Re-Evaluation of Non-Economic Hindrances in the Economic Performance of Mena Region

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Abstract: This study attempts to relate political and structural performance with the economic growth of MENA region. This region is endowed with one of the most vital natural resources i.e. oil & gas but still it lacks in its economic progress. Recently the wave of Arab Spring also caused to the slower pace of development in this region which ultimately led to retarded economic well-being of people. Factors like the level of Stateness in these nations, market competition, extent of regional co-operation and their structural barriers are used to evaluate the impact of non-economic variables on the economic growth of these nations. Time span of the study is from 2006-2015 and results are estimated using Fully Modified Least Squares (FGLS) Technique. Findings of the Model reports that except structural barriers which are measured by constraints on the management bodies to improve governance structures, all other three variables affecting positively to the economic growth of this region. However impact of Stateness is stronger than the other two factors. On the basis of these findings it can be concluded that these nations should try to reduce their. Moreover more efforts should be made to increase the level of competition in markets and interconnectedness among neighboring nations.

Keywords: Panel Data, market competition, Structure of the government, Regional development
JEL Classification: C23, D41, H11, R58

1. Introduction

In political geography, Stateness is considered an imperative tool for economic development because of the reason it defines the sovereignty of the state in implementing rules and regulations. Stateness reflects the capacity of a nation to rule out any sort of disorder within its territory and make it possible for all citizens to approach basic needs for survival. On the other side, economic development has been the ultimate objective of every political process. GDP per capita growth has been one of the main measurements for the analysis in development studies. Different factors have been explored which can cause change in GDP per capita growth of nations. Earlier economists only believed in economic dynamics

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responsible for this change but now the trend seems getting changed and institutional and political factors are considered more imperative parameters in this regard. Institutional and political factors like stateness, regional cooperation, structural constraint, Socio economic barriers are observed more important players in changing the fate of nations. Stateness is the institutional centrality of the state. It varied in important ways among ~~nations, and that institutions and political behavior could be understood~~ only if the state were brought back into the center of political analysis. (Evans, 1997).

This research studies the role of such factors for the first time for MENA region. The intuition behind it is this that this region is passing through the political transformation after the Arab Spring 2011. This is the reason that there exists economic and financial uncertainty to large extent. On the other side it is believed by the analysts that this region has great potentials and very much diversified both in terms of labor resources and Hydrocarbon Resources. Moreover political geographers are considering this wave of political shift as a positive step towards increased competitiveness and building more transparent and accountable institutions. Because earlier this region has been prone to 'one dictator-one policy' issue without focusing on consensus building among all interest groups in the society and ignoring the common interests of masses. This current wave of change has at least opened up new window for investors in the long run with this confidence that institutions are turning into more democratic side as compared to earlier times. However in short run these nations are in transitionary phase and less stable as before or being expected in future. Keeping in view these both sides of the picture, this study has tried to explore the link between such political transformational factors and economic progress of this region and aiming to evaluate that how much this wave of democracy is helping these nations to make the maximum use of their potential resources in the right direction.

At present times, the important socio-economic challenges which this region is facing are high levels of unemployment[1], heightened corruption with less transparency, commodity price volatility due to increased fuel and

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[1] In many countries like Morocco, Egypt and Tunesia this rate has touched to the peak of 10% over the last decade.

food imports, more dependence on state-owned enterprises and less focus on private sector. It has been observed that the major cause of this acute problem of unemployment is the market rigidities in this area. Restrictive natured system in terms of labor regulations has kept the business activities quite slow in this region and estimates suggests that to bring economic revolution in the societies these nations have to double their job capacity in the next coming ten years. This region is divided in two categories by World agencies i.e. resource-rich and resource-poor nations and the situation differs for both types of these nations. It is expected that more for resource-poor nations the effects of such transformational factors will be more negative and severe as compared to resource-rich nations. Moreover it is also anticipated that many of the resource-rich nations will be observing positive effects as well like Qatar, Kuwait, Morocco and Saudi Arabia. Hence all this diversified experience of the same event i.e. Arab Spring in the same region has become an attraction for the researchers to foresee and try to evaluate the exact impact of such democratic reforms on the economic well-being and prosperity of these nations.

