Sultan Qaboos University
Journal of Arts & Social Sciences

جامعة السلطان قابوس
مجلة الآداب والعلوم الاجتماعية

Does Political Regime Matter in Assessing the Impact of Political Stability on Economic Performance across MENA Region?

Nayef AlShammari

Associate Professor
Economics Department
College of Business Administration
Kuwait University
nayef.alshammari@ku.edu.kw

Reyadh Faras

Assistant Professor
Economics Department
College of Business Administration
Kuwait University
reyadh.faras@ku.edu.kw

Date received: 08/10/2020
Date of acceptance: 13/02/2021

Does Political Regime Matter in Assessing the Impact of Political Stability on Economic Performance across MENA Region?

Nayef AlShammari and Reyadh Faras

Abstract

This paper examines the influence of political stability on economic performance across different political regimes in the Middle East and North Africa (MENA) region. The study uses panel data of MENA sample countries from 1996 to 2018. The pooled OLS, fixed effects, random effects, and Hausman techniques are used to examine the estimated model. The study contributes to the political economy by discriminating the influence of different political regimes across MENA: republics, monarchies, and semi-democracies. The main findings show that when accounting for political regime types across MENA, the political stability of both republic regimes and monarchy regimes positively affects their economic performance. However, the impact tends to be negative for countries under semi-democratic regimes, as these countries suffer from a high level of political instability. Using other institutional indicators, semi-democratic regimes, as expected, outperformed the other political regimes. These results are consistent with the literature on the importance of democracy as a driver for economic enhancement.

Keywords: Political Regime; Political Stability; Economic Performance; Democracy; MENA.

هل النظام السياسي مهم في تقييم تأثير الاستقرار السياسي على الأداء الاقتصادي في منطقة الشرق الأوسط وشمال إفريقيا؟

نايف نزال الشمري، ورياض يوسف فرس

الملخص:

تتناول هذه الورقة تأثير الاستقرار السياسي على الأداء الاقتصادي في منطقة الشرق الأوسط وشمال أفريقيا اخذاً بالاعتبار الأنظمة السياسية المختلفة في هذه المنطقة. هذا وتستخدم الدراسة بيانات لعينة من دول الشرق الأوسط وشمال أفريقيا خلال الفترة من عام ١٩٩٦ إلى عام ٢٠١٨، وذلك باستخدام منهجية المربعات الصغرى المجمعة Panel OLS، والآثار الثابتة، والآثار العشوائية. هذا وتساهم الدراسة في مجال الاقتصاد السياسي من خلال التمييز بين تأثير الأنظمة السياسية المختلفة في جميع أنحاء منطقة الشرق الأوسط وشمال أفريقيا: الجمهوريات والملكيات وشبه الديمقراطيات. وتظهر النتائج الرئيسية أن الاستقرار السياسي لكل من أنظمة الجمهوريات والأنظمة الملكية في المنطقة يؤثر بشكل إيجابي على أدائها الاقتصادي. غير أن الأثر يميل إلى أن يكون سلبيا بالنسبة للبلدان التي تخضع لأنظمة شبه ديمقراطية، لأن هذه البلدان تعاني من مستوى عال من عدم الاستقرار السياسي. هذا وباستخدام مؤشرات مؤسسية أخرى، تفوقت الأنظمة شبه الديمقراطية، كما هو متوقع، على الأنظمة السياسية الأخرى. وتتسق هذه النتائج مع الأدبيات المتعلقة بأهمية الديمقراطية كمحرك لتعزيز الاقتصاد.

الكلمات المفتاحية: النظام السياسي، الاستقرار السياسي، الاداء الاقتصادي، الديمقراطية، منطقة الشرق الاوسط وشمال افريقيا.

Introduction

The interaction between political regimes and economic performance has been a debatable issue for a long time, with different channels through which one affects the other. However, most of the empirical work has been centered on measuring the size and direction of causality between democracy and economic performance (e.g. Przeworski, 1991; Olson, 1993; Przeworski and Limongi, 1993; Haggard and Kaufman, 1995, Barro, 1996; Carruthers and Ariovich, 2004, Boix, 2011). As far as the role institutions should play in the implementation of policies to better enhance economic performance, countries under different political regimes might experience different capacities with respect to the effects of institutions on economic performance.

Political regimes influence economic performance through a number of channels, of which the most important channel is investment. Investment has a direct impact on economic growth, which in turn depends on investors' assessment of the political economy. No less important is the quality of the business environment and the protection of property rights, both of which depend on the quality of government through the existence of strong institutions and policy provisions that promote growth. In addition, and perhaps most importantly, political stability constitutes an essential pillar that preserves economic agents' long-term confidence in the economy. Yet another important channel is the existence of checks and balances in the political system that constrain the ruler from undertaking undesirable policies. Clearly, the more efficient and transparent these channels, the bigger their impact on the economy.

As shown in Figure (1), the number of republic states (both presidential and parliamentary) in the world outnumbered monarchic states during the twentieth century, in contrast to the situation during the nineteenth century. Choosing the Middle East and North Africa (MENA) region to study this relationship is important for a number of reasons. First, the region is relatively homogeneous politically, culturally, and economically. Second, the region has the most monarchies (eight, around one-third of the region's states), which is a reflection of the strength of cultural and tribal factors. Third, political regimes in the region are relatively homogenous in their democratic stance and are generally classified as either authoritarian or, at best, semi-democratic. MENA's monarchies, unlike European constitutional monarchies, are autocratic monarchies in which "a state is ruled by a single absolute hereditary ruler" (Bogdanor, 1995, 1). The same is true of the region's republics, which are less democratic (i.e., one party, military, or partially absolutist), with few exceptions (i.e., semi-democratic multiparty parliamentary systems). Finally, the MENA region represents an interesting case study in that in addition to having a high share of monarchies, it also witnessed the conversion of six monarchies into republics in the second half of the twentieth century (Egypt, Iraq, Tunisia, Yemen, Libya, and Iran). More interestingly, the five revolutions that occurred in the region in 2011, known as the Arab Spring, took place in republics only, while monarchic and semi-democratic states remained relatively stable. Some studies attribute the stability of Arab monarchic states to two main factors: the creation of informal power/rents-sharing mechanisms, and the subjecting of rulers' decisions to monitoring by the elite (Herb, 1999; Magaloni, 2008).

