes about the Arab region. In a part of the world characterised as prone to religious fundamentalism, the revolts have been home-grown affairs led by secular forces. The progenitors of the 21st century Arab Awakening have largely eschewed ideology in favour of simple demands for civic rights, democratic accountability, checks on the power of leaders, and the establishment of an equitable economic system. In Egypt, the head of a regime with one of the largest repressive apparatuses in the world was toppled within a few weeks.

This raises the question of whether the region might experience a wave of democratisation, as in eastern Europe after 1989. Will popular unrest of the sort seen in Egypt lead not only to the overthrow of autocratic leaders in other countries, but also to the emergence of democracy? Certainly, the political inertia of the Arab world—which has often been equated in the West with political stability—is no more. In some countries, the transformation is likely to be radical. In others, the odds are that change will prove to be minimal or cosmetic, as established interest groups manage to cling on to their privileges. There is also the risk that in some countries the pressure for change will result in bitter civil conflicts, or in the advent of new and possibly even more oppressive dictatorships. In this special report we set out three broad political scenarios for the region as a whole.

Economic impetus unleashed?

There are also hopes that political change will eventually deliver considerable economic benefits for the Arab world by unleashing the stifled creative and entrepreneurial energies of a youthful population. First, however, short-term dislocations must be considered—on the one hand, the economic costs of unrest; and on the other hand, the benefits for some countries of higher oil prices and fiscal stimulus by governments seeking to buy off the discontented with large-scale handouts. We set out below our short-term economic forecasts for Arab countries. There are also implications for economic policy. Policies of economic liberalisation are being criticised as a cover for corruption and as a cause of increased inequity. Will new governments conclude that the problem was with the way



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that these policies were carried out, or that the entire model was at fault?

The question remains of whether political change could bring economic transformation to the Arab world over the longer term. This report looks at the economic performance of the Middle East and North Africa (MENA) in a long-term historical comparison with other regions, and seeks explanations for its relatively poor performance. The factors that have held it back suggest that democratisation could yield a significant boost to long-term economic growth, and we apply some assumptions to our long-term economic model to 2050 to assess the potential growth dividend of a democratisation scenario.

We also consider the broader implications of the Arab Spring—in particular, what it means for al-Qaida, whose ineffectiveness as an agent for political change has been exposed, and what the lessons might be for the stability of authoritarian regimes elsewhere.



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Key points

- The most likely outcome of the Arab Spring is that the majority of countries in the region shift to some form of hybrid regime (somewhere between democracy and authoritarianism).
- It is possible (but less likely) that authoritarianism could remain the norm, or that a democratic breakthrough could occur across the region.

Political outlook: Two steps forward, one back

The development of a fully fledged democracy tends to be a long-term process. Free and fair elections are necessary conditions, but are unlikely to be sufficient for a full and consolidated democracy, if not accompanied by transparent and at least minimally effective government, sufficient political participation and a supportive political culture. Our political scenarios for the Arab world rest on consideration of regime types between outright **authoritarian regimes** and **full democracies**.

Flawed democracies have free and fair elections, and civil liberties are respected. However, there are significant weaknesses in other aspects of democracy, including problems in governance, an undeveloped political culture and low levels of political participation.

In **hybrid regimes**, elections have substantial irregularities that often prevent them from being free and fair. Government pressure on opposition parties and candidates may be common. Serious weaknesses are more prevalent than in flawed democracies—in political culture, the functioning of government and political participation. Corruption tends to be widespread and the rule of law weak. Civil society is also weak. There is typically harassment of, and pressure on, journalists, and the judiciary is not independent.

With this in mind, we consider three political scenarios for the region.

Scenario 1: A meagre democratic harvest (60% probability)

Reforms result in the creation of democratic structures in some countries, but they generally fail to deliver genuine accountability or popular participation in government decision-making. Most countries shift to some form of hybrid regime.

Scenario 2: Survival of authoritarianism (20% probability)

The efforts to build democratic institutions are derailed by internal contradictions and by counter-revolutionary forces, and the spread of the movement for democratic change is checked. Authoritarian rule remains the norm across the Arab world.

Scenario 3: Democratic breakthrough (20% probability)

Successful transitions to functional democratic systems in Tunisia and Egypt provide an example of the sustainability of the revolution, and ensure that the morale of campaigners elsewhere does not flag. Other regimes fall or are forced by popular pressure to enact meaningful reforms. Representative democracy, albeit with significant weaknesses, takes root throughout the region.



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Scenario 1: A meagre democratic harvest (60% probability)

The Economist Intelligence Unit's central scenario is that in most Arab countries, a degree of political reform will take place, either as a result of the overthrow of the entrenched former dictators or through concessions from established regimes to popular pressure for democratic change. In a few cases—notably, Egypt and Tunisia—the transformation will be significant, although it is likely to fall short of the aspirations of the progenitors of the revolutions. In others, the changes will be more cosmetic. Most countries will shift to some form of hybrid regime.

Pioneers of change

Egypt and Tunisia are taking different constitutional roads

The pioneers of the Arab Spring—Tunisia and Egypt—will be the test cases of how much popular movements for democratic change can achieve. They have a number of advantages. In particular, these include the relatively quick dispatch of the heads of the former regimes; the integrity of state institutions such as the armed forces, the judiciary, the central bank and the civil service; and the media's generally positive role. Set against that are the debt that campaigners for democracy owe to the army (particularly in Egypt); uncertainty about the role of Islamists in the new politics; and the heavy short-term economic costs of the revolutions.

The new political leaders in Tunisia and Egypt have adopted different approaches in their plans for constitutional reform. In Tunisia, interim powers have been vested in the speaker of parliament, Foued Mebazaa, who will preside over the election of a national constituent assembly. The assembly will be responsible for rewriting the constitution, which will pave the way for parliamentary and presidential elections at a later, as yet unspecified, date.

In Egypt, the Supreme Council of the Armed Forces (SCAF) has assumed the powers of the presidency since it forced Hosni Mubarak to step down, and is fast-tracking the election of a new parliament and president. Amendments to the constitution were put to a referendum on March 19th, only five weeks after Mr Mubarak was forced out. A comprehensive review of the constitution would be left until after the parliamentary election, and entrusted to a constituent assembly. Activists involved in the mass movement that became the January 25th revolution campaigned for a "no" vote in the referendum, on the grounds that more time was needed to conduct a thorough review of the constitution and to allow new political forces to organise. However, a large majority favoured the changes proposed in the referendum, and Egypt's first elected post-revolution government is likely to be in place before that of Tunisia.

Islamists' influence

Islamists will have a higher profile in Egypt than in Tunisia

In both Egypt and Tunisia the aftermath of revolution has included violent confrontations, indicating a risk of the process of democratic reform unravelling. The most serious incidents have been the spate of sectarian clashes in Egypt, which have highlighted the growing influence of the salafi tendency, a radical and intolerant strain of Islamic activism that has taken advantage of the post-revolution freedoms to proselytise its ideas. The salafis have indicated that they do not intend to take part in



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elections, but they will have the power to affect the performance and policy agenda of the Muslim Brotherhood, which has given its blessing to a new political party, Freedom and Justice. The leadership of the Brotherhood is reluctant to commit fully to the political process, and wishes to retain its role as a social force operating outside the framework of mainstream politics. In this guise, it finds itself in competition with the salafis. This approach begs the question of whether the Brotherhood's real agenda is as stated—involving an implied willingness to compromise some of its principles in the interest of social harmony—or whether this is a smokescreen for a long-term objective of establishing an Islamic state governed by the strict application of sharia (Islamic law). In contrast, the salafis reject the whole concept of democracy. The Brotherhood risks losing support to the salafis if it appears ready to make too many compromises with secularists and Christians, but could also alienate a large part of its membership if it were to shift too far towards the salafi position.

The Muslim Brotherhood has indicated that it wants the Freedom and Justice party to operate as an independent entity, with its own financing and structure. However, voters are unlikely to draw a distinction, and the Brotherhood will probably end up with at least one-third of the seats in the new parliament.

Revolutionaries are fragmented

There is no other force, yet, in Egyptian politics with the organisational depth and popular appeal of the Muslim Brotherhood. The Mubarak-era opposition parties have found it hard to shake off the stigma of having co-operated with the former regime, and of having played a largely peripheral role in the revolution. However, the revolutionary activists have been unable to coalesce into a political organisation capable of conducting an effective election campaign. This comes as no surprise, as a striking attribute of the revolutions in Tunisia and Egypt was their spontaneity and lack of ideology. This gave them a powerful unifying force, but also meant that new political organisations would have to be built from scratch.

Mr Mubarak's National Democratic Party (NDP) has been dissolved by court order and its assets transferred to the state. Many of its top officials face the prospect of prosecution. Nevertheless, some former NDP officials have said that they will appeal against the court order and, pending the outcome, seek to resume active politics through a new party. The ex-NDP would appear to face a hopeless task, but some former members of parliament (MPs) may be able to gain election through reactivating patronage networks in rural constituencies.

New system for Egypt

The amended Egyptian constitution has introduced some curbs on the president's powers—in particular, through cutting the term to four years from six, and limiting the number of terms to two. However, many crucial questions about the relationship between the head of state, parliament and the government have been left undefined. There is an implicit consensus among the presidential candidates who have emerged so far that the powers of parliament must be enhanced and that there should be no return to the models of Nasser, Sadat and Mubarak. However, much will depend on whether the first post-revolution parliament can sustain this consensus and work constructively on the details of the new system. The new government and constituent assembly will probably have to be

Revolutionary forces are struggling for political identity

Egypt is likely to return to civilian rule



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Tunisia risks getting bogged down in details

based on a coalition between the Muslim Brotherhood and the other political formations.

As the euphoria of Tahrir Square has started to fade, the mood in Egypt about the chances of a successful transition to democracy has grown more sombre. In our main scenario, we expect that Egypt will return to civilian rule and that a government will take shape based broadly on the preferences expressed at the ballot box. However, the evolution of a system of stable yet adversarial politics is by no means guaranteed. More likely, the result will be a politics of permanent squabbles with no party exerting overall control.