2. Literature Review

Boh (1962) found regional cooperation as an imperative indicator for trade development which causes overall improvement in economic progress of nation. Intra-regional trade among the Asian Countries has promoted the intra-regional market. For expansion of intra-regional market, regional trade agreements are observed very important tool in history. Regional cooperation is needed not only to expand the trade but also for nourishing the industries. Regional cooperation has caused the development in Asian countries Cambodia and South Vietnam imposed low tariff to those countries from which they have trade agreement.

Dash (1996) observed in a case study of Indian economy from the perspective of regional agreement SAPTA that each South Asian economy reduced its tariff rate on various items just to increase the market space of each country and to enhance the political confidence among South Asian countries. Due to the excess and misuse of natural resources, south Asian countries have to face the degradation of natural resources and economic pollution. By this regional integration, the use of natural resources has also

become efficient and reduced the risk of health in people.

De Melo & Tsikata (2015) explained that at present times, regional integration is one of the way to increase influential political power in trade. This has been helpful in increasing the participation of developing nations in world markets. It is due to this ideology of 'connectivity' that now the ~~world is observing North-South trade instead South-South. Author claimed~~ that PTA's create a sound ground for good politics. This is the reason that now the focus is not only on commodity market integration but also on fiscal and monetary policy areas. The author concluded that political motives, distribution of gains and geography are the imperative factors playing their role in connecting regions with each other and this ultimately leads to increased size of the economy in terms of high economic growth.

Jensen (2016) and Matusik (2016) proved that competition in markets surge economic growth through improved aggregate productivity and capital accumulation. This enhanced economic growth then makes possible for new producers to enter into the markets which leads to more competition in reaction. The authors evaluated that this competition leads towards inclusivity and society gets more connected in production processes.

No such empirical study is available which is focusing on the direct relationship of structural constraints, stateness with economic growth. However few studies are present discussing the impact of structural transformation on economic growth of nations and similarly in case of impact of stateness on democracy not on economic progress. But the theories suggest that it is the state which acts as a key institutional player both in protecting or suppressing the political liberties in a society (Holmes 1995).

3. Hypotheses

On the basis of the review of past literature, this study formed four hypotheses for evaluating the impact of non-economic factors on the economic development of MENA region. These are:

H_1: There exists significant relationship between stateness and economic growth.

H_2: Regional cooperation significantly enhances economic growth.

H_3: More competition in market leads to significantly increased more economic growth.

H_4: Structural constraints restrict economic growth.

4. The Model

Pooled Ordinary Least Square (OLS) method has been used to find the relationship between desired variables, however the post estimation tests showed the presence of hetreoskadasticity and autocorrelation in the model. For hetreoskadasticity and autocorrelation, Breusch-Pegan and Wooldridge tests have been applied respectively. Nevertheless to remove these two problem, fixed effect model has been applied but still these two issues remained there along with the occurrence of contemporary cross correlation in the data. For checking cross panel correlation, Pesaran Test was being applied. These postestimations again nullified the choice of the model i.e. Fixed Effect Model and diverted towards more refined estimation technique which is being suggested by experts to deal with these three problems simultaneously. Now the proposed model in this situation is Fully Generalized Least Square (FGLS) which handles with these three problems very much sophisticatedly in its estimation procedure. STATA software is used for the estimation of models. The study is being conducted for MENA region which is characterized by many features. However the most notable defining features of MENA region are their resource availability and the size of their native population. Here in this study the segmentation has been done on the basis resources like oil and gas reserves and the time span of the data set is from 2006-15. Those nations exporting oil and gas and large number of expatriate residents are considered as Resource-Rich nation and nations importing and small producers of these two resources are reported as Resource-Poor nations (World Bank, 2014). Hence the following model is designed for the present study:

GDP per capita growth (GDP) = f (Stateness (S), Structural Constraint (SC), Regional cooperation (RC),

Market Competition (MC), Resources (R))
Model Specification:

$$GDP_{i,t} = \alpha + \beta_1 \, S_{i,t} + \beta_2 \, SC_{i,t} + \beta_3 \, RC_{i,t} + \beta_4 \, MC_{i,t} + \beta_5 Res_{i,t} + \mu_{i,t}$$

Here, α, β's, are the coefficient of the equation and μ is residual "i" and "t" represents number of cross sections (N) and time period (T).