Accordingly, this study investigates the relation between the three prevailing political regimes in MENA region—namely, semi-democracies, monarchies, and republics (with the latter two having received less attention in the literature (Guillen, 2018). Therefore, the paper contributes to the literature by giving a holistic view at the economic performance issue by examining the role of institutional strength in light of different political regimes. Moreover, the study fills in the gap in the MENA region which received little attention in the literature despite its highly diversified political regimes and economic systems. Accordingly, the study uses a sample of 21 countries across MENA over the period from 1996 to 2018 to capture the effect of different MENA political regimes.

The rest of this paper is organized as follows. Section II contains a survey of previous studies. Section III explains the model specification and the methodology. The data description is explained in Section IV. The empirical analysis is presented in Section V. The conclusion and policy implications are provided in Section VI.

Literature Review

The idea that institutions exert an impact on economic performance is not new. Many papers have investigated the effect of good governance on economic performance. However, distinctions according to political type have thus far not been well addressed in the literature in the case of MENA. In response, this paper focuses on the impact of

different political regimes on economic performance in the MENA region. This is done by considering the main determinants influencing per capita GDP.

As a starting point, we agree with Steinberg et al. (2015) that a country's vulnerability to financial crises depends on its economics as well as its politics; we also concur with the statement made by a former governor of India's central bank that "good economics cannot be divorced from good politics" (Rajan, 2010, p.19). These statements demonstrate that economists need to look at economic issues from both economic and political lenses, as ignoring politics may result in reaching invalid conclusions, which could in turn lead to advocating misleading economic policies.

This recognition of the co-existence of economics and politics has generated rich research literature by economists, political scientists, and, to some degree, sociologists, all of whom seek to unpack the strong relations between economics and politics. A significant portion of the literature has been devoted to distinguishing between the two main types of political systems: democratic and authoritarian. While democratic systems are more coherent in terms of factors such as the existence of strong institutions, checks and balances (North and Weingast, 1989), transparency (Broz, 2002; Hollyer et al., 2011; Leblang & Satyanath, 2006), and the smooth transfer of power, authoritarian systems, on the contrary, encompass wider differences among themselves with respect to these factors as much as they differ from democratic systems (Geddes, 1999). Authoritarian systems are commonly classified under three main categories: military, single-party, and monarchies. For the sake of simplicity as well as practicality, we will combine military and single-party regimes as republics.

The political and economic literature has investigated the impact of political regimes (i.e., monarchies vs republics) in authoritarian states on a number of political and economic indicators. Most of the empirical evidence seems to support the idea that monarchies outperform republics.

One of the most comprehensive studies on this issue was conducted by Victor Menlado and detailed in his paper, "The Middle East and North Africa's Resilient Monarchs," in which he showed that "monarchs are less likely than non-monarchs to experience political instability, a result that holds across several measures. They are also more likely to respect the rule of law and property rights and grow their economies" (Menlado, 2012, 707). Menlado argued that the region's monarchs are able to deter political unrest by utilizing different tools at their disposal, including "constitutions, formal political institutions, Islamic principles, and informal norms," adding that they "promoted cohesion among regime insiders, such as ruling families and other political elites, and bolstered their stake in the regime" (Menaldo, 2012, p.709). Clearly, such tools are not available to the rulers of republics.

Another interesting study by Knutsen and Fjelde (2012) investigated whether dictatorships differ systematically in protecting property rights using data from 122 non-democratic countries. Their results showed that "monarchic autocracies protect property rights relatively well compared to other types of dictatorships, and even when compared to democracies," adding that "rulers with relatively long time horizons on the part of their dynasty, reducing incentives to expropriate property for short-term gain" (Knutsen and Fjelde, 2012, p.1). Recently, (Guillen, 2018, p.637), using data from 137 countries, also reached the same conclusion with respect to better protection of property rights in monarchies, which in turn "translate into higher GDP per capita".

(Steinberg et al., 2015) examined the relationship between political regime type and currency crises in 178 countries. They found that "the risk of currency crisis is substantially lower in monarchies than in democracies and other types of dictatorship." Moreover, they indicated that "the adoption of prudent financial policies largely account for this robust negative association between monarchies and the probability of currency crises" (Steinberg et al., 2015, p.337).

In looking at the issue from a political angle, Wright (2008) explored the relationship between legislatures and growth in 121 authoritarian countries and found that regimes, which are less dependent on natural resources, create legislatures that constrain the regime's confiscatory behavior. In turn, the binding legislatures (in military and single-party regimes) have a positive impact on economic growth and domestic investment, while nonbinding legislatures (in authoritarian and monarchies) have a negative impact on economic growth.

Yet, Pinho and Madaleno (2009) investigated whether the determinants of economic growth are sensitive to political regimes. They found that once fixed effects are considered, the positive relationship between income per capita and political regimes, measured by the democracy variables, disappears. They concluded that the results point out reasons to suspect that

there is a strong causal effect of political regimes on income when the initial GDP level per capita is used as an exogenous regressor.

Finally, a recent study Saha and Sen (2020) re-examined the corruption-growth relationship using panel data over 100 countries for the period 1984–2016. They found a clear evidence that corruption–growth relationship differs according to political regime, and the growth-enhancing effect of corruption is more likely in autocracies than in democracies. Moreover, they found that democracy is not good for growth when corruption level is high.