Tunisia's progress

As in Egypt, the revolution in Tunisia has spawned dozens of new political groupings that have yet to coalesce into the broad formations needed to form the basis of a new government. Islamism will also be part of the new politics, but the Tunisian version lacks the organisational depth of Egypt's Muslim Brotherhood. The most likely outcome of the election to the national constituent assembly scheduled for July 24th will be the establishment of a representative democracy, probably based on a highly prescriptive constitution. However, a postponement of the contest seems likely, given the size of the task and the difficulty in reaching agreement over the electoral rules.

Although the main Islamist party, Hizb al-Nahda, has been legalised, the role of Islamic parties in the election remains ambiguous. Al-Nahda has some support, especially in the impoverished south, but it is unlikely to emerge as the dominant party. In fact, we do not expect any political party to emerge as the leader, with a large coalition of various societal groups the most likely outcome.

Progress toward democracy in Tunisia has accelerated in the past two months, but vital questions remain unsolved. Members of the old regime continue to pose a threat—police forces loyal to the regime of Zine el-Abidine Ben Ali have clashed with protesters and the security situation remains unstable. It is unclear how far the interim government will go to remove members of the former ruling party, the Rassemblement constitutionnel démocratique (RCD), from the middle and lower echelons of the civil service, regional and local administrations, as well as state companies, where they are deeply entrenched. The removal of senior members of the RCD from the main institutions (no matter how desirable) and the dispute over who will replace them is likely to disrupt decision-making. The interim government's commitment to the democratic process is often questioned.

Perhaps the most difficult issue to evaluate is the likely role of the army. The Tunisian army has usually taken a back seat in politics. It is widely trusted and admired, unlike the police, and has been credited with triggering Mr Ben Ali's flight into exile by refusing to help the police suppress the demonstrations by force. The head of the army, General Rachid Ben Ammar, has publicly declared the army to be the "guarantor of the revolution". If the interim government fails to hold elections on July 24th, however, and protests escalate as a result, there is a chance that the army will be tempted to step in and take power on the pretext of "saving the revolution".

Civil wars

The challenge of rebuilding the state after the toppling of a dictator will be much tougher in countries where removing the previous regime has involved prolonged conflict, heavy bloodshed and destruction. These conditions will apply in Libya and Yemen, whose rulers are clinging on but with



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The Qadhafi rump regime is unlikely to survive for long

little hope of survival, and, potentially, in Syria. Similar challenges face countries in which protest movements have been repressed, resulting in regime survival—as in Bahrain, where promises of reform were withdrawn, and Syria, where the president, Bashar al-Assad, has carried on with piecemeal political reforms even as his security forces have been killing large numbers of protesters.

The intervention of NATO in the Libyan conflict, under the cover of a UN Security Council resolution, has resulted in the country being divided along a number of battlefronts. Colonel Qadhafi's regime has managed to hold out in the capital, Tripoli, and in most of the west of the country. However, it is doubtful whether the Qadhafi rump regime will last much longer. The end could come in a number of ways—the leader's death in a NATO airstrike; a turn in the military balance in favour of the rebels, thanks to Western or Arab training and logistical support; the internal collapse of the regime as it runs out of money and supplies; or a negotiated settlement with the Benghazi-based Transitional National Council (TNC). The successor regime will have some distinct advantages. In particular, it will have access to considerable financial resources, in the form of the external assets frozen since the uprising started; steady revenue inflows as oil production recovers; and Western support in building new institutions. However, it will also face some unique challenges arising from the way Libya has been run under Colonel Qadhafi (especially the lack of coherent political or judicial institutions) and from the legacy of the current conflict, which makes the emergence of an effectively functioning democracy improbable.

Beyond the Arab world: Implications for political stability elsewhere

Could the extraordinary political upheavals in the Middle East and North Africa (MENA) be replicated elsewhere? Recent events are a reminder of the inherent structural weaknesses of autocracies. From Cuba to Myanmar, plenty of governments outside the Arab world share traits with the regimes in MENA that have crumbled or are now under pressure. However, if the main lesson is that a regime's longevity should not be confused with stability, this does not automatically make revolution a realistic possibility. Dictatorships have a habit of clinging to power, defying predictions of their collapse, even in the face of international opprobrium and economic dysfunction. The difficulty this creates, in terms of planning and strategy, for governments or firms that have contact with such regimes is the need simultaneously to assume that a government could fall with little warning or last for decades.

"Neighbourhood effects", in which upheaval in one country causes a domino effect in others, have played a role in democratic transitions in the past—for example, in post-1989 eastern Europe. Geographical proximity and cultural similarities are important factors, and this may explain why the contagion from the "Arab

Spring" has been confined to the MENA region, at least for now. In China, for example, recent attempts in the online community to ignite anti-government protests have fallen flat. In eastern Europe, there have been ripples of discontent against the region's more authoritarian regimes, but few signs that this could precipitate unrest on the scale seen in MENA.

Nevertheless, there are some common features that make virtually all authoritarian governments vulnerable to revolution to some degree, no matter how stable they appear. Political disenfranchisement is a leading factor. The Arab Spring confirmed the strength of popular desire for genuine democracy, in which a plurality of political opinions and the transfer of power via elections are constitutionally protected. Regimes in which power is concentrated around an individual or family are particularly vulnerable. Such regimes, by definition, give no voice to the populace, other than the leader's relatives and inner circle. They are also at risk of turbulent succession.

A variety of other political, social and economic inequities are sources of underlying instability. Election fraud, for example, can be a catalyst for social unrest and political protest. So, too, can human-rights abuses. Perhaps most revealingly, the events in Tunisia and Egypt underlined the extent to which popular resentment of corruption, cronyism and nepotism—rampant in



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most autocracies—is a potentially explosive risk. Frustrations often simmer for years, but can boil over at times of economic stress. High unemployment and inflation (particularly for food), both of which are substantial global problems at the moment, are key potential triggers. When economic hardship in the general population increases, so too does the threat of unrest. The fact that authoritarian regimes tend to be poor economic managers only amplifies these risk factors.

It's the economy

In contrast, those authoritarian countries that can deliver robust economic growth, improvements in living standards or reasonably high levels of social services are likely to enjoy a degree of immunity from such risks. Their citizens have more incentive to avoid the threat of imprisonment by challenging the authorities. China is perhaps an example of this. The argument only goes so far, however. It is also the case that economic development tends to foster the emergence of an educated middle class that is more likely to make political demands. And reliance on economic success as a substitute for political freedom can easily backfire. Should the Chinese economy stumble, for example, then popular tolerance of one-party rule could waver. No matter what the level of economic

development or the nature of a country's political system, perceptions of fairness count for a lot in politics, as the protests in MENA, and in parts of the euro zone in response to fiscal austerity, have illustrated.

Globalisation and the spread of mass communications have also changed the landscape for most autocratic regimes—and may even have shortened the lifespan that most regimes can expect. Satellite TV, the Internet and the ubiquity of mobile telephones (complete with cameras for documenting abuses by security forces) in many countries now make it harder for governments to hide the truth from their subjects, censor criticism or prevent protest movements from mobilising. These technologies can often be controlled to a degree by regimes with sufficient resources and determination, and can be used as propaganda tools by opponents of reform, but technology-driven channels of political mobilisation are difficult to suppress entirely.

In conclusion, while the Arab Spring may not in itself inspire successful democratic transitions in other parts of the world, the extraordinary events of the past few months underline some universal lessons that authoritarian regimes everywhere would be unwise to ignore.

President Saleh has pushed Yemen to the brink of civil war

Yemen in crisis

The Yemeni president, Ali Abdullah Saleh, has stated that he is ready to step down, but has repeatedly backed off from signing a deal, drawn up by the Gulf Co-operation Council (GCC), that would allow for his “dignified” exit, followed by elections. It now appears that he would rather risk a civil war than to leave office. Popular protests have been ongoing in Yemen since February, with the civilian death toll reaching over 400. Fierce fighting between the country's most powerful tribe and the security forces erupted in Sanaa in late May, and quickly spread beyond the capital. The risk of a multi-pronged civil war appears high, drawing in foreign actors (including Saudi Arabia) and creating an opportunity for al-Qaida to assert itself in the relatively lawless country. However, Mr Saleh's flight to Riyadh for medical treatment in early June has opened a window to seek consensus. The country's neighbours will probably seek to supplant the president with a powerful, probably tribal figure that they view as best-placed to restore order—an outcome that would probably bring the ascent of a narrow, personality-based regime much in the style of its predecessor.

The most likely outcome for Syria is regime survival—but there is a chance Mr Assad could be overthrown

Repression in Syria

Mr Assad initially reacted to the pro-democracy movement in the region with complacency, arguing that he was insulated by his fostering of resistance to Israel and the US, and that he was laying the basis for future democratic transformation through modernising Syrian society. When unrest spread to Syria in mid-March he changed his tune, bringing forward political reforms discussed at the congress of the ruling Baath party in 2005, but which had gathered dust since then. Mr Assad spoke of lifting the 1963 emergency law, granting citizenship to stateless Kurds, removing the institutionalised Baath



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Vulnerabilities

	Unemployment (%) ^a	Aged 24 or under (%) ^b	Human development (rank) ^c	Internet users (%) ^d	Corruption (rank) ^e
Algeria	10.0	45.6	84	13.5	105
Bahrain	n/a	36.7	39	82.0	48
Egypt	9.7	51.8	101	20.0	98
Iraq	n/a	58.6	n/a	1.1	175
Jordan	12.5	56.1	82	27.6	50
Kuwait	n/a	41.7	47	36.9	54
Lebanon	n/a	42.2	n/a	23.7	127
Libya	n/a	51.5	53	5.5	146
Morocco	9.1	47.3	114	32.2	85
Oman	n/a	52.4	n/a	51.5	41
Palestinian Territories	n/a	n/a	n/a	32.3	n/a
Qatar	n/a	37.2	38	40.0	19
Saudi Arabia	10.8	50.2	55	43.5	50
Syria	8.3	57.5	n/a	18.0	127
Tunisia	13.0	41.6	81	34.1	59
UAE	n/a	34.6	32	75.0	28
Yemen	n/a	64.7	133	1.8	146

^a Economist Intelligence Unit, unemployment based on official statements. ^b US Census Bureau. ^c UN Development Programme, Human Development Index. ^d International Telecommunications Union. ^e Transparency International ranking; highest is most corrupt.

majority in parliament and devolving power to local administrations. In the meantime, his armed forces confronted protesters, and the death toll rose quickly. It is probable that about 1,000 people were killed between late March and mid-May, and several thousand more arrested. The regime provided little evidence to support its claim that protestors were armed.