4.1 Variable and Data Sources

This section contains information about the variables and their data sources.

Variable	Definition	Data Source
GDP per capita growth	"GDP per capita is gross domestic product divided by midyear population. GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products."	World Bank (2015)
Stateness	Stateness refer that there is clarity about the nation's existence as a state with adequately established and differentiated power structures or the institutional centrality of the state. It is divided into following parts: 1. Monopoly on the use of force 2. State identity 3. No interference of religious dogmas 4. Existence of basic administration structure The Scale ranges from 1-10 points. 1 showing adequately established and differentiated power structures has weak influenced on the nation's	Transformation Index of the Bertelsmann Stiftung (2015)

	existences as a state and 10 depicting that adequately established and differentiated power structures has strong influenced on the nation's existences as a state.	
Structural constraint	Structural constraint refer that structural difficulties constrain the political leadership's governance capacity. Structural constraint limited the management performance. Due to the structural constraint, political leaderships do not find the actual result of their actions. Scale of ranking is again 1-10 where 1 point is showing low structural constraints on governance and 10 reports high structural constraint on governance.	Transformation Index of the Bertelsmann Stiftung (2015)
Regional cooperation	Regional cooperation refers that how much political leadership is willing and able to cooperate with their neighborhood countries. Political leaderships want regional cooperation to develop good relation with their neighbor countries, to cooperate with their neighbor countries in national and regional organization and to support the international and regional cooperation for the sustainable growth and development. Again the ranking of the scale is from 1-10 points. 1 point showing that the political leadership of that state is uncooperative with their neighbors, international and regional integration and 10 shows that the	Transformation Index of the Bertelsmann Stiftung (2015)

	political leadership of the state has largely expended its international relation, cooperation with their neighbors and regional integration.	
Market Competition	Market competition is related to freedom of launching business, no discrimination on the basis of ownership in between private, public, local or foreign enterprises and on size of the business. The scale is covering 1-10 units, 1 referring to less market competition, showing week institutional frameworks and heavy adhoc based State based intervention. It also shows the existence of large informal sector. 10 on the other side shows small size of informal sector and large extent of market competition.	Transformation Index of the Bertelsmann Stiftung (2015)
Resources	A dummy Variable showing '1' for resource-rich nation and '0' for resource-poor nation.	World Bank (2015)

5. Results and Interpretation

In this section the results of estimated models are presented. Starting from Pooled OLS and ending up at the final model FGLS has shown the role of Stateness has been dominating in all three Models. Its effect has been seen positive and highly significant for this region showing that here power structures are clearly defined and administrative setup does not allow the interference of conflicted sources into the ruling mechanism of these nations. For other three variables, the effect has been observed significantly positive except for structural barriers.

Table 1: Results of whole Panel

Variable	Pooled OLS	FE	FLGS

Stateness (S)	1.0187 (0.4790, 0.8960)	0.9934 (.5675, 0.154)	1.1253*** (0.0201,0.000)
Structural Barriers (SB)	-0.4198* (.8639, -0.0675)	-0.0067 (.0567, -0.730)	-0.4345*** (0.0061,0.000)
Cooperation (RC)	0.6328 (.4325,0.756)	0.6568 (.0479, 0.974)	0.6429*** (0.0007,0.000)
Market Competition (MC)	0.2875 (.1538, 0.2397)	0.0198 (.0087, 0.671)	0.3342 (0.0342, 0.000)
Resources	2.0986* (2.5123, 0.091)	2.2454* (2.4495, 0.083)	2.3634* (1.3990, 0.0931)
Controls	Yes	yes	yes
Constant	5.0563** (.9643, 0.0261)	3.0198* (.0345, 0.090)	6.3109*** (0.0078, 0.0000)
R-Square	0.52		
Post estimations			
Wooldridge test	41567.436 (0.000)		No Autocorrelation
White Test	470.37 (0.000)	Modified Wald Test 7.2e+05 (0.000)	No Heteroscadicity
Cross sectional	7.687 (0.000)		No Panel Correlation
Breusch-Pagan LM	6789.45 (0.000)	Hausman Test (56.98, 0.0000)	