Overall, the empirical evidence seems to support the fact that monarchies have a more favorable impact on economic performance either directly (i.e., higher growth and investment) or indirectly (i.e., better political stability and protection of property rights).

Methodology and Model Specification

The dynamic changes in development processes are affected by the availability of different resources and political regime structures in the MENA region. As the state's capacity and institutions play important roles in the implementation of policies that enhance economic growth (Cammett, 2018), the analysis of political economies and institutions differentiates MENA countries according to different existing political regimes.

Different countries require different sets of institutions to promote better long-term economic growth. In addition, the relationship between economic performance and political stability is important for promoting such sustained long-term growth. Researchers investigating which of the World Governance Indicators under consideration contributed the most toward economic development showed that political stability, one of the different dimensions of good governance or institutional quality, contributes greatly to economic growth (i.e., Zubair & Khan, 2014; Kraipornsak, 2018).

In focusing on the MENA region, it can be noticed that there are three main political regimes: republic regimes, monarchy regimes, and semi-democratic regimes. The republic political regime consists of standard republic countries and Islamic republic countries. Standard republic regimes include the countries of Algeria, Egypt, Ethiopia, Iraq, Libya, Syria, Tunisia, and Yemen. Islamic republic regimes include the countries of Iran, Sudan, and Mauritania. The second political regime is the monarchy regime, which includes countries that are part of the Gulf Cooperation Council (GCC): Jordan and Morocco. The third form of political regime is the semi-democratic regime, which comprises Lebanon, Turkey, and Israel.

Indicators obtained from Polity IV are the most commonly used to represent different good governance settings of institutions, which are themselves obtained from the Worldwide Governance Indicators 2018. The first indicator used is the "Political Stability" index, which controls for the political stability of a country as well as the presence of violence. The second indicator is "Control of Corruption," which measures efforts by governments to track different types of corruption in their countries. The third index is "Government Effectiveness," which assesses the degree of quality of different public and civil service entities. The last index is the "Rule of Law," which represents the government's ability to implement regulations that enhance the working environment for the private sector in the country.

This study investigates the impact of political stability on economic performance across the MENA region by considering the role played by existing political regimes. The data cover 21 MENA countries throughout the 1996 to 2018 period. According to previous studies as well as this paper, the economic performance variable can be captured by per capita GDP. Explanatory variables, on the other hand, capture aspects such as inflation, oil rent, Foreign Direct Investment (FDI), investment spending, and the political stability index.

The study uses a panel approach to control for unobserved time-invariant indicators (Baltagi, 1995). The estimated model is implemented using the panel approach of pooled OLS, fixed effects, and random effects. The Hausman test is also used to determine an appropriate estimated model. The estimated model closely follows the work of Docquier (2014) and Kaufmann et al. (2002). The semi-logarithm model is used at which parameters can be interpreted carefully within this context. The estimated benchmark model is specified in a logarithm form as follows:

$$\log(\text{Per Capita GDP})_{it} = \alpha + \beta_1 \log(\text{Inflation})_{it} + \beta_2 \log(\text{Oil Rent})_{it} + \beta_3 \log(\text{FDI})_{it} + \beta_4 \log(\text{Investment})_{it} + \beta_5(\text{Political Stability})_{it} + \varepsilon \quad (1)$$

Where the dependent variable is the log value of per capita GDP for country (i) at time (t). For the control variables, inflation is measured by the percentage change of the consumer price index. The variable of

oil rent measures the revenue from oil as a percentage of GDP. The FDI variable is measured by the net inflow of FDI. The investment variable is captured through the spending of investment as measured by the gross fixed capital formation. The political stability index measures the degree of political stability in the country. The variable (ε) indicates the error correction term.

The expected effects of the control variables on the dependent variables are drawn from previous studies. For the inflation variable, it was expected to affect per capita GDP negatively, as higher prices lead to lower purchasing power and thus to lower per capita GDP (i.e., López-Villavicencio & Mignon, 2011; Chisti, Ali, & Sangmi, 2015). Although the inflation variable holds some few negative values, the logarithm of it was taken as it is preferable because of the country sample's inclusion with high inflation rates. As such this would decrease the probability of heteroskedasticity of residuals (Cottarelli, Griffiths, & Moghadam,1998). The variable for oil rent was expected to affect the per capita GDP positively, as higher revenue would generate higher wealth and thus a higher per capita GDP (i.e., Mehrara, 2008; Olayungbo & Adediran, 2017). The FDI variable was expected to positively affect the dependent variable, as higher FDI leads to more job opportunities, which may in turn lead to improvements in per capita GDP (i.e., Makki and Somwaru, 2004; Falki, 2009; Su & Liu, 2016). For the investment spending variable, it was expected to affect per capita GDP positively (i.e., Odedokun, 1997; Ramirez & Nazmi, 2003; Alshammari et al., 2019). As for the variable of interest, the political stability variable was expected to positively affect economic activities (i.e., Alesina et al., 1996).

Concerning the importance of distinguishing among different political regimes across MENA, interaction terms are used to capture the effect of political stability on per capita GDP across the different political regimes in MENA countries. These political regimes are republic regime, monarchy regime, and semi-democratic regime. The estimated models thus take the following forms:

$$\log(\text{Per Capita GDP})_{it} = \alpha + \beta_1 \log(\text{Inflation})_{it} + \beta_2 \log(\text{Oil Rent})_{it} + \beta_3 \log(\text{FDI})_{it} + \beta_4 \log(\text{Investment})_{it} + \beta_5 (\text{Political Stability} * \text{Republic Regime Dummy})_{it} + \varepsilon \quad (2)$$

$$\log(\text{Per Capita GDP})_{it} = \alpha + \beta_1 \log(\text{Inflation})_{it} + \beta_2 \log(\text{Oil Rent})_{it} + \beta_3 \log(\text{FDI})_{it} + \beta_4 \log(\text{Investment})_{it} + \beta_5 (\text{Political Stability} * \text{Monarchy Regime Dummy})_{it} + \varepsilon \quad (3)$$

$$\log(\text{Per Capita GDP})_{it} = \alpha + \beta_1 \log(\text{Inflation})_{it} + \beta_2 \log(\text{Oil Rent})_{it} + \beta_3 \log(\text{FDI})_{it} + \beta_4 \log(\text{Investment})_{it} + \beta_5 (\text{Political Stability} * \text{Semi Democratic Regime Dummy})_{it} + \varepsilon \quad (4)$$

Where the republic regime dummy variable takes the value of one if the country belongs to a republic political regime and zero otherwise. The monarchy regime dummy variable takes the value of one if the country belongs to a monarchy political regime and zero otherwise. Finally, the semi-democratic regime dummy variable takes the value of one if the country has a semi-democratic political regime and zero otherwise.