The most likely outcome for Syria is regime survival. If Mr Assad's regime survives it is likely to push through reforms to give the appearance of enhanced democratic participation. However, the regime cannot afford to cede real power to freely elected institutions, as this could lead to demands for the security organs to be held to account for their actions during the repression of 2011 and over the previous 48 years of Baathist rule. Nonetheless, there is a reasonable chance that Mr Assad could be overthrown. Popular protests alone are unlikely to achieve this, given the strength of the regime's security forces and their willingness to use violence without restraint. The most probable mechanism for the removal of the Assad regime would be a rebellion by sections of the armed forces, although the regime has taken care to guard against army plots. If, despite these unpromising odds, an army coup were to succeed, it would be likely to have a bloody aftermath as elements of the old regime would resist, and there is a strong risk of sectarian clashes in parts



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Fundamental change in Jordan, Morocco or Oman is unlikely, but Algeria's situation is less predictable

Transition to hybrid regimes is unlikely to lead to effective governance

of the country. Civil war in Syria could draw in other regional actors, including Iran, Hizbullah, Turkey, Israel, Jordan and Iraq. However, if anti-Assad elements in the army were able to impose order fairly swiftly, Syria would have a reasonable chance of embarking on a similar course to Tunisia and Egypt, most likely resulting in the creation of an imperfect democracy. An alternative scenario for Syria could entail Mr Assad taking up the challenge from the US president, Barack Obama, and leading the transition to democracy. For this, he would need to conduct an internal purge of his regime, including many members of his immediate and extended family. It is doubtful whether Mr Assad is capable of this.

Going through the constitutional motions

There have been lower-level protests in a number of other Arab states—notably, Oman, Algeria, Jordan and Morocco. The rulers and governments of these four states have undertaken to consider reforms in response to the popular demands for democratic change. This response has taken the form of the establishment of bodies to review the constitution, with the understanding that more powers will be conferred on the elected parliament. The process is unlikely to change the fundamental structure of power in Jordan or Morocco (monarchies in which the royal court is ultimately in control of political decisions) or in the sultanate of Oman.

The situation is more unpredictable in Algeria, which may yet go through a version of the changes under way in the other republics. The Algerian president, Abdelaziz Bouteflika, has sanctioned a process of constitutional reform, but this has met with profound scepticism in sections of the media and from a number of political parties outside the three-party presidential alliance. However, a previous phase of democratic opening in Algeria, which followed an uprising in 1988, had a very traumatic aftermath, with tens of thousands of people killed in the civil war sparked by the cancellation of elections in January 1992. This experience has bred wariness among the opposition and the regime of pushing matters to an all-out confrontation. That said, the level of discontent with political, economic and social conditions remains high.

Overall, then, our “gridlock politics” scenario envisages only a limited democratic harvest for the region, with a patchwork of regime types emerging. This would entail a transition to hybrid regimes in most states, which is unlikely to lead to effective government. Much of the time between elections will be taken up with squabbling among the main parties, with prolonged periods of caretaker administrations. The public will increasingly view the electoral process as a game played out by parties concerned only with narrow interests. This will also encourage the efforts of the remaining authoritarian regimes, including in the GCC, to resist reforms.

Another chance for Palestine?

The Palestinian issue was largely irrelevant to the revolutionary movement that swept the Arab world in early 2011. Nevertheless, the changes that these movements have brought about will have a significant impact on the Palestine question, in terms of both

internal Palestinian politics and the international dimension of the Arab-Israeli conflict.

One of the first fruits of the “Arab Spring” has been the reconciliation agreement, known as the Cairo agreement, signed in Egypt between the two main Palestinian factions, Fatah and Hamas. The framework of the agreement had been known for years, but the protagonists and their external backers preferred the status quo as



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the best means of safeguarding their perceived interests. The Arab uprisings upset these calculations. Both Fatah and Hamas became exposed to increased popular pressure to put aside their tactical differences or else face an insurrection. The overthrow of the Mubarak regime also produced an important shift in Egyptian policy. Egypt's former intelligence chief, Omar Suleiman, had overseen the earlier rounds of negotiations between the Palestinian factions, but had given the impression that he was not really interested in bringing Hamas into the Palestinian mainstream, partly because this would have displeased Israel and the US. Hamas was also constrained from completing a rapprochement with Fatah, owing to its status as part of the "resistance" front, focused on Damascus, the Syrian capital, and including Iran and Lebanon's Hizbullah. Post-revolution Egypt has now lost its inhibitions about offending Israel and the US, and the anti-Assad uprising in Syria has given the exiled Hamas political leadership a powerful interest in finding an alternative base to Damascus.

Wide-ranging ramifications

The Cairo agreement provides for elections to be held for the Palestinian parliament, the presidency of the Palestinian Authority (PA) and the Palestine National Council (PNC), which is the overarching body of the Palestine Liberation Organisation (PLO). Hamas is represented in parliament, but not in the PNC or the PLO, which is responsible for sovereign policy matters, including negotiations with Israel. If Hamas were to take part in all three elections, it would face a situation analogous to that of the Muslim Brotherhood in Egypt, in that it would come under pressure to

provide a detailed explanation of its policies and strategy. Up until now Hamas has preferred ambiguity, at times implying that it is prepared to accept a negotiated two-state settlement with Israel, but refusing to give up on the principle of resistance to occupation or its long-term aspiration to establish an Islamic state over the entire territory of historic Palestine. By joining the PNC and the PLO, Hamas would have to accept the amended PLO Charter, which includes recognition of Israel's right to exist and a renunciation of violence. Of course, Hamas could try to amend the charter, but it is doubtful whether it could muster a popular mandate in favour of this.

If all the elections proceed in a relatively orderly fashion and without significant violence (either among Palestinians, or between the Palestinians and Israel), then the Palestinians could find themselves in a much stronger position to mobilise the necessary international pressure to make Israel accede to a reasonable two-state solution. These developments, and the parallel plan of the PA to get a resolution passed by the UN General Assembly recognising a Palestinian state, have alarmed the Israeli government, as it presents the spectre of international acceptance of Hamas as part of a legitimate and united Palestinian front, backed by a revolutionary government in Egypt that is likely to incorporate elements of the Muslim Brotherhood. However, it also offers Israel the opportunity to take advantage of the crumbling of the resistance ideology fostered by Iran and Syria, and to negotiate in good faith with new political forces that should have little interest in repeating the sterile and often destructive experience of the past six decades of Arab-Israeli conflict.

Scenario 2: Survival of authoritarianism (20% probability)

The Economist Intelligence Unit takes into account the risk that the process of democratic change that is under way in Egypt and Tunisia could suffer serious setbacks. Were these revolutions to fail, it would undermine much of their appeal for popular movements elsewhere in the Arab world, and would reassure the surviving dictators and absolute monarchs. Likewise, the notion of a net advance for democracy as a result of the Arab Spring would be negated if regimes such as those in Syria, Yemen and Bahrain were able to consolidate, having defeated the protest movements, and if Libya's revolution turned into a long civil war. In this scenario, authoritarianism would remain the norm across the region.

The army could decide to take power once more in Egypt

The military's stance

The army played a critical role in enabling the revolutions in both Tunisia and Egypt, and has remained engaged in the post-revolutionary process, although in Tunisia this has been largely confined to providing security back-up to the police. In Egypt the army has retained a direct role in political life,



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through appointing the prime minister and mapping out the timetable for elections. It has also on a number of occasions become involved in confrontations with crowds of protesters, and has exercised powers of detention and military trial that remain in force under the emergency laws that were widely abused by the Mubarak regime. Field Marshal Mohammed Hussein Tantawi, the long-serving defence minister under Mr Mubarak, has taken on the trappings of the head of state. However, the army retains large stock of goodwill for its stand during the revolution, and there is no sign that its commanders wish to dissipate this asset by holding on to power for too long, or by putting itself in a position where troops might fire on mass opposition protests.

The Egyptian army is likely to remain resolute in its stated determination to hand over power to an elected president and parliament by the end of 2011. However, its intervention has set a modern precedent, and there could be circumstances in which the army command decided to take charge of Egypt's political destiny once more. One example might be if the political divisions in society were to lead to violent conflict, or if one party were to dominate electoral politics and seek to enact changes to the constitution that the military deemed unacceptable. Such outcomes could arise from the pursuit of an increasingly radical agenda by the Muslim Brotherhood and other Islamist groups, provoking violent reactions from Christians and secularists. Although the Egyptian army is not cast as a defender of secularism as is the case in Turkey, it would be likely to oppose any move to transform Egypt into an Islamic republic. The Muslim Brotherhood has been careful to foster the impression that it is committed to pluralism. However, on the rare occasions when it has attempted to provide details about its policies, it has betrayed an intolerant streak. For example, a recent draft political programme indicated that it ruled out the possibility of women or non-Muslims standing for president, and recommended a council of clerics as the ultimate constitutional authority.

A reversion to authoritarianism in Egypt (or Tunisia) need not entail a military coup. A more likely route would be by way of gradual counter-revolution, whereby surviving stakeholders in the former regime would claw back influence through exploiting the new democratic system to establish an unchallengeable hold on power. Their task could be helped if the revolution became tarnished by persistent outbreaks of sectarian conflict and labour unrest, some of which could be manipulated by conservative forces advocating the need to enhance personal security by giving more powers to the police.