***, **, * shows level of significance at 1%, 5%, 10% respectively. controls include population, inflation, exports.

These results confirm the hypotheses of the study that structural barriers restrict economic growth because due to these constraints political governance in nations gets affected. Positive impact of regional cooperation

on growth is also in line with theory as it opens up more opportunities for the nationals of nations to participate in economic activities. Same has been found in case of this region. Similarly market competition is showing positive effect on economic growth in these nations as well confirming that competition is healthy for better economic performance. However out of all positively affected non-economic factors, the role of State sovereignty and regional cooperation seem to be more imperative in improving the economic well-being of these nation. The variable labeled resources is also showing a positive effect for these nations concluding that the resource rich nations are having better performance as compared to resource poor.

5.1 Model Estimation for Resource-Rich Nations

Now in this section the same Model has been estimated separately for two categories of MENA region i.e. Resource-rich and Resource-poor nations. The purpose is to see the robustness of the Model estimates in both cases individually. The Equation 1 shows that signs of estimates remained same for all variables in case of Resource-Rich nations as well however the positive impact of Stateness is found stronger as compared to the negative effect of other variables. Moreover the study has tried to explore individual cross sectional and Period effects for each nation as well.

$$\text{GDPP }_{(rich)} = -15.2730 + 5.1185*S - 0.6098*SB - 2.1720*RC - 0.2368*MC + \mu t$$
$$\text{R-square} = 0.30 \quad \text{D.W} = 2.35$$

Table 2: Results for Resource-Rich Nations

Cross sectional Fixed Effects (Resource rich nations)		Period Fixed Effects	
Algeria	-4.3712	2006	-0.6753
Bahrain	-1.9139	2007	-0.4538
Iraq	13.5837	2008	0.3129
Kuwait	-3.7093	2009	-3.6126
Libya	-4.4224	2010	-2.0442
Oman	-5.2610	2011	-6.2637
Qatar	2.2967	2012	7.5485

Saudi Arabia	7.4608	2013	3.2811
Syria	-4.6251	2014	0.9584
Turkey	-0.9502	2015	0.2732
United Arab Emirates	-6.9451		
Yemen	7.9414		

The Table shows the average impact of all these institutional factors in economic progress of nations. Except for the nations like Qatar, Saudi Arabia and Yemen, all others are showing negative effect of such factors in economic growth of these nations.

5.2 Model Estimation for Resource-Rich Nations

Here the same process has been done for Resource-Poor nations and again results are same for all variables except for Stateness. The reason is that the nations included in this panel are mostly closed economies and prone to the external influence. However the value of R-Square shows that the as compared to resource-rich nations, in resource-poor economies these factors are explaining economic growth more i.e. 52%. This indicates that if such institutional inefficiencies are removed from their economic systems then the pace of economic growth can be increased easily.

$$GDPP_{(poor)} = -5.47525 - 0.31209*S - 3.2476*SB - 0.3616*RC - 0.0818*MC + \mu_t$$
$$R\text{-square} = 0.53, D.W = 2.81$$

Table 3: Results for Resource-Poor Nations

Cross sectional Fixed Effects (Resource poor nations)		Period Fixed Effects	
Lebanon	-3.1548	2006	-1.3209
Tunisia	-2.3725	2007	3.5219
Sudan	4.9007	2008	1.1392
Morocco	2.2488	2009	-0.2175
Jordan	-1.4749	2010	0.8108

Egypt	2.4694	2011	-0.1496
Iran	-2.6166	2012	-1.1919
		2013	-1.7846
		2014	-1.0396
		2015	-1.0885

From the Table 3 separate cross sectional and period effects can be realized for resource poor nations. From estimates it is clear that except for Egypt, Sudan and Morocco, for all other nations the impact of these non-economic factors is negative in their economies. This shows that these economies are suffering from poor governance structures which are becoming a constant treason of their poor performance. This can also be observed from period effects as well starting from 2006-2015