In a further investigation for comparative purposes, the study also estimates the benchmark estimated model to include interaction terms for institutional specifications other than political stability. Three sets of variables are included to account for the quality of institution indicators. The first set of regressions includes the factor of control of corruption and positions it to interact with the political regime type (i.e., republic, monarchy, and semi-democracy). The second set of regressions uses the factor of government effectiveness and also positions it to interact with the three indicated political regime types. The last set of regressions includes the rule of law factor, which again is positioned to interact with the three indicated political regime types.

Data Description

The data sample was drawn from 21 MENA countries based on data availability. The examination period covers the span from 1996 to 2018. The country list is provided in Table (2) of Appendix (A). A data summary of all the variables used is provided in Table (3) of Appendix (A). The data for the dependent and independent variables were obtained from the World Bank database.

The dependent variable, per capita GDP, was measured in constant US dollars. Inflation was measured using the percentage change in the consumer price index. Investment spending was measured as the gross fixed capital formation in constant US dollars. Oil rent was measured as the revenue from oil. The data of oil rent variable cover all countries with exception of Ethiopia and Lebanon. FDI was measured as the net inflow of FDI as a percentage of GDP.

The political stability index covered perceptions of political turbulence, violence, as well as any terrorist activities in the country. The index, which is in units, was measured by standard normal distribution. For

the other institution factors, the control of corruption covered perceptions of different forms of corruption, such as petty corruption and lobbying by elites and private interests. The index ranges from -2.5 to 2.5, with a higher value indicating a better index. The index of government effectiveness measures the quality and commitment of different public services as well as the implementation of effective policy. The value of the index ranges from -2.5 as a weak index to 2.5 as a strong index. The rule of law index measures the extent to which a country follows and respects in practice the rule of law. The value of the rule of law index ranges from -2.5 as a weak index to 2.5 as a strong index.

Empirical Results

The main findings of this study show that the political stability of MENA countries with republic or monarchy political regimes promote better per capita GDP. In contrast, MENA countries under semi-democratic regimes experience lower per capita GDP. However, when using different institutional indicators instead of the "political stability" index, the results vary across the different political regimes adopted in the MENA region.

In Table (3) of Appendix (A), the multicollinearity issue is checked using Variance Inflation Factor (VIF). Findings show that the VIF value of all variables is very low which suggests no existence of any multicollinearity concern. Appendix (B) includes regression tables of the estimated models in this study. In Table (1), the benchmark model (1) is estimated using pooled OLS. The results of this model confirm the impact of inflation to be a statistically significant at the 1% significance level, with a negative impact on per capita GDP, which is in line with previous studies. Variables of FDI and investment spending show statistically significant coefficients at the 1% significance level with positive effects, as expected. Concerning the variable of interest, political stability, its estimated coefficient shows statistical significance at the 1% significance level as well, but with a negative sign, suggesting the need for further investigation with a more appropriate estimated model.

In an extended examination in Table (2) in Appendix (B), the benchmark model is re-examined using fixed and random effects. Table (3) reveals the results regarding the Hausman test. The reason for using such a test was to determine the appropriate estimated model between the fixed and random effects models used in Table (2). The P-value in the Hausman test is (0.00), which is less than the 5% significance level. This result supports the use of a fixed effects model.

Accordingly, the findings of the fixed effects model show that the variables of inflation, investment spending, and political stability are important to determining the per capita GDP across the MENA region. The estimated coefficient of inflation is statistically significant at the 1% significance level, with the expected negative sign. The estimated coefficient of investment spending is statistically significant at the 1% significance level, with the expected positive sign. The estimated coefficient of political stability also holds the expected positive sign, and it is statistically significant at the 1% significance level as well.

With regard to the magnitude of the coefficients, any increase in the inflation rate by 1% is more likely to decrease per capita GDP by 0.19%. The other significant variable, investment spending, demonstrates that an increase in investment spending by 1% across countries in the MENA region tends to boost per capita GDP by 0.37%. For the interest variable, a one-unit increase in the political stability index for the MENA region is more likely to increase per capita GDP by 33%.

In the further investigation, the MENA sample is differentiated based on the political regimes. The estimated models in Table (4) include interaction terms between the political regime dummy and the political stability index to capture the effect of political stability on per capita GDP according to different political regime types across MENA. The findings show that the political stability of MENA countries with republic regimes and monarchy regimes positively affects per capita GDP by a slope estimate of 1.14 and 0.43, respectively. In contrast, the effect seems to be negative for countries with a semi-democratic regime by a slope estimate of 1.6. The explanation for this can be drawn from the fact that MENA countries with semi-democratic regimes have experienced an unstable political environment for a long time.

In different institutional specifications, the variable of "political stability" is replaced by the "control for corruption" variable. In Table (5), the impact of controlling corruption on per capita GDP is identified according to different political regime clusters to represent institutional quality across MENA countries. The findings show that there is no significant impact of controlling corruption on per capita GDP for MENA countries under the republic regime. The impact tends to be positive by a slope estimate of 0.31 in the case of countries with a semi-democratic regime.