The deterrent of chaotic politics

The wider appeal of democratic change across the region could also be negated without Egypt or Tunisia lapsing back into authoritarianism. If the Egyptian and Tunisian revolutions gave rise to a series of unstable governing coalitions that performed poorly in managing the economy, other Arab rulers could use this to buttress their arguments for avoiding the risks of trying to impose an unsuitable political model on their traditional societies. In the Gulf, the chaotic nature of Kuwaiti parliamentary politics has already served as a ready excuse for the likes of Saudi Arabia, Qatar and the UAE to stick with their established systems of paternalist tribal dictatorships. Likewise, Mr Mubarak frequently alluded to the experience of Algeria—where the political liberalisation undertaken by Chadli Benjedid in the late 1980s was followed by a coup and a bloody civil war—as a reason to tread



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Meaningful democratic reform in the Gulf states is unlikely unless Saudi Arabia experiences upheaval

cautiously in any endeavour to open up the Egyptian political system.

Bahrain's prime minister, Sheikh Khalifa bin Salman al-Khalifa, has now presided over a negation of democratic reforms on two occasions, first with the dissolution of parliament in 1975 (followed by almost three decades of authoritarian rule) and most recently with the violent suppression of a protest movement pressing for an extension of the democratic franchise. From Sheikh Khalifa's perspective, it has now been established beyond doubt that attempting to bring democracy to Bahrain is a recipe for instability. Other Gulf Arab rulers are likely to concur. This suggests that meaningful democratic reform in the Gulf Arab states is unlikely unless the dominant power, Saudi Arabia, is challenged by a popular revolution on the scale of that in Egypt. That seems improbable at the moment. The Saudi establishment will continue to make much of the perceived need for vigilance against the twin threats of al-Qaida terrorism and Iranian expansionism in order to justify extremely high levels of internal security. The Saudi regime has been buttressed by massive financial flows from the rise in oil prices since 2003, as well as by unconditional support from the US.

Other deterrents to the spread of democracy would include the lapse of Libya into a drawn-out civil war, and a prolonged stand-off between the regime and the opposition in Syria. Even if the Qadhafi regime were to be defeated, the Libyan experience would share some of the stigma of Iraq, in that democratic change had been made possible through Western bombing, and was thus in a sense tainted. The Assad regime in Syria has promised to push through a measure of democratic reform once security is restored. However, the brutality of the regime's response to the protests means that a large

Al-Qaida and the "Arab Spring"

The Arab Spring has been a considerable setback for al-Qaida. Its ineffectiveness as an agent for political change has been exposed by the extraordinary sight of millions of young Arab men and women peacefully achieving the improbable task of toppling long-entrenched dictators in Tunisia and Egypt. In contrast to the intolerant and violent jihadi message of the late Osama bin Laden and his cohorts, young Arabs of all sects have united around a single desire to remove their onerous leaders and replace them with fully elected, democratically accountable representatives. The revolutions were not organised in the mosques, or far away in Afghanistan or northern Pakistan, but were instead co-ordinated at home, over US-based websites such as Facebook and Twitter. Moreover, when the autocrats struck back, it was the US and the EU that stepped up to defend the oppressed Arab masses, not al-Qaida. Most notably, when a vengeful Colonel Muammar Qadhafi appeared on the brink of perpetrating a massacre in rebel-held Benghazi, it was the armed forces of France, the UK and the US that prevented a bloodbath—and with the backing of the Arab League.

Of course, al-Qaida's appeal had been dimming long before the Tunisian and Egyptian revolutions. This stemmed in large part from

a general revulsion at the group's methods, which have often seen the deaths of large numbers of locals in attacks on civilian targets. Most dramatically, the brutality of al-Qaida in Iraq during the height of Iraq's sectarian conflict in 2005-07 alienated Arabs of all stripes within the country and further afield, and culminated locally in the creation of the Sunni Arab Sahwa ("awakening") groups that eventually cleared al-Qaida from most of Iraq. According to the Pew Research Center, before his death, confidence in Osama bin Laden had dropped from 56% in Jordan in 2003 to just 13% by 2011, and from 72% in the Palestinian Territories to 34% over the same period.

Nevertheless, just because momentum appears to be against it at the moment—most obviously symbolised by the death of its leader in a US raid in Pakistan on May 2nd—it does not mean that al-Qaida's decline is terminal. The worsening chaos in Yemen will present al-Qaida in the Arabian Peninsula (AQAP; comprising the Saudi and Yemeni arms of the group) with an opportunity to strengthen its already firm foothold in the country—a prospect that will alarm the US and Saudi Arabia, both of which have been targeted by AQAP over the past two years. There is also the chance (captured by our 20% "survival of authoritarianism" scenario) that the Arab Spring proves a chimera. Under such a scenario, al-Qaida would be emboldened once more, and previously peaceful demonstrators might be more willing to listen to the violent message of militant Islamists.



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part of the population will reject any accommodation with the Assad security state. The regime may yet fall, but there is also the prospect of Syria drifting into a prolonged low-level insurgency, with the regime ultimately coming out on top. Such an outcome would provide yet another cautionary tale for Arab dictators to use.

Scenario 3: Democratic breakthrough (20% probability)

Constructive coalition politics is not impossible in Egypt

The millions of Arabs who have taken to the streets across the region to demand freedom, justice and an end to repressive tyranny have inspired global admiration. They achieved historic breakthroughs in Tunisia and Egypt, but have so far been blocked elsewhere. The Economist Intelligence Unit considers that there is a chance that the momentum for democratic change will be maintained. The Tunisian and Egyptian constitutional reforms would produce relatively stable parliamentary systems, regimes that are repressing protests would crumble under a combination of domestic and international pressure, and reluctant reformers would recognise that they must offer much more substantive concessions. In this scenario, most countries in the region would attain democratic systems, albeit with significant weaknesses.

One of the crucial conditions for a virtuous outcome for the Arab democratic revolution is that the process of change in Egypt proves to be robust—success in Tunisia would be a bonus, but the impact of a positive outcome in Egypt would be much greater, given the country's historic role as a political and cultural focal point for the Arab world. It will also be important for the integrity of the Arab revolution that the efforts at violent repression undertaken by the regimes in Libya, Syria, Yemen and Bahrain ultimately fail.

In Egypt, much will depend on the interaction between the Muslim Brotherhood on one side and parties that wish to limit the role of religion in politics on the other. If the Brotherhood can manage through its political party, Freedom and Justice, to present itself as being focused on practical policy issues, whereby it can pursue its stated goal of creating a more equitable society in an economically responsible manner, this could lay the basis for either constructive coalition politics or a contested arena based on differing policy approaches. The Brotherhood might have to deal with criticism that it is selling out on fundamental Islamic principles (for example, in tolerating tourism, alcohol and the charging of interest), which could lead to splits in the movement and defections to salafist groups. However, by embracing the responsibilities of consensual government, the Brotherhood would be able more effectively to serve the interests of its core constituency of conservative, devout and disadvantaged Egyptians, while putting to rest the accusation that their real agenda is to impose Islamist orthodoxy with no concessions to dissenting views. On the other side, the multiplicity of political currents that were involved in the revolution will need to find a way to coalesce into a small number of political parties in order to ensure that their force is not dissipated—this could include forging alliances with some of the Mubarak-era opposition parties. Finally, the remnants of Mr Mubarak's NDP will need to find a voice in the new democratic system, otherwise there is a risk that



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If robust democracy emerges in Egypt and Tunisia, the Gulf Arab states will move in a similar direction

they could turn into a destabilising force.

Building a functional democracy in Egypt and Tunisia will be a long struggle, but if the process can stay on the rails, the example will provide enormous encouragement for opposition forces elsewhere. Egypt could offer a safe haven for opposition groups from Yemen and Syria to draw up programmes for constitutional change that could attract international support and legitimacy, and increase the pressure on the Saleh and Assad regimes. With robust democratic systems in place in Egypt, Tunisia, Libya, Syria and Yemen, the other regimes in North Africa and the Near East would face mounting pressure to move in a similar direction. It would only be a matter of time before the Gulf Arab states would have to follow suit.

The Iraq model

Iraq is the most extreme regional example of a precipitous transition from an authoritarian to a democratic political system. With Iraq having endured over three decades of repressive autocratic rule, the post-2003 political order has come to reflect many of the exaggerated fissures in society that were legacies of Saddam Hussein's reign. Ethno-sectarianism (which was cynically exacerbated by Saddam to shore up his support base among the country's Sunni Arab community) has been one of the most prominent features of Iraq's nascent democracy. Corruption, which permeated everyday life during the sanction years, also endures.

These forces festered throughout Iraq's years of dictatorship, and were contained only by extreme violence and repression. The dismantling of the centralised state after the war in 2003 unleashed them in a destructive manner. The presence of US troops and an occupation authority intent on creating democratic institutions, foremost among which is a constitution passed in a nationwide referendum, nevertheless succeeded in setting the trajectory for Iraq's nascent democracy. These have proven resilient, with several parliamentary and provincial elections allowing for peaceful (albeit often unwieldy) transitions of power since 2003.

What can go wrong?

The overthrow of the Saddam regime, which was led primarily by the country's Sunni Arab minority, raised fears within this

community that the ascendancy of the Shia in government would come at their expense. The Shia, in turn, felt that their rightful status as a majority constituency had been restored after years of oppression. The country's new political leaders, many of whom gained their legitimacy from exploiting ethno-sectarian tensions and raising fears among their respective communities, did little to allay the building tensions, and after several years of sectarian brinkmanship by the dominant political parties, and a relentless terrorist campaign against civilians across Iraq, the country descended into a bloody civil war in 2006-07. The chaos has been used by proponents of autocracy in the Arab world to argue against drastic changes in governance structures, and that stability can only be ensured through continuity and at best gradual political liberalisation. However, since 2008, the Iraqi state and its democratic institutions have been strengthening. Although a substantial proportion of the Sunni Arab community initially favoured armed insurrection against the government, the provincial elections in 2009 and the parliamentary election in 2010 saw widespread participation by Sunni Arabs. There is little indication that there will be any significant reversion to violence by either community.