6.   Conclusion and Policy recommendations

This study tried to analyze the role of non-economic factors on the economic performance of an emerging region MENA which is endowed with oil and gas reserves of the nature. But despite having these resources still these nations lack economic pace of growth. What can be the reasons behind this, it has been tried to find in the present study. Various non-economic variables have been extracted to examine their effectiveness in measuring the economic progress of these nations. Out of those the impact of Stateness which means the legitimacy of state actors in these nations has highly significant and positive effect in MENA region. Similarly the regional ties with each other in the region are also contributing positively in the economic growth of these nations. Role of market competition is also being observed positive which confirms the theories regarding the role of market structure in economics. However the impact of structural barriers is found negative and significant proving that in these economies governance is not proper and it is the outcome of their closed nature of economic structures. On the basis of these results here are few recommendations:

- These nations should try to remove institutional constraints so that the economic forces can play freely.

- Markets should be made more competitive so that more participation could be seen in the economic spheres.
- Regional ties should be focused more because such relation building opens new market for internal local producers and gives nations recognition in region.

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ei.pdf.

APPENDIX

Countries included in panel from MENA Region	Resource-rich	Resource-poor
Algeria	Algeria	Egypt
Bahrain	Iraq	Jordan
Egypt	Syria	Lebnon
Iran	Yemen	Tunesia
Iraq	Behrain	
Jordan	Kuwait	
Kuwait	Oman	
Libya	Qatar	
Morocco	Saudi Arabia	
Oman	United Arab Emirates	
Qatar	Libya	
Saudi Arabia	Turkey	
Sudan		
Syria		
Tunisia		
Turkey		
United Arab Emirates		
Yemen		

STATENESS IN RESOURCE RICH-NATIONS
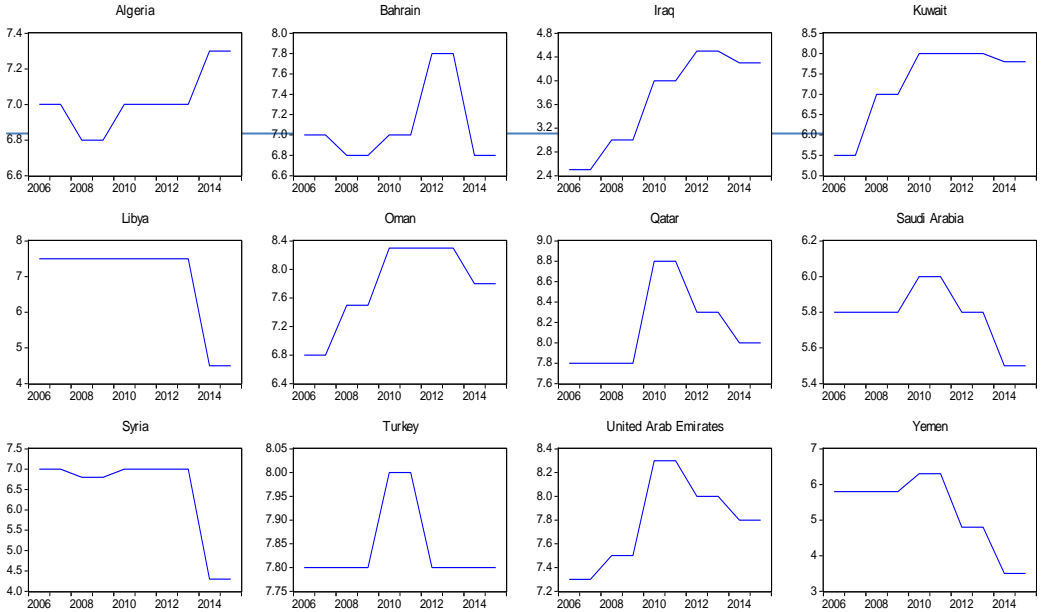
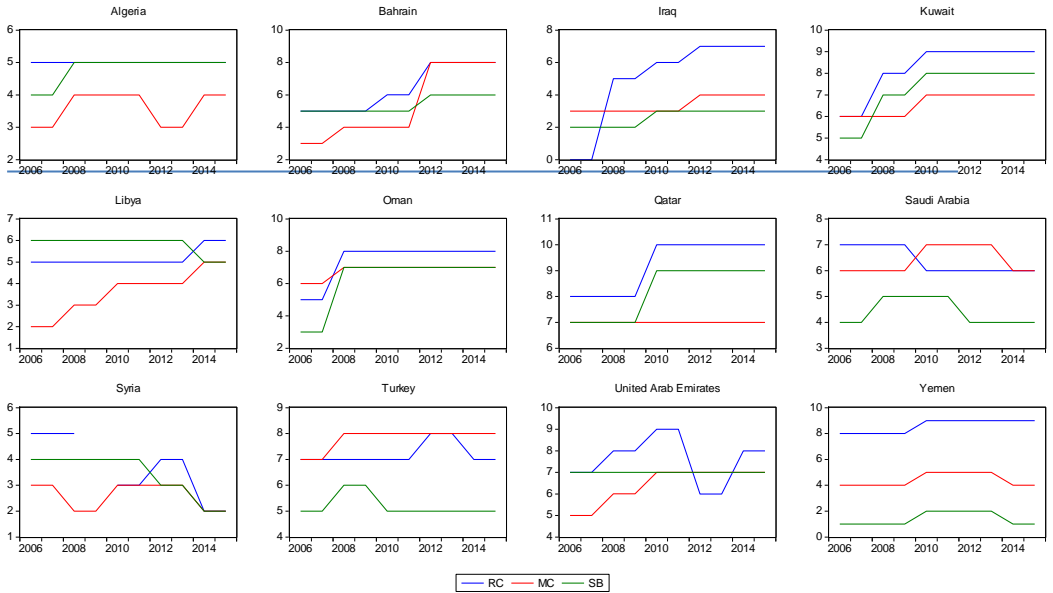# STATENESS IN RESOURCE POOR-NATIONS