This is because countries with a semi-democratic system have better mechanisms in place (i.e., checks and balances) to implement policies that control corruption, which may in turn lead to better economic performance. Countries with a monarchy political regime, on the other hand, are more likely to have less incentive to control corruption, by a slope estimate 0.77, which reduces the probability of improving their per capita GDP. In a different view, and as many previous studies have shown, countries in MENA that have a monarchy are often classified as having a high level of corruption due in part to weaker legislative and formal institutions. Interestingly, the correlation between corruption and economic development is often parallel, as corruption encourages firms to circumvent government regulation in order to increase production and grow economically, like in the case of Vietnam and Cambodia (i.e., Hamra, 2000; Jiang & Nie, 2014; Zaman & Goschin, 2015; Ruzek, 2015).

In fact, despite the poor performance of good governance indicators for these monarchies in MENA, two of them (namely Jordan and Morocco) have a large informal sector, which has grown significantly over time, creating more investment opportunities and jobs in the economy. In contrast, economic expansion for other MENA monarchies, primarily oil-exporting countries (Kuwait, Qatar, Saudi Arabia, and United Arab Emirates), is mainly driven by oil revenue. On the other hand, for countries with effective regulations, as in the case of countries under semi-democratic political regimes, any increase in corruption may limit available opportunities for doing business more easily, which can create obstacles that hinder efforts to promote investment and improve economic activity (Achim, 2017).

When using the "government effectiveness" variable instead, as shown in Table (6), to assess the impact of government effectiveness on per capita GDP across different MENA political regimes, the results show that the impact differs according to the type of political regime. Government effectiveness for countries with a monarchy is found to be statistically insignificant. However, the impact tends to be positive by a slope estimate of 0.49 for semi-democratic countries, which can be explained by the democratic process of monitoring the performance of government. On the other hand, the impact of government effectiveness on per capita GDP is negative for monarchy regimes by a slope estimate of 0.72. This may be attributed to the fact that these countries are experiencing poor government performance. In fact, the capacity of government to implement appropriate regulations and policies is captured by this index. Thus, decisions made through the use of effective policies are, in the case of democratic systems, important to enhancing the economy (i.e., Kaufman, 2010).

Investigating the impact of the variable "rule of law," depicted in Table (7), reveals some interesting findings. The impact of weakened rule of law across MENA countries under a republic regime tends to slow per capita GDP by a slope estimate of 1.5. Yet, the findings also show that the strength of rule of law across MENA countries under a monarchy political regime and a semi-democratic political regime is expected to improve per capita GDP by a slope estimate of 0.94 and 0.86, respectively.

Overall, when using different institutional indicators across the MENA region, the results show that countries under a republic political regime have a negative impact of the "government effectiveness" index and "rule of law" index on their economic performance. Whereas for the monarchy political regime, the impact of the "rule of law" index tends to be positive on economic performance, while the impact of "control of corruption" on economic performance is negative. Finally, for the semi-democratic political regime, the impact of all three institutional indicators on economic performance tends to be positive.

Concluding Remarks and Policy Implications

This study applies a panel approach using the appropriate fixed effects estimated model. The study examines the effect of political stability on economic performance across different political regimes in the MENA region. Economic performance is measured by the per capita GDP variable. The data sample includes 21 MENA countries and spans 1996 to 2018. The findings show that political stability does matter in promoting better economic performance based on the prevailing political regimes in MENA countries.

Overall, there is a positive and significant influence of political stability on economic performance across the MENA region at the 1% significance level. This suggests that higher political stability across the MENA region is more likely to be associated with better economic performance in the region. Particularly, when investigating the impact across different political regimes in MENA countries, the findings show that political stability in MENA countries under both republic political regimes and monarchy political regimes positively affects their

economic performance. In contrast, for countries under semi-democratic political regimes, the impact of political stability on their economic performance is negative, as these countries suffer from a high level of political instability. These results may indicate that a high frequency of government turnover and political tension between major political parties can, in some cases, disrupt economic activity. On the other hand, the positive impact of political stability for republics and monarchies may be the result of low government turnover and regime stability.

When using different institutional indicators (control of corruption, government effectiveness, rule of law), the results change in favor of semi-democratic regimes, as all coefficients for this regime type are significant with positive signs. This illustrates that this political regime performs better because of stronger institutions and stricter checks and balances, which are led by the legislative branch but can be vetoed by the executive branch of the government. Interestingly, and as expected, republics performed the worst under the three institutional indicators, as either insignificant for "control of corruption" or having a negative impact for "government effectiveness" and "rule of law." MENA countries under a monarchy political regime also performed poorly under the two institutional indicators, as they only have one significant indicator with a positive sign—namely, rule of law.

For policy implication purposes, the institutions were found to perform differently across different political regimes in the MENA region, which can be translated to a differential impact on economic activities. More democratic regimes are more likely to adopt better to institutional settings, which can ensure better economic performance. Countries under the republic political regime still suffer from inappropriate institutional arrangements, which limits improvements to their economies. Thus, allowing flexible adjustments to institutional settings within these republic regimes may lead to improvements in the performance of their economies. The same conclusion can be made for MENA countries under the monarchy political regime, as the findings did not demonstrate a consistent conclusion. In addition, the need for suitable policies is required in order to promote better practices that will in turn lead to better economic performance and a reliance on higher-quality institutions to ensure the achievement of more effective regulatory policies in these institutions.

The key policy implication from this research is that "democracy matters, "as it has an impact on economic performance. Thus, countries in the MENA region need to improve their democratic policies, which will in turn improve the quality of their institutions and ultimately result in better economic performance.

Although this study investigates the impact of institutional indicators on economic performance across different political regimes in the MENA region, some limitations must be considered. Unlike this study, future research should examine different settings and institutional indicators as well as focus on different economic performance measurements. To check the robustness of our results, one possible path for future researchers is to conduct a similar analysis on other regions in which these three political regimes exist, good candidates of which are Southeast Asia and Europe.