The "Iraq model" demonstrates that the political and social space opened up after the removal of a dictatorship can expose destructive legacies. More positively, it illustrates an appetite for democratic governance among people who have no real experience of living under anything but an autocracy.



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Country profiles

ALGERIA

Form of state: Presidential republic

Head of state: President Abdelaziz Bouteflika (since 1999)

- **State of play:** Government responded to protests by promising to review constitution.
- **Democratisation prospects: Low.** Some political reform is likely, including new parties, but any changes will be slow and probably watered down.
- **Risk of internal divisions: Low.** Berber activists may use new political space to set up new parties. Islamist parties are largely moderate.
- **Economic impact: Modest.** Higher current spending will push the budget into deficit. This will be balanced by high oil prices.

BAHRAIN

Form of state: Kingdom

Head of state: King Hamad bin Isa al-Khalifa (since 1999)

- **State of play:** Following widespread domestic unrest calling for political reform, the government introduced martial law and crushed protests.
- **Democratisation prospects: Low:** The ascendancy of the conservative prime minister, Khalifa bin Salman al-Khalifa, has reduced the chances of political reform.
- **Risk of internal divisions: Very high.** Sectarian tensions between Sunni and Shia heightened in the wake of the government's crackdown.
- **Economic impact: High.** The services sector has suffered, including tourism and banking prospects.

EGYPT

Form of state: Military rule (transitional)

Head of state: Field Marshal Mohammed Hussein Tantawi heads the Supreme Council of the Armed Forces (SCAF), with transitional power (since 2011)

- **State of play:** The SCAF is overseeing a transition process leading up to parliamentary and presidential elections later in the year.
- **Democratisation prospects: High.** Political liberalisation is likely, probably resulting in a flawed democracy; there is a risk of reversal.
- **Risk of internal divisions: High.** Sectarian tensions between Muslims and Christians have surfaced, leading to violent clashes.
- **Economic impact: High.** Tourism revenue has plunged; the currency has depreciated slightly; the government has drawn down all of its unofficial foreign reserves and faces a large financing gap.

IRAQ

Form of state: Democratic republic

Head of state: President Jalal Talabani (since 2005)

- **State of play:** The prime minister responded to protests by imposing a 100-day reform deadline on the cabinet (set to expire on June 7th).
- **Democratisation prospects: Modest.** We expect Iraq to remain a hybrid regime, and for reforms to focus on anti-corruption measures.
- **Risk of internal divisions: High.** Ethno-sectarian divisions persist, with Arab-Kurdish tensions likely to rise over the status of "disputed areas" in the north, particularly Kirkuk.
- **Economic impact: Modest.** Higher oil prices will allow a rise public spending. Increased investment from international oil companies is likely.

JORDAN

Form of state: Constitutional monarchy

Head of state: King Abdullah II (since 1999)

- **State of play:** King responded to earlier peaceful protests by promising political reform.
- **Democratisation prospects: Modest.** Some political liberalisation possible, but king likely to maintain control over key appointments.
- **Risk of internal divisions: Modest.** East Bank Jordanians, the traditional ruling elite, fear increased democracy will empower the Palestinian majority. Opposition favours reform rather than revolution.
- **Economic impact: Modest.** Rises in subsidies and public-sector wages. Some economic liberalisation moves temporarily paused.

KUWAIT

Form of state: Monarchy

Head of state: Sheikh Sabah al-Ahmed al-Jaber al-Sabah (since 2006)

- **State of play:** Kuwait has remained largely immune to regional unrest.
- **Democratisation prospects: Low.** Kuwait is more democratic than its Gulf neighbours. Parliament provides ample opposition, but ultimate power rests with the monarchy.
- **Risk of internal divisions: High.** Relations between the cabinet and parliament will remain fraught. Tensions between Sunni and Shia more prominent in the wake of events in Bahrain.
- **Economic impact: Very low.** Higher oil prices will underpin an increase in public spending.

LEBANON

Form of state: Parliamentary republic

Head of state: President Michel Suleiman (since 2008)

- **State of play:** High risk that unrest in Syria could spill over into Lebanon, resulting in conflict between pro- and anti-Syrian groups.
- **Democratisation prospects: Modest.** Political process at risk of being subverted by armed groups.
- **Risk of internal divisions: High.** Sectarian identities (Christian, Muslim, Druze) and political allegiances are built into the state structure.
- **Economic impact: High.** Domestic political unrest is severely undermining confidence in the services-based economy. High oil prices will have a deleterious impact on the external account.

LIBYA

Form of state: Jamahiriya

Head of state: Colonel Muammar Qadhafi (since 1969)

- **State of play:** Pro- and anti-regime forces are fighting a civil war for control of Libya. A NATO-led force has imposed a no-fly zone.
- **Democratisation prospects: Modest.** A new government will need to completely overhaul the country's political infrastructure. There is potential for a more democratic system to emerge.
- **Risk of internal divisions: Very high.** The country has already descended into civil war. If the opposition fails to unseat Colonel Qadhafi, there is risk of a division of Libya along east-west lines.
- **Economic impact: Very high.** The international community has imposed sanctions on the regime. Oil production and exports severely disrupted; the economy has contracted sharply.

MOROCCO

Form of state: Constitutional monarchy

Head of state: King Mohammed VI (since 1999)

- **State of play:** King responded to earlier protests (largely peaceful) by promising constitutional reform.
- **Democratisation prospects: Modest.** Some political liberalisation likely, but king will maintain control over key ministerial appointments.
- **Risk of internal divisions: Low.** May now be more space for peaceful Islamist movements. Western Sahara aside, no serious divisions.
- **Economic impact: Modest.** Rises in subsidies and public-sector wages. Some rollback of unpopular economic liberalisation.



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OMAN

Form of state: Monarchy

Head of state: Sultan Qaboos bin Said al-Said (since 1970)

- **State of play:** Sultan responded to protests by promising legislative power to parliament.
- **Democratisation prospects: Modest.** Political liberalisation is likely, but the sultan will still control the key portfolios.
- **Risk of internal divisions: Low.** Most of the cabinet are related to the sultan and al-Said family. Little danger of ethnic or sectarian tensions.
- **Economic impact: High.** Increased government spending to deliver on the promise of more jobs; rises in public-sector wages and pensions.

PALESTINIAN TERRITORIES

Form of state: Semi-autonomous authority

Head of state: President Mahmoud Abbas (since 2005)

- **State of play:** Mr Abbas's PLO, which rules the West Bank, has reconciled with Hamas, which controls Gaza, in the new regional conditions.
- **Democratisation prospects: High.** A democratic structure exists, last used in 2006. If the deal holds, free elections are scheduled for October.
- **Risk of internal divisions: High.** Rivalry between Fatah, which dominates the PLO, and Hamas could re-emerge as the deal is implemented and in elections.
- **Economic impact: Modest.** Egypt eased the Gaza blockade; investment is expected in the West Bank.

QATAR

Form of state: Emirate

Head of state: Sheikh Hamad bin Khalifa al-Thani (since 1995)

- **State of play:** Qatar has witnessed very few internal pressures, and the government has not promised any substantive reform.
- **Democratisation prospects: Modest.** The emir has outlined plans to introduce a fully elected parliament, although his efforts are likely to face resistance from within the ruling family.
- **Risk of internal divisions: Very low.** Qatar faces very few sectarian pressures and enjoys one of the highest GDP/head rates in the world, and there is very little risk of internal division.
- **Economic impact: Very low.** The government has not had to introduce financial incentives to quell unrest.

SAUDI ARABIA

Form of state: Absolute monarchy

Head of state: King Abdullah bin Adel-Aziz al-Saud (since 2005)

- **State of play:** With the exception of a few isolated protests in Shia areas in the east, there have been virtually no outward signs of dissent.
- **Democratisation prospects: Very Low.** Policymaking is dominated by a clique of princes, in collaboration with the conservative Islamic clergy. Avenues for popular mobilisation are very few.
- **Risk of internal divisions: Modest.** Shia minority are the most likely source of instability, although tribal and cultural tensions also exist within the majority Sunni population.
- **Economic impact: Very Low.** Growth is expected to increase this year, boosted by fiscal stimulus.

SYRIA

Form of state: Republic

Head of state: President Bashar al-Assad (since 2000)

- **State of play:** The regime has put down anti-government demonstrations all over Syria with force, killing over 1000, but protests continue.
- **Democratisation prospects: Low.** If Mr Assad survives, some superficial changes, but real power will remain with his extended family and clan.
- **Risk of internal divisions: High.** Syria has many sectarian and ethnic divisions that could be exploited if protests descend into civil conflict.
- **Economic impact: High.** The government has abandoned liberalising economic policies, increased spending, and scared off investors.

TUNISIA

Form of state: Republic (transitional)

Head of state: Speaker of parliament and interim president Foued Mebaazaa (since 2011)

- **State of play:** The protests that began in December 2010 led to the ouster of the former president, Zine el-Abidine Ben Ali.
- **Democratisation prospects: High.** The constitution is being rewritten to allow for free and fair elections, possibly in early to mid-2012.
- **Risk of internal divisions: High.** Islamist movements have support in south. Clashes likely between supporters of the former regime and the army.
- **Economic impact: Very high.** Economic output disrupted by unrest, lack of security, absenteeism and fall in local demand. Loss of tourism and FDI.

UNITED ARAB EMIRATES

Form of state: Federation of seven emirates

Head of state: Sheikh Khalifa bin Zayed al-Nahyan (since 2004)

- **State of play:** Virtually unaffected by unrest; president has announced an economic package to develop energy infrastructure in northern emirates.
- **Democratisation prospects: Very low.** Political liberalisation unlikely; power will continue to rest with the emirs, in the Supreme Council of Rulers.
- **Risk of internal divisions: Low.** Power will be concentrated within large ruling families. The ruling families of the seven emirates belong to different tribes.
- **Economic impact: Very low.** Rise in food subsidies and increased spending in the northern emirates, but the UAE stands to benefit from high oil prices, increased tourism and FDI.