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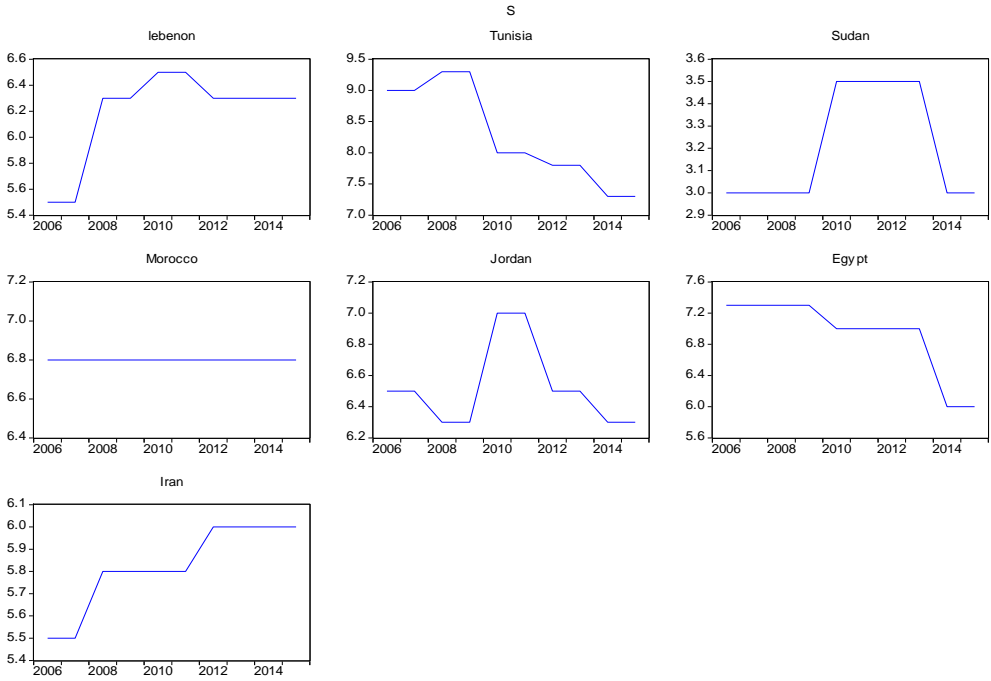
RESOURCE RICH MENA NATIONS

RESOURCE POOR MENA NATIONS