References

Achim, M. (2017). Corruption, income and business development. *Journal for International Business and Entrepreneurship Development*, 10(1), 85–100.

Alesina, A., Özler, S., Roubini, N., & Swagel, P. (1996). Political instability and economic growth. *Journal of Economic Growth*, 1(2), 189–211.

Alshammari, N., Alshuwaiee, W., & Aleissa, N. (2019). Does "good" governance promote economic growth according to countries' conditional income distribution. *Journal of Reviews on Global Economics*, 8, 1046–1061.

Baltagi, B. (1995). *Econometric analysis of panel data (Vol. 2).* Wiley.

Barro, R. (1996). Democracy and growth. *Journal of Economic Growth*, 1(1), 1–27.

Bogdanor, V. (1995). *The monarchy and the constitution*. Oxford University Press. Oxford.

Boix, C. (2011). Democracy, development, and the international system. *American Political Science Review*, 105(4), 809–828.

Broz, J. (2002). Political system transparency and monetary commitment regimes. *International Organization*, 56, 861–887.

Cammett, M. (2018). *A political economy of the middle east*. Routledge. New York.

Carruthers, B., & Ariovich, L. (2004). The sociology of property rights. *Annual Review of Sociology*, 30, 23–46.

Chisti, K., Ali, K., & Sangmi, M. (2015). Impact of inflation on per capita income in emerging economies: Evidence from BRICS nations. *Journal of Empirical Studies*, 2(2), 34–39.

Cottarelli, C., Griffiths, M., & Moghadam, R. (1998). The nonmonetary determinants of inflation: A panel data study. IMF Working Paper No. 98/23, Washington DC: IMF.

Docquier, F. (2014). Identifying the effect of institutions on economic growth. *In Institutional competition between common law and civil law* (pp.25–40). Springer. Berlin. Heidelberg.

Falki, N. (2009). Impact of foreign direct investment on economic growth in Pakistan. *International Review of Business Research Papers*, 5(5), 110–120.

Geddes, B. (1999). What do we know about democratization after twenty years? *Annual Review of Political Science*, 2, 115–144.

Guillén, M. (2018). Symbolic unity, dynastic continuity, and countervailing power: Monarchies, republics, and the economy. *Social Forces*, 97(2), 607–648.

Haggard, S., & Kaufman, R. (1995). *The political economy of democratic transitions*. Princeton University Press. Princeton, New Jersey.

Hamra, W. (2000). Bribery in international business transactions and the OECD convention: Benefits and limitations. *Business Economics*, 35(4), 33.

Herb, M. (1999). All in the family: *Absolutism, revolution, and democracy in the middle eastern monarchies*. SUNY Press. New York.

Hollyer, J., Rosendorff, B. & Vreeland, J. (2011). Democracy and transparency. *Journal of Politics*, 73, 1191–1205.

Jiang, T., & Nie, H. (2014). The stained China miracle: Corruption, regulation, and firm performance. *Economics Letters*, 123(3), 366–369.

Kaufmann, D., Kraay, A., & Zoido-Lobaton, P. (2002). Governance matters II: Updated indicators for 2000-01 (World Bank Policy Research Working Paper No. 2772). World Bank.

Kaufman, D. (2010). Can corruption adversely affect public finance in industrialized countries. Brookings Institution Opinions, Brookings Institution, Washington, DC, USA.

Knutsen, C., & Fjelde, H. (2012). Types of Dictatorship and Economic Performance. Working Paper.

Leblang, D., & Satyanath, S. (2006). Institutions, expectations, and currency crises. *International Organization*, 60, 245–262.

López-Villavicencio, A., & Mignon, V. (2011). On the impact of inflation on output growth: Does the level of inflation matter? *Journal of Macroeconomics*, 33(3), 455–464.

Magaloni, B. (2008). Credible power-sharing and the longevity of authoritarian rule. *Comparative Political Studies*, 41, 715–741.

Makki, S., & Somwaru, A. (2004). Impact of foreign direct investment and trade on economic growth: Evidence from developing countries. *American Journal of Agricultural Economics*, 86(3), 795–801.

Mehrara, M. (2008). The asymmetric relationship between oil revenues and economic activities: The case of oil-exporting countries. *Energy Policy*, 36(3), 1164–1168.

Menaldo, V. (2012). The Middle East and North Africa's Resilient Monarchs. *Journal of Politics*, 74, 707–722.

North, D., & Weingast, B. (1989). Constitutions and commitment: The evolution of institutional governing public choice in seventeenth-century England. *Journal of Economic History*, 49(4), 803–832.

Odedokun, M. (1997). Relative effects of public versus private investment spending on economic efficiency and growth in developing countries. *Applied Economics*, 29(10), 1325–1336.

Olayungbo, D., & Adediran, K. (2017). Effects of oil revenue and institutional quality on economic growth with an ARDL approach. *Energy and Policy Research,* 4(1), 44–54.

Olson, M. (1993). Dictatorship, democracy, and development. *American Political Science Review,* 87(3), 567–576.

Pinho, C. & Madaleno, M. (2009). Political Regimes and Economic Growth. *Revista Enfoques*, VII(11), 473-492.

Przeworski, A. (1991). *Democracy and the market: Political and economic reforms in Eastern Europe and Latin America*. Cambridge University Press. Cambridge.

Przeworski, A., & Limongi, F. (1993). Political regimes and economic growth. *Journal of Economic Perspectives,* 7(3), 51–69.

Rajan, R. (2010). *Fault lines.* Princeton University

Press. Princeton, New Jersey.

Ramirez, M., & Nazmi, N. (2003). Public investment and economic growth in Latin America: An empirical test. *Review of Development Economics,* 7(1), 115–126.

Ruzek, W. (2015). The informal economy as a catalyst for sustainability. *Sustainability*, 7(1), 23–34.