YEMEN

Form of state: Republic

Head of state: President Ali Abdullah Saleh (since 1978)

- **State of play:** Mass protests and increasing violence. After outside mediation, the president has offered to resign, but has repeatedly backtracked.
- **Democratisation prospects: Modest.** Yemen has had contested elections in the past. But weak institutions, the tribal nature of society, and high levels of violence militate against a transition to a functioning democracy.
- **Risk of internal divisions: Very high.** North/south, Zaydi/separatist and tribal tensions; there is a growing risk of a civil war.
- **Economic impact: Very high.** The economy has been hard hit by general strikes and sabotage of oil pipelines.



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Key points

- The countries that have witnessed the least progress towards political reform, such as Saudi Arabia, are initially set to reap the greatest economic harvest from the region's political spring.
- Democratisation could though yield a significant long-term growth premium for Arab countries.

Economic outlook: The tortoise and the hare

Short-term economic impact: Bad for business?

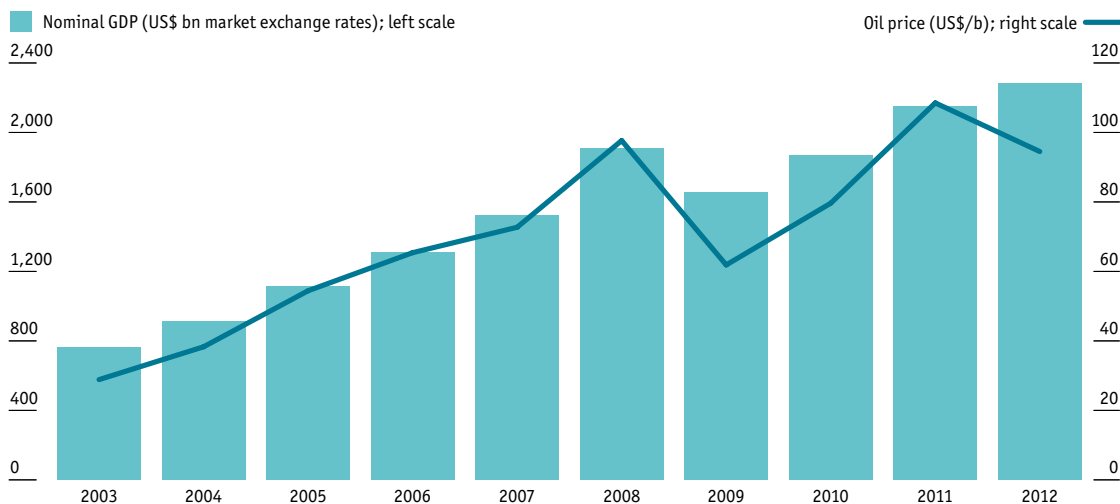
What a difference a spring makes

As a leading exponent of free-market capitalism, Ludwig von Mises, commented wryly: "Economically considered, war and revolution are always bad business." At the start of the year, the picture was different. Rising oil prices and the bond markets' penchant for emerging-market debt were boosting business and consumer confidence across the region. Although political uncertainty dampened enthusiasm in a few cases, such as in fractious Yemen, generally the region was viewed as an attractive and increasingly reliable place to do business. The populations of those countries caught up in the wake of the Arab Spring are now learning the less welcome economic consequences, at least in the short term, of defying their leaders.

Even Egypt and Tunisia, which managed to topple their leaders in relatively short order, are frantically seeking external support to shore up suddenly fragile fiscal and balance-of-payments

The region's non-oil economies face a chilly short-term outlook

Oil prices and economic performance (MENA)



Regional Nominal GDP and real GDP % change data include Iran and Israel.
Source: Economist Intelligence Unit.



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Adjusted real GDP outlook, May 2011

(% change, year on year, unless otherwise indicated)

			Change from Dec 2011 ^a	
	2011	2012	2011	2012
Algeria	3.7	4.2	0.2	0.1
Bahrain	2.9	3.3	-1.4	-1.9
Egypt	1.2	4.6	-4.1	-0.9
Iran	1.9	2.1	-1.0	-0.8
Iraq	9.5	10.9	3.0	3.5
Israel	4.2	3.8	0.8	0.2
Jordan	3.3	4.3	-0.2	0.0
Kuwait	4.4	5.4	0.4	0.1
Lebanon	1.3	3.7	-4.5	-2.4
Libya	-26.1	15.9	-29.8	12.0
Morocco	3.0	4.3	-0.8	-0.6
Oman	4.7	5.0	0.4	0.3
Qatar	15.8	5.9	0.0	0.0
Saudi Arabia	6.3	5.3	3.6	1.2
Sudan	4.1	4.3	0.0	-0.1
Syria	1.1	3.7	-3.5	-0.8
Tunisia	0.8	3.3	-2.2	0.0
UAE	3.5	4.6	0.4	0.0
Yemen	-5.5	4.0	-8.5	1.2

^a Percentage points

Source: Economist Intelligence Unit, CountryData

positions. Economic output in Libya will plunge in 2011 as the civil war drags on, and a host of countries, from Syria to Bahrain, will feel the economic chill as nervous foreign investors pull out and tourists stay away. In an effort to counter the downturn, governments across the region are assuming the burden of supporting domestic demand by turning their backs on free-market liberalism and reverting to a populist, state-led economic model—an approach for which the region's oil-rich, and politically primitive, Gulf monarchies are ideally suited. The countries that have witnessed the least progress towards political reform, such as Saudi Arabia, are initially set to reap the greatest economic harvest from the region's political spring.

Non-oil economies

In the wake of the Arab Spring, most of the region's non-oil economies will suffer in the short term. In both Egypt and Tunisia the tourism sector has been hit hard; legal proceedings in Egypt against senior ministers and prominent business figures risk taking a toll on economic activity. As a result, we have lowered our 2011 growth forecast for Tunisia to 0.8%, from 3% previously, and for Egypt from



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5.3% to 1.2%. Evidence from other political transitions shows that short-term difficulties tend to be limited—growth typically dips for only one year and then returns to or exceeds previous levels—and we see reasonably positive prospects for recovery in 2012. However, both countries will have to grapple with the budgetary consequences of slower growth and new fiscal stimulus for some time. Both are expected to return fiscal deficits of more than 10% of GDP in 2011, and will require considerable external assistance. It appears that financial backing will be forthcoming, with the IMF and the World Bank—as well as bilateral lenders such as the EU, the US and Saudi Arabia—ready to step in.

Although not as dramatic, the region's other non-oil Arab economies—Jordan, Lebanon and Morocco—are also set to feel the knock-on impact of the troubles elsewhere, in large part manifest in a fall in tourism arrivals and depressed consumer confidence, all exacerbated by the wrench of higher oil prices on household budgets and the balance of payments. Again, it appears that outside help may be forthcoming, with the wealthy Gulf Co-operation Council (GCC; comprising Saudi Arabia, Bahrain, Qatar, UAE, Oman and Kuwait) offering membership to Jordan and, more tentatively, geographically remote Morocco. (Lebanon, however, may be left to struggle until it can forge a new internal political consensus.)

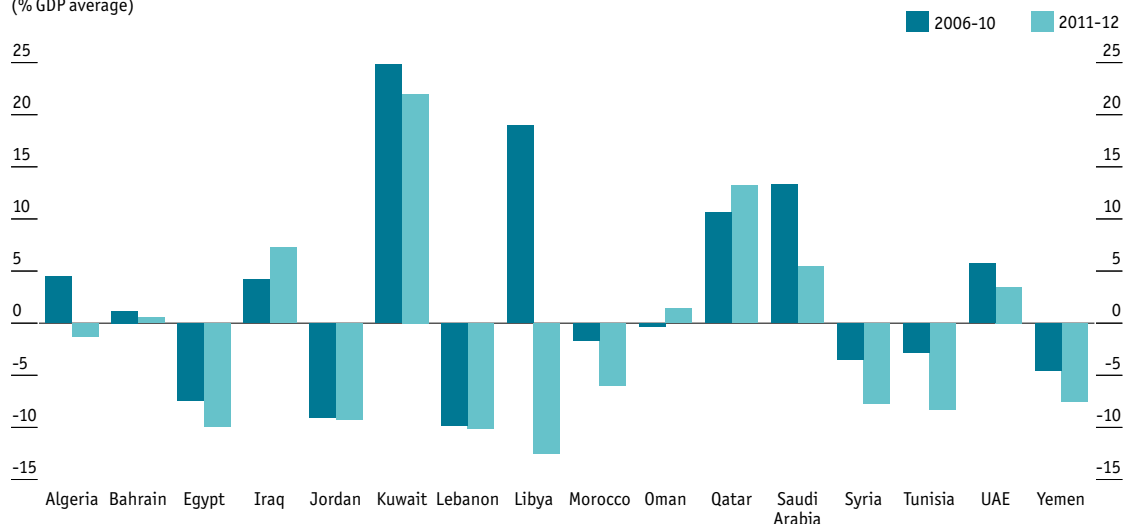
Oil producers

In contrast to the generally depressed picture across the Arab world's non-oil economies, the Arab Spring has proven a boon for the large oil producers. The associated increase in the risk premium in the oil price has given governments the fiscal latitude for massive new spending initiatives.

Nowhere has this been more apparent than in Saudi Arabia, where the king, Abdullah bin Abdel-Aziz al-Saud, has announced two giveaways totalling a combined US\$129bn (equivalent to 30% of GDP). This included two months' extra wages for public-sector workers, the introduction of unemployment benefits, and an ambitious plan to build 500,000 low-cost housing units. In the light of this, we have revised up our growth forecast for Saudi Arabia for 2011 and 2012, to 6.3% and 5.3%, respectively.

*High oil prices
favour the region's
large oil producers*

Budget balance
(% GDP average)



Source: Economist Intelligence Unit, *CountryData*.



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Near-term concerns about the impact on state finances have been lessened by higher oil prices and a temporary increase in oil production (to cover for outages in Libya). King Abdullah's approach has been repeated across the GCC, with Kuwait offering a handout of KD1,000 (over US\$3,600) and free food to every citizen, and Oman announcing rises in pensions and civil servants' pay.

Bahrain, Syria, Yemen and Libya are facing a year at least of economic hardship in the wake of widespread domestic unrest. In Bahrain, the long-term damage will be substantial. In addition to a drop in tourism and real-estate investment, the country's status as the financial services hub for the region is under serious threat (to the benefit of Dubai). The Yemeni economy is expected to shrink in 2011, in the face of mass protests, worsening violence and the ongoing interruption to oil supplies caused by sabotage and staff strikes. The outlook for Libya has seen the most extreme adjustment, with much of the oil sector shut down. We envisage a 26.1% contraction of the Libyan economy in 2011. Libya's loss could prove Iraq's gain. Following the ending of UN sanctions in 2003, international oil companies poured into underexplored Libya, hoping that it would be the next Saudi Arabia. With Libya sidelined, and oil prices set to remain elevated, Iraq, which has already signed a host of large deals to develop its underdeveloped oil resources, is now poised to assume that mantle.

Setback for economic liberalisation

In one crucial aspect, the policy response to the unrest has been uniform: more state. Although opening the fiscal spigots was understandable, it is important to note the underlying unpopularity of the economic liberalisation that has infused policymaking across the region during the past decade or so. In particular, the accumulation of private wealth by individuals with public clout has proven to be a potent motivating force for the Arab uprisings. Although in reality the flaw lies more in the political elite's perversion of the economic liberalisation process, governments across the region have now generally abandoned free-market economic reform in favour of more left-leaning principles. For example, in Egypt one of the last acts as president of Mr Mubarak was to remove some economic reformers from the cabinet. However, the setback to economic liberalisation is likely to be only temporary. The factors that drove it in the first place remain: the states' inability to continue to provide jobs and subsidised living for their fast-growing populations.

Long-term economic impact: Democratic dividend?

To assess the likely longer-term consequences of the political changes in the Arab world, it is instructive to look back at performance over a longer period of time. Available data—in constant 1990 US dollar prices at purchasing power parity (PPP), derived from the Angus Maddison database—allow us to assess the region's performance in comparative perspective between 1950 and 2008 (the final year before the global economic recession). Overall, the record over the past 60 years, especially in recent decades, has been disappointing.

Over the whole 58-year period, average growth in GDP per head in the Middle East and North Africa (MENA) was just below world average growth. Thus average GDP per head in MENA, as a ratio to world GDP per head, slipped from two-thirds in 1950 to 60% in 2008. During that long period, average growth performance in non-oil MENA states outpaced the performance in the MENA oil states. However, the

Big government strikes back, but not for long

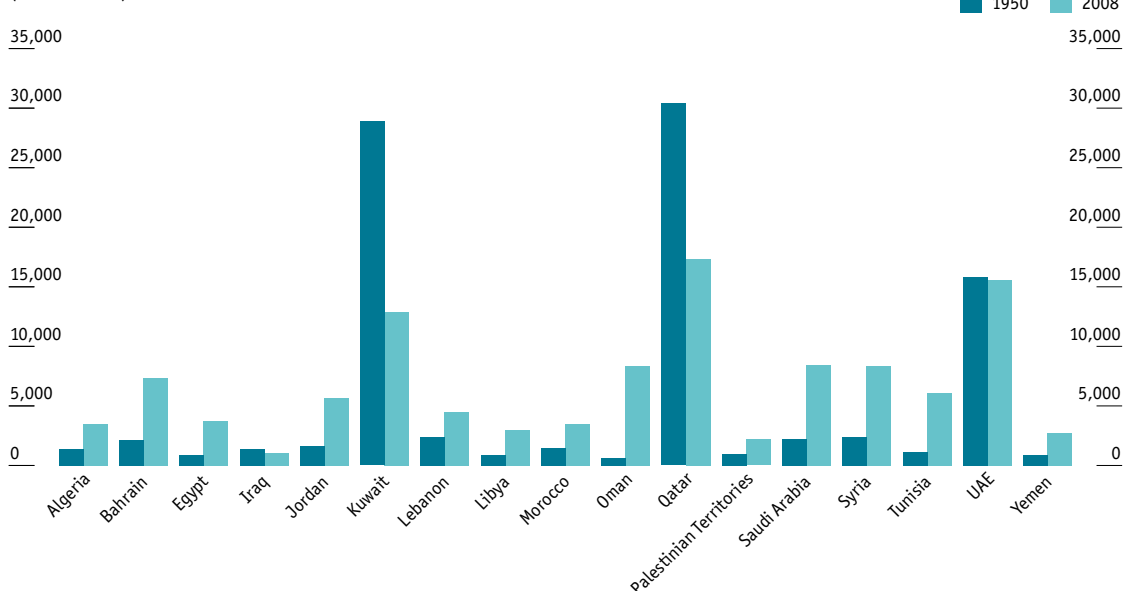
The Arab world's economic performance over the past 60 years has been disappointing



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GDP per head
(US\$ PPP, 1990)



Source: Economist Intelligence Unit, *CountryData*.

overwhelming majority of MENA states had growth rates below (often well below) the world average. The MENA average was pulled up by Egypt—a large state that had a slightly above-average performance.

There are differences in performance between two sub-periods. In 1950-80 (especially in 1950-70), there was considerable catch-up of MENA with the developed world, after a long period of underperformance previously. However, performance has been poor on average over the past 30 years. MENA was the worst-performing emerging-market region in this period. Strikingly, the oil-exporting

Growth in real GDP per head (%, per year)

	Sub-Saharan Africa	Latin America	Eastern Europe	Emerging Asia	MENA	of which:		Developed countries	Developing countries	World average
						Oil MENA	Non-oil MENA			
1950-60	1.8	2.3	3.5	2.8	2.8	5.3	0.8	3.3	2.9	2.8
1960-70	2.2	2.5	3.5	2.1	4.0	5.2	2.3	4.0	2.7	3.0
1970-80	0.3	3.1	1.9	2.9	4.8	3.9	5.1	2.6	2.3	1.9
1980-90	-1.1	-0.7	0.4	4.4	-1.8	-4.1	0.7	2.3	1.4	1.3
1990-2000	-0.1	1.5	-2.7	4.5	0.6	-0.7	1.8	1.9	2.0	1.6
2000-08	2.6	2.1	6.5	6.3	2.3	1.8	2.7	1.4	5.0	2.9
1950-2008	0.87	1.78	1.98	3.74	2.08	1.84	2.19	2.62	2.62	2.24
1950-80	1.42	2.61	2.95	2.58	3.84	4.79	2.73	3.30	2.62	2.56
1980-2008	0.29	0.89	0.94	4.99	0.22	-1.23	1.62	1.89	2.63	1.89

Note. For the purposes of this report, the Middle East and North Africa (MENA) region is comprised of 17 countries: Algeria, Bahrain, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, UAE, Yemen, and West Bank & Gaza.

Source: Economist Intelligence Unit.



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GDP per head

(US\$ at PPP, world average=100)

	Sub-Saharan Africa	Latin America	Eastern Europe	Developing Asia	MENA	of which:		Developed countries	Developing countries	World average
						Oil MENA	Non-oil MENA			
1950	39.4	118.9	123.3	27.6	65.6	82.2	57.6	267.3	51.7	100
1960	35.7	113.1	132.3	27.6	65.8	92.9	47.5	281.8	52.2	100
1970	32.8	107.1	139.1	25.2	72.0	121.7	44.3	311.6	50.5	100
1980	28.1	120.5	138.1	27.7	95.1	127.3	60.4	331.4	52.5	100
1990	21.9	98.4	125.4	37.5	69.4	81.1	56.5	364.1	52.6	100
2000	18.5	97.5	81.2	49.6	63.1	75.5	57.4	374.9	54.9	100
2008	18.1	91.6	106.4	64.3	60.0	75.4	56.2	332.1	64.4	100

Source: Economist Intelligence Unit.

Growth in real GDP per head

(% per year)

	1950-60	1960-70	1970-80	1980-90	1990-2000	2000-08	1950-80	1980-2008	1950-2008
Algeria	4.3	0.7	3.4	-0.7	-0.3	2.6	2.8	0.4	1.6
Bahrain	3.1	2.9	1.5	-0.7	2.1	4.8	2.5	1.9	2.2
Egypt	0.9	2.4	5.1	2.0	1.5	3.0	2.8	2.1	2.5
Iraq	7.2	2.4	6.3	-9.1	-6.8	-1.9	5.3	-6.2	-0.5
Jordan	3.4	0.3	6.5	-1.7	0.8	4.2	3.4	0.9	2.1
Kuwait	0.0	0.6	-8.0	-7.4	5.1	3.1	-2.6	-0.1	-1.4
Lebanon	-0.2	2.0	1.9	-5.8	5.8	3.4	1.2	0.8	1.1
Libya	7.9	17.4	-2.2	-8.2	-2.8	3.3	7.4	-3.1	2.2
Morocco	-0.9	2.0	3.5	1.3	0.2	3.4	1.5	1.5	1.5
Oman	4.1	15.1	0.7	4.8	0.9	2.0	6.5	2.6	4.6
Qatar	0.8	-0.1	-1.2	-12.8	3.0	7.3	-0.2	-1.8	-1.0
Saudi Arabia	5.2	7.4	5.7	-3.8	-1.6	1.2	6.1	-1.6	2.3
Syria	2.3	1.6	6.3	-1.3	2.6	1.6	3.4	0.9	2.2
Tunisia	1.9	3.1	4.9	1.3	3.2	3.7	3.3	2.6	3.0
UAE	3.6	0.9	1.2	-6.6	-0.8	2.4	1.9	-2.0	0.0
Yemen	0.6	2.5	6.4	-0.1	1.4	0.4	3.1	0.6	1.9
West Bank & Gaza	3.8	3.0	3.1	2.9	4.3	-10.2	3.3	-0.5	1.4

Source: Economist Intelligence Unit.

states of MENA saw average incomes fall over this period—a poignant example of the “natural resource curse”. After 1980 there was thus a large slippage in the ratio of MENA income per head to the world average. Better performance since 2000 cannot offset the significant regression that occurred in 1980-2000.