Saha, S. & Sen, K. (2020). The corruption–growth relationship: does the political regime matter?. *Journal of Institutional Economics*, 1-24.

Steinberg, D., Koesel, K., & Thompson, N. (2015). Political regimes and currency crises. *Economics & Politics*, 27(3), 337–361.

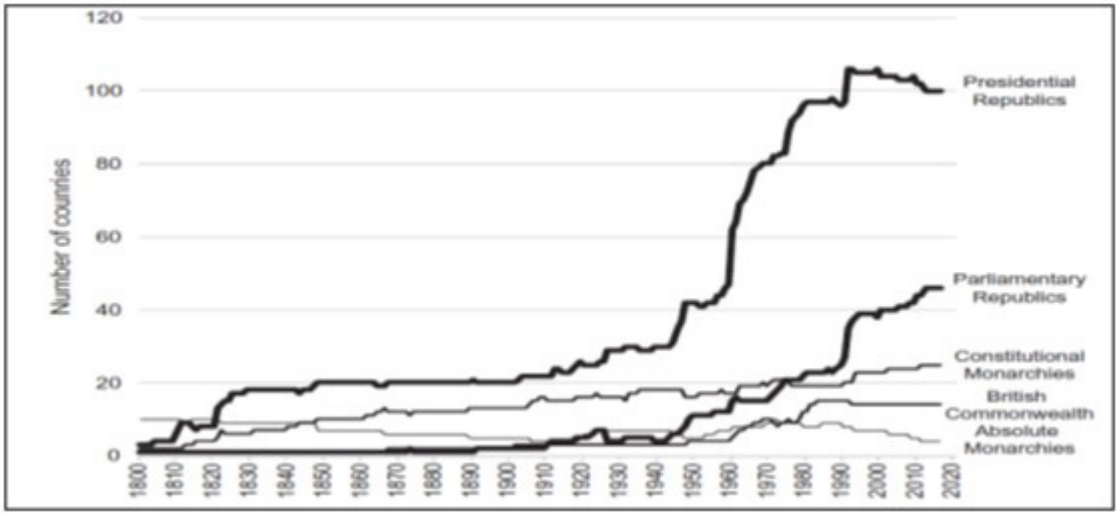
Su, Y., & Liu, Z. (2016). The impact of foreign direct investment and human capital on economic growth: Evidence from Chinese cities. *China Economic Review,* 37, 97–109.

Wright, J. (2008). Do Authoritarian institutions constrain? How legislatures affect economic growth and investment. *American Journal of Political Science,* 52(2), 322–343.

Zaman, G., & Goschin, Z. (2015). Shadow economy and economic growth in Romania. Cons and pros. *Procedia Economics and Finance*, 22, 80–87.

Appendix A:

Figure 1: Republics and Monarchies 1800–2016



Source: Guillen (2018).

Table 1. Country List

Republic States	Monarchy States	Semi-Democratic States
ALGERIA	BAHRAIN	ISRAEL
EGYPT	JORDAN	LEBANON
ETHIOPIA	KUWAIT	TURKEY
IRAN	MOROCCO	
IRAQ	OMAN	
LIBYA	QATAR	
TUNISIA	SAUDI ARABIA	
MAURITANIA	UAE	
SYRIA		
YEMEN		

Note: for the purpose of research, Ethiopia is included in the MENA region

Table (3): Variance Inflation Factor (VIF)

Variable	VIF	1/VIF
Inflation	1.36	0.735422
Oil Rent	1.16	0.865719
FDI	1.69	0.591628
Foreign Direct Investment	2.06	0.486166
Political Stability	1.35	0.738146
Mean VIF	1.52	

Table 2. Summary Statistics

Year	Observation	Mean	Std. Dev.	Minimum	Maximum
	483	-	-	1996	2018
Per Capita GDP	452	14469.78	17339.84	187.5167	69679.09
Inflation	436	6.57084	10.80105	-16.11732	85.66936
Oil Rent	444	16.62429	17.8334	0	67.5278
FDI	461	2.898416	4.232465	-4.336872	37.16588
Foreign Direct Investment	300	4.73e+10	6.12e+10	2.54e+08	3.53e+11
Political Stability	483	-.6048619	.9833008	-3.180798	1.223623
Control for Corruption	483	-.2584629	.7144957	-1.663732	1.567186
Government Effectiveness	483	-.1984665	.7491564	-2.244354	1.509608
Rule of Law	483	-.2459028	.7375988	-2.090365	1.278926

Appendix B: Regression Results

Table 1: Pooled OLS

Dependent Variable: Per Capita GDP	Pool OLS for the Whole Sample
Inflation	-0.1857077*** (0.0599194)
Oil Rent	-0.0035535 (0.0158689)
FDI	0.1428115*** (0.049485)
Foreign Direct Investment	0.3399673*** (0.0614081)
Political Stability	-0.3262899*** (0.0915037)
R-squared	0.3084
Observation	226

Note: The table reports the standard error in parentheses.
* Significant at 10%; ** Significant at 5%; *** Significant at 1%

Table 2: Fixed Effects Model and Random Effects Model Results

Dependent Variable: Per Capita GDP	Fixed Effects	Random Effects
Inflation	-0.1943237 *** (0.0678675)	-0.0157199 ** (0.0070451)
Oil Rent	-0.0124119 (0.0180478)	0.0332431 *** (0.0100846)
FDI	0.0936125 (0.0682965)	0.0178414 *** (0.0059197)
Foreign Direct Investment	0.3687628 *** (0.0699786)	0.2741384 *** (0.0203853)
Political Stability	0.3396605 *** (0.0980787)	-0.0267439 (0.0169877)
Adjusted R-squared/ Within	0.2534	0.7270
Observation	226	226

Note: The table reports the standard error in parentheses.
* Significant at 10%; ** Significant at 5%; *** Significant at 1%