Drivers of growth

A comparison of growth drivers across emerging-market regions does not point to a favourable outlook for MENA—it also explains why MENA performance has been so poor in recent decades. On the

MENA compares poorly with other emerging-market regions on key growth drivers



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Comparative indicators^a

	MENA	Emerging Asia	Latin America	Eastern Europe	Sub-Saharan Africa
External debt (% of GDP)	28.1	25.0	21.1	50.1	16.8
GDP per head (US\$, PPP)	8,950	5,500	10,840	12,090	2,960
Life expectancy (years)	73.5	69.0	72.3	71.7	53.5
Mean years of schooling	5.5	4.4	6.4	8.9	4.4
Institutional quality ^b	4.8	5.7	5.0	5.4	3.4
Index of regulation ^b	5.3	6.6	5.9	6.6	5.1
World Bank ease of doing business (average rank)	92	83	95	70	139
Average tariff rate (%)	7.0	6.5	6.2	2.8	10.4
Primary exports (% of GDP)	32.0	7.2	7.7	9.5	9.6
Growth in working-age population (%) ^c	1.1	0.4	-0.7	0.6	2.4
Growth in total population (%) ^c	1.1	0.6	-0.3	0.7	2.0
Difference between growth in working-age and total population	0.0	-0.2	-0.4	-0.1	0.4

^a Data generally relate to latest available year, usually 2009 or 2010. ^b Index scale, 1 to 10; 10 = best. ^c Projected annual averages in 2010-50.

Sources: Economist Intelligence Unit; national statistics; UN population projections, World Bank; Index of Economic Freedom.

Democratisation could significantly improve the long-term growth outlook for MENA

positive side, average life expectancy (an indicator of labour quality) is higher in MENA than any other emerging-market region, and the long-term demographic outlook is relatively favourable (growth in the working-age population and growth in the working-age population relative to growth in total population). However, on most other indicators, MENA does not compare well with other emerging-market regions. In particular, institutional quality is low (only sub-Saharan Africa has a worse average rating), and average levels of schooling are poor. Despite a recent trend of liberalisation, the level of trade protection is still comparatively high and the regulatory environment is not favourable for business. Finally, the dependence on primary exports—and hence exposure to the natural resource curse (the negative impact of commodity dependence on long-term growth)—is far higher than in any other region. However, the results also indicate that there is considerable scope for accelerating long-term average growth in MENA if growth drivers that are susceptible to policy action are improved.

Democratisation and growth

There is the question of the longer-term economic consequences, to 2050, if some sort of democracy became the dominant MENA model (our scenario 3, as opposed to the baseline scenario of gridlock politics or the scenario of continued dominance of authoritarian regimes). As argued in the previous section, political change is likely to pose short-run challenges, but the question remains of whether a political transition to some sort of democracy could boost economic growth significantly over the longer term.

Long-term growth prospects could improve markedly if democratisation is associated with more rapid reform and improvement in business environments. However, a large body of empirical work has yielded inconclusive results on the relationship between democracy and growth. Part of the reason

Empirical work yields inconclusive results on the relationship between democracy and growth



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could be problems of measurement of democracy. The ambivalent empirical results may also reflect the fact that the theoretical arguments about whether democracy promotes growth are themselves ambiguous. Democracy—or, more generally, political institutions that impose checks and balances on the government—is expected to promote investment in physical and human capital. It is meant to be better at protecting property rights than authoritarian regimes. Features of democracy such as political pluralism, institutional checks and balances, and the periodic renewal of policymakers through elections protect the economy from the predatory behaviour typical of most authoritarian regimes. Autocratic regimes tend, over long periods of time, to suffer from bouts of political instability. The conflict management possibilities in countries with participatory institutions arguably lead to less growth volatility than in authoritarian states. In addition, it has been claimed that democracies fare better at adjusting policies in response to shocks. However, democracies can still succumb to “institutional sclerosis” over time as special interests organise to capture rents. Democracies also engage in redistributive politics that can have a negative impact on growth.

The payback

In the specific MENA context there might be reasons to suppose that democratisation could yield a significant growth premium, in terms of the impact on weak institutions (rule of law, corruption), increased education, scope for escaping or reducing commodity reliance and the natural resource curse, and increasing openness of economies (which are still quite closed compared with many other emerging markets, despite liberalisation in some over the past decade or so).

In the short term, to shore up support, governments will increase public spending in areas such as subsidy provision, public-sector pay, and investment in housing and education. These steps are likely to prove a burden on state finances for some years. The heavy involvement of the state, the overthrow of old economic elites in places such as Tunisia, Egypt and Libya, and the reversal of politically controversial economic liberalisation measures is likely to have a significant impact on business environments in those countries. There is likely to be considerable crowding out of the private sector and delays in investment decisions by both foreign and domestic investors.

However, in the longer term, the private sector should benefit from a more transparent and less corrupt business environment than in the past, when close connections to regime elites was a requirement for many enterprises. More open civil society, coupled with continued improvements in education, could boost innovation and entrepreneurship. If the region opens up politically, it is likely to benefit from improved market access to the EU, its main trade destination. If targeted well to areas such as education and infrastructure, loans and grants should help to boost the capabilities of these economies to create jobs for their young populace and support private-sector development.

We use our long-term growth model (with alternative assumptions on some drivers) and the standard growth accounting framework (with varying assumptions about capital investment and factor productivity growth) to yield rough scenarios. Small differences in annual growth, cumulated over a 40-year period, can have a significant impact.

Both the model and economic history suggest that, whether under our baseline scenario of only limited political change for the region or our scenario of survival of authoritarianism, average growth

Under our democratic breakthrough scenario, MENA could attain significant catch-up with world average incomes



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in GDP per head in MENA in 2010-50 would at best equal the expected global average over this period of about 3%. That means that in 2050 average income in MENA would still be about 60% of the global average, as it is today. Under our alternative scenario of democratic breakthrough, an acceleration in MENA growth by 0.5 percentage points per year, to 3.5% is possible (based on assumptions of increased education and openness, and relatively limited improvements in institutions and regulatory regimes). This would increase the ratio of MENA income per head to the world average to about 80% in 2050. An acceleration in annual average growth by 1 percentage point (based on more substantial reforms that bring MENA closer to the Asian benchmarks), to 4%, would be required to bring MENA to equality with average world GDP per head in 2050, and also roughly equal to the Asian average in 2050; this is conceivable under our democratic breakthrough scenario, but less likely.



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Key points

- At least some degree of political reform is likely across the Arab world—although there is a significant risk that the movement for democratic change is checked or reversed.
- Events in the Arab world are a reminder that autocracies have inherent structural weaknesses, and that a regime's longevity should not be confused with stability.

Conclusion: Two cheers for Arab democracy

Transition to full democracy is a drawn-out process

Five months after the Arab uprising started in Tunisia, it has become possible to glimpse the likely outcomes for the region, ranging from far-reaching transformation to authoritarian regression. Caution over the chances of democracy taking root across the region seems warranted. Even where entrenched authoritarian regimes are toppled, immediate transition to fully fledged, consolidated democracies is implausible, since democracy means more than holding elections, and requires the development of a range of supportive institutions and attitudes. Such a transformation takes a long time, and is susceptible to reversal, even in consolidated democracies. Egypt and Tunisia will be crucial test-cases for democratisation. The more successful they are in creating effective democratic systems, the greater the chance for movement elsewhere in the region. Even then, however, the challenges to political change elsewhere will remain formidable.

Our central scenario, “gridlock politics”, to which we attach a 60% probability, is that a degree of political reform will occur across the Arab world, with most countries moving from authoritarian regimes to some form of hybrid regime. We see, however, a significant risk that the movement for democratic change is checked or reversed, so that authoritarian rule remains the norm across the region. This risk underlies a 20% scenario of “survival of authoritarianism”. Finally, there is a chance, which we also rate at 20% probability, of “democratic breakthrough”, with representative democracy (albeit flawed) taking root throughout the region, as successful transitions in Egypt and Tunisia encourage change elsewhere.

In the short term, the economic consequences of the Arab Spring favour the oil-producing countries that have experienced the least instability, as events in the region have added to the risk premium in the oil price, assisting governments with fiscal expansion to help head off discontent. Elsewhere, unrest has brought serious short-term economic disruption. However, where prolonged political upheaval is avoided, we expect a relatively swift bounceback, and the setback to politically controversial economic liberalisation in the region should prove only temporary. Over the long term, the Arab Spring would only produce significant economic benefits were democracy to take root across the region. An acceleration in economic growth under this scenario would significantly narrow, and could even eliminate, the region's gap with world average incomes by 2050.



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*Tahrir Square
has become a
permanent political
landmark*

Our central scenario entails dousing some of the heady expectations vested in the Arab Spring, and our authoritarian survival scenario would produce even more profound disappointment. However, this does not mean belittling the significance of the revolutionary movement that started in Tunisia in December 2010, reached a climax in Cairo's Tahrir Square in February 2011 and continues to be felt across the region and beyond. The movement has a legitimacy that will endure, whatever the struggles and disappointments that lie ahead. This will make it harder for any Arab leader or regime to justify their continued monopolisation of power, and the resonance extends globally.

While every effort has been taken to verify the accuracy of this information, The Economist Intelligence Unit Ltd. cannot accept any responsibility or liability for reliance by any person on this report or any of the information, opinions or conclusions set out in this report.

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