Table 3: Hausman Specification Test

Dependent Variable: Per Capita GDP	Fixed Effects	Random Effects	Difference Between Fixed and Random Effects
Inflation	-0.1943237	-0.0157199	-0.1786038
Oil Rent	-0.0124119	0.0332431	-0.0456549
FDI	0.0936125	0.0178414	0.0757711
Foreign Direct Investment	0.3687628	0.2741384	0.0946244
Political Stability	0.3396605	-0.0267439	0.3664044
Prob.>ChiSq	0.0000		

Table 4: Political Stability Impact According to Political Regime Cluster – Fixed Effects Regression

Dependent Variable: Per Capita GDP	Republic Countries	Monarchy Countries	Semi-Democratic Countries
Inflation	-0.2207959*** (0.0615088)	-0.1998936 ** (0.0672432)	-0.2520629 *** (0.0550598)
Oil Rent	0.0869844 *** (0.022016)	-0.0216369 (0.0183403)	0.0925552 *** (0.0177401)
FDI	0.0518827 (0.0620815)	0.090907 (0.0676326)	0.0251347 (0 .055518)
Foreign Direct Investment	0.3063669 *** (0.063968)	0.3418711 *** (0.0703249)	0. 1816013 *** (0.0592965)
Political Stability	-0.3569029*** (0.1363367)	0.2201098 ** (0.1108768)	0.5210378 *** (0.0810719)
(Political Stability* Republic Dummy)	1.142836 *** (0.1698611)		
(Political Stability* Monarchy Dummy)		0.4313318 ** (0.1930628)	
(Political Stability* Semi-Democratic Dummy)			-1.600447 *** (0.1543797)
Adjusted R-squared	0.3893	0.2681	0.5136
Observation	226	226	226

Note: Table reports the standard error in parentheses. *Significant at 10%; ** Significant at 5%; *** Significant at 1%

Table 5: Control for Corruption Impact According to Political Regime Cluster – Fixed Effects Regression

Dependent Variable: Per Capita GDP	Republic Countries	Monarchy Countries	Semi-Democratic Countries
Inflation	0.0271426 (0.0360117)	0.0521717 (0.0350203)	0.0328718 (0 .0357178)
Oil Rent	0.0795712 *** (0.0101074)	0.1101613*** (0.0120208)	0.0834471 *** (0.0098941)
FDI	-0.0569654 (0.0367064)	-0.059584* (0.0351364)	-0.0625189* (0.0363044)
Foreign Direct Investment	0.2732882 *** (0.0359483)	0.2434333 *** (0.0351451)	.2693884 *** (0.0355341)
Control for Corruption	1.510063*** (0.0874002)	1.878013 *** (0.0972545)	1.489488 *** (0.0725212)
(Control for Corruption * Republic Dummy)	0.1395164 (0.1564181)		
(Control for Corruption * Monarchy Dummy)		-0.7758626 *** (0.1805307)	
(Control for Corruption * Semi-Democratic Dummy)			0.3162203 ** (0.1383545)
Adjusted R-squared	0.7916	0.8086	0.7961
Observation	226	226	226

Note: Table reports the standard error in parentheses. *Significant at 10%; ** Significant at 5%; *** Significant at 1%

Table 6: Government Effectiveness Impact According to Political Regime Cluster – Fixed Effects Regression

Dependent Variable: Per Capita GDP	Republic Countries	Monarchy Countries	Semi-Democratic Countries
Inflation	0.0123169 (0.0390815)	0.0040573 (0.0412507)	0.0177555 (0.0403623)
Oil Rent	0.0641316*** (0.0103198)	0.0566481*** (0.0131883)	0.085501 *** (0.0117638)
FDI	-0.0617503 (0.0402197)	-0.0694047* (0.0424757)	-0.0770578* (0.0413425)
Foreign Direct Investment	0.2630441 *** (0.0390696)	0.2909216 *** (0.0413798)	0.2534577 *** (0.0409352)
Government Effectiveness	1.676256 *** (0.09119)	1.269229 *** (0.0965899)	1.25975 *** (0.0763338)
(Government Effectiveness * Republic Dummy)	-0.72362*** (0.1462634)		
(Government Effectiveness * Monarchy Dummy)		0.2848421 (0.1857182)	
(Government Effectiveness * Semi-Democratic Dummy)			0.4971642 *** (0.1463196)
Adjusted R-squared	0.7541	0.7269	0.7389
Observation	226	226	226

Note: Table reports the standard error in parentheses. *Significant at 10%; ** Significant at 5%; *** Significant at 1%

Table 7: Rule of Law Impact According to Political Regime Cluster – Fixed Effects Regression

Dependent Variable: Per Capita GDP	Republic Countries	Monarchy Countries	Semi-Democratic Countries
Inflation	0-.0169632 (0.0336061)	-0.0389661 (0.0404406)	-0.005472 (0.0389387)
Oil Rent	0.0805423 *** (0.0093121)	0.060703 *** (0.013374)	0.1105705 *** (0.01137)
FDI	-0.1011959*** (0.0356762)	-0.1078538 *** (0.0429646)	-0.1332228 *** (0.0410876)
Foreign Direct Investment	0.4001181 *** (0.0340802)	0.4439823 *** (0.0421718)	0.3640616 *** (0.0399811)
Rule of Law	2.287458 *** (0.100856)	1.197609 *** (0.1051388)	1.325674 *** (0.0782762
(Rule of Law * Republic Dummy)	-1.53035 *** (0.1478416)		
(Rule of Law * Monarchy Dummy)		0.9455723 *** (0.2457779)	
(Rule of Law * Semi-Democratic Dummy)			0.863041 *** (0.15556)
Adjusted R-squared	0.8136	0.7328	0.7514
Observation	226	226	226

Note: Table reports the standard error in parentheses. *Significant at 10%; ** Significant at 5%; *** Significant at 